IX. REVIEWING AND UTILIZING THE RESULTS OF AN OWN RISK AND SOLVENCY ASSESSMENT

This section on the Handbook provides general guidance for use in reviewing, assessing and utilizing the results of an insurer’s Own Risk and Solvency Assessment (ORSA) in conducting risk-focused examinations. While only certain insurers will be required to file an ORSA Summary Report, concepts included in this section of the Handbook may also be beneficial to examiners in reviewing, assessing and utilizing the results of Enterprise Risk Management (ERM) activities performed by all insurers. Therefore, this guidance may be used in support of the risk management assessments outlined in other sections of the Handbook (e.g., Phase 1, Part Two: Understanding the Corporate Governance Structure, Exhibit M – Understanding the Corporate Governance Structure) at the discretion of the examiner.

A. Background Information

Pursuant to the NAIC’s Risk Management and Own Risk and Solvency Assessment Model Act (#505), each U.S. insurer is required to “maintain a risk management framework to assist the insurer with identifying, assessing, monitoring, managing and reporting on its material and relevant risks.” In addition, larger insurers and/or insurance groups are required to complete an ORSA “at least annually to assess the adequacy of its risk management and current, and likely future, solvency position.” This ORSA requirement applies to any individual U.S. insurer that writes more than $500 million of annual direct written and assumed premium, and/or insurance groups that collectively write more than $1 billion of annual direct written and assumed premium.

As stated in the NAIC’s ORSA Guidance Manual (Guidance Manual), the ORSA has two primary goals:

1. To foster an effective level of ERM at all insurers, through which each insurer identifies, assesses, monitors, prioritizes and reports on its material and relevant risks identified by the insurer, using techniques appropriate to the nature, scale and complexity of the insurer’s risks, in a manner adequate to support risk and capital decisions; and

2. To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

The Guidance Manual states that regulators should obtain a high level understanding of the insurer’s ORSA to assist in determining the scope, depth and minimum timing of risk-focused analysis and examination procedures. These determinations can be documented as part of each insurer’s ongoing supervisory plan. However, the Guidance Manual also states each insurer’s ORSA will be unique, reflecting the insurer’s business model, strategic planning and overall approach to ERM. Therefore, regulators should use caution before using the results of an ORSA review to modify ongoing supervisory plans, as a variety of practices may be appropriate depending upon the nature, scale and complexity of each insurer.

To assist insurers in demonstrating the effectiveness and results of their ORSA process to regulators, an ORSA Summary Report is required to be filed on an annual basis. The ORSA Summary Report is divided into three distinct sections as follows:

- **Section I** – Description of the Insurer’s Risk Management Framework
- **Section II** – Insurer’s Assessment of Risk Exposure
- **Section III** – Group Assessment of Risk Capital and Prospective Solvency Assessment
B. General Summary of Guidance for Each Section

Each of the sections of the ORSA Summary Report requires distinct consideration to be adequately understood and assessed. However, each of the sections can supplement the understanding and assessment of the other sections. For example, Section II provides a company the opportunity to demonstrate the robustness of its process by including a detailed description of the significant risks it faces and their potential impact to the company. This can allow the regulator to gain a better understanding and increased appreciation for the company’s processes to identify and prioritize risks described in Section I. Alternately, regulators may assess stresses applied to individual risks in Section II as appropriate, but may not feel stresses are appropriately aggregated to determine an adequate group capital assessment in Section III. Therefore the review and assessment of each section requires a full understanding of each of the other sections and regulators should exercise caution in the allocation of review responsibilities in this area.

Section I

The guidance in Section I is designed to assist the examiner in reaching an assessment of the risk management framework of the insurer. The examiner’s assessment should utilize existing assessments of the insurer’s risk management framework performed by the financial analyst through a review of the ORSA Summary Report, but should supplement the analyst’s assessment with additional onsite verification and testing to reach a final conclusion. In addition, the examination team may need to review and test other risk management processes and practices that may not have been outlined in the ORSA Summary Report to reach an accurate assessment in this area. In so doing, the examination team should seek to review and test the most current risk management practices in place, as opposed to practices described in a previous ORSA Summary Report that may be out of date.

The section I procedures are focused on determining the insurer’s maturity level in regards to its overall risk management framework. The maturity level is assessed through the incorporation of concepts developed within Risk and Insurance Management Society’s (RIMS) Risk Maturity Model (RMM). The RMM provides a scale of six maturity levels upon which an insurer can be assessed, ranging from Leadership to Non-existent. The six maturity levels can generally be defined as follows:

- **Level 5 – Leadership**: The insurer is at the leading edge of companies in relation to risk management. Risk management is embedded in strategic planning, capital allocation, and other business processes and is used in daily decision-making. Risk limits and early warning systems are in place to identify breaches and require corrective action from board and management.

- **Level 4 – Managed**: The insurer is advanced in its risk management capabilities. Risk management activities are coordinated across business areas and tools and processes are actively utilized. Enterprise-wide risk identification, monitoring, measurement and reporting are in place.

- **Level 3 – Repeatable**: The insurer has risk management processes in place designed and operated in a timely, consistent and sustained way. The insurer takes action to address issues related to high priority risks.

- **Level 2 – Initial**: The insurer has implemented risk management processes, but the processes may not be operating consistently and effectively. Certain risks are defined and managed in silos, rather than consistently throughout the organization.

- **Level 1 – Ad hoc**: The insurer has not developed or documented standardized risk management processes and is relying on the individual efforts of staff to identify, monitor and manage risks.
The guidance developed for use in this Handbook integrates the maturity level scale of the RMM with the general principles and elements outlined in Section I of the Guidance Manual to assist regulators in reaching an overall assessment of the maturity of an insurer’s risk management framework. The guidance for Section I provides examples of various attributes that would indicate where an insurer falls on the maturity scale for each individual principle. Most companies are expected to fall somewhere in between Non-existent and Leadership for many of the assessed principles. Therefore, the examiner will need to closely consider and verify the operating effectiveness of attributes and activities outlined within the ORSA Summary Report to reach an accurate assessment of the insurer’s maturity level for each assessed principle. In reviewing this guidance, the examiner should understand the goal of making maturity assessments is not to require corrections to the ORSA Summary Report, but to identify potential deficiencies, concerns or areas for improvement that can be discussed with management onsite or through written communication in a management letter.

Ultimately, it will be up to the company to determine what, if any, action it takes in response to such discussions and communications. However, an assessment of Non-existent, Ad hoc or Initial maturity levels related to one or more of the risk management principles may require adjustments to the supervisory plan of the insurer (e.g. may result in increased intensity and scope of ongoing supervisory work). Any determination of the impact such an assessment should have on the ongoing supervisory plan should carefully consider the nature, size and complexity of the insurer in determining whether the assessed maturity level is of concern. For example, it may be appropriate for a smaller insurer writing only one line of insurance to have an Initial maturity level for its practices relating to Risk Appetite, Tolerances and Limits. However, it should also be noted that a significant lack of maturity in risk management principles at a larger or more complex insurer could result in more serious adjustments to the ongoing supervisory plan up to and including a hazardous financial condition determination, which affords the Commissioner a wide range of regulatory actions that can be taken under state law.

For those insurers that demonstrate mature frameworks and principles, such facts are intended to allow regulators flexibility to adjust the scope and intensity of the monitoring that otherwise may be performed on the insurer. This is based upon the belief that a mature risk management framework is able to help an insurer reduce risk in ways that make them more manageable or the impact is more likely to be less pronounced. In recognition of this concept, guidance has been developed at the end of this section to demonstrate how mature and effective risk management frameworks may allow for a reductions in the scope or extent of other risk-focused examination procedures. In addition, a mature risk management framework may provide the basis for reducing other planned regulatory activities for the insurer by adjusting the ongoing supervisory plan.

Section II

The guidance for use in reviewing Section II is primarily focused on assisting the examiner in gaining an understanding of management’s assessment of its material risks. In addition, the guidance assists the examiner in understanding the potential impact of significant risks by considering the stress scenarios and stress testing presented by the insurer. Finally, information in Section II can inform or support the assessment of key principles reached during a review of Section I.

In order for the examiner to understand and utilize the information on significant risks provided in Section II, the examiner must obtain a minimum level of confidence regarding the accuracy and completeness of the information presented. Many of the most significant solvency risks insurer’s face will likely be encompassed within the nine branded risk classifications outlined in the Handbook (see Exhibit I – Branded Risk Classifications). Therefore, the guidance on reviewing and utilizing Section II of the
Summary Report requires examiners to consider whether significant risks impacting the insurer in each of the branded risk classifications have been appropriately discussed. However, this is NOT meant to suggest the ORSA Summary Report is required or expected to address risks in each of the nine branded risk classifications. Instead, the examiner should use the categories as a way to organize and evaluate the information presented, with the expectation that certain categories may not be relevant or significant for each insurer.

As part of evaluating the information presented on significant risks, the examiner may be required to consider the appropriateness of the stress scenarios identified and stress testing performed by the insurer. Therefore, guidance has been provided to assist the examiner in considering the reasonableness of the assumptions and methodologies used in conducting stress scenarios/testing.

Section III

The guidance for reviewing Section III of the ORSA Summary Report is intended to assist the examiner in understanding and assessing the amount of capital the insurer determines is necessary to sustain its current business model. This determination typically utilizes and/or aggregates the outputs of Section II (i.e., stress testing) to calculate the amount of capital required to support ongoing business operations for a wide range of potential outcomes. Therefore, much of the guidance in this section relates back to the reasonableness of the assumptions and methodologies utilized to calculate and allocate capital to risks the company faces. Often, this calculation may be wholly or partially based on internal models developed by the company for this purpose. Therefore, the guidance also directs the examiner to consider and evaluate the company’s processes to validate the suitability, accuracy and reliability of its internal models.

C. Review of Section I - Description of the Insurer’s Risk Management Framework

The Guidance Manual requires the insurer to discuss five key principles of an effective risk management framework in Section I of the ORSA Summary Report. Therefore, the examiner is required to review and assess the company’s risk management framework by considering and evaluating each of the principles. An initial evaluation of each of the principles should be performed by the financial analyst, upon receipt of the ORSA Summary Report. During an onsite examination, the examiner is expected to supplement this initial assessment with additional procedures to verify the reported information and test the operating effectiveness of the company’s risk management processes and practices. Upon concluding these procedures, the examiner should reach their own assessment regarding each of the five principles, which should be utilized to adjust the scope of risk-focused examination and communicated back to the financial analyst for ongoing monitoring and adjustment of the supervisory plan.

Guidance is provided to assist the examiner in developing review procedures and to give examples of attributes that may indicate the insurer is more or less mature in its handling of the individual key risk management principles. These attributes are meant to assist the examiner in reaching an assessment of the insurer’s maturity level for each key principle at Leadership, Managed, Repeatable, Initial, Ad hoc or Non-existent.

Key Principles
1. Risk Culture and Governance
2. Risk Identification and Prioritization
3. Risk Appetite, Tolerances and Limits
4. Risk Management and Controls
5. Risk Reporting and Communication
Considerations When Reviewing Key Principles

When reviewing processes described in the ORSA Summary Report, the examiner should consider the extent to which the above principles are integrated into the organization. To do so, the examiner may need to review processes and practices beyond those documented within the ORSA Summary Report. In addition, the examiner may need to review and consider changes made to risk management processes since the filing of the last ORSA Summary Report. In so doing, the examiner will be able to consider information beyond what is included in the ORSA Summary Report to reach an assessment of the insurer’s maturity level for each key principle.

In reviewing these principles, examples of various attributes/traits associated with various maturity levels for each principle are provided. However, these attributes only demonstrate common practices associated with each of the various maturity levels and practices of individual insurers may vary significantly from the examples provided. For that reason, it may be helpful to engage the insurer in discussing how their processes meet the principles set forth in the Guidance Manual. It is possible that the insurer has mature practices in place, even if those practices differ from the example attributes provided. Therefore, the examiner should exercise professional judgment in determining the appropriate maturity level to select when assessing each of the key risk management principles.

1. **Risk Culture and Governance**

   Risk culture and governance can be the cornerstone to managing risk. The Guidance Manual defines this principle to include a structure that clearly defines and articulates roles, responsibilities and accountabilities; and a risk culture that supports accountability in risk-based decision making. Therefore, the objective is to have a structure in place that provides the tone at the top to stress the importance of risk management and encourage rigor within the organization to manage risks in a way that is continuously improved.

   **Leadership Practices**

   Risk culture is analyzed and reported as a systematic view of evaluating risk. Executive sponsorship is strong and the tone from the top has sewn an ERM Process into the corporate culture. 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). Those officers translate the expectations into targets through various practices embedded throughout the organization. Risk management is embedded in each business function. Internal audit, IT, compliance, controls and risk management are highly integrated and coordinate and report risk issues. All areas use risk-based best practices. The risk management lifecycle for each business process area is routinely improved.

   **Managed Practices**

   Risk culture is associated with career development. The organization is self-governed with shared ethics and trust; promise-makers are held accountable. Risk management issues are understood at all levels and risk plans are conducted in all business process areas. The Board of Directors, CEO and Chief Risk Officer expect a risk management plan to include a qualitative risk assessment for significant projects, new products, business practice changes, acquisitions, etc. with reporting to the Board on priorities. All areas use the ERM Process to enhance their functions via the ERM framework, with frequent and effective communication on risk issues. Process owners incorporate managing their risks and opportunities within regular planning cycles. All areas create and evaluate far-sighted scenarios and follow-up activities.
Repeatable Practices
ERM risk plans are understood by management and the organization. Senior management expects that a risk management plan includes a qualitative risk assessment for significant projects, new products, business practice changes, acquisitions, etc. Most areas use the ERM Process and report on risk issues. Process owners take responsibility for managing their risks and opportunities. Risk management creates and evaluates far-sighted scenarios.

Initial Practices
Risk culture is enforced by policies interpreted primarily as compliance in nature. An executive champions ERM management to develop an ERM Process. One area has used the ERM Process, as shown by the department head and team activities. Business processes are identified and ownership is defined. Risk management is used to consider risks in a far-sighted manner.

Ad Hoc Practices
Corporate culture has little risk management accountability. Risk management is not interpreted consistently. Policies and activities are improvised. Programs for compliance, internal audit, process improvement and IT operate independently and have no common framework, causing overlapping risk assessment activities and inconsistencies. Controls are based on departments and finances. Business processes and process owners aren’t well defined or communicated. Risk management focuses on past events. Qualitative risk assessments are unused or informal. Risk management is considered a quantitative analysis exercise.

Non-existent Practices
No recognized need for an ERM Process and no formal responsibility for ERM. Internal audit, risk management, compliance and financial activities might exist but aren’t integrated. Business processes and risk ownership aren’t well defined.

2. Risk Identification and Prioritization
The Guidance Manual defines this as key to the organization; and responsibility for this activity should be clear; and the risk management function is responsible for ensuring the process is appropriate and functioning properly at all organizational levels. Therefore, the objective is to have a process in place that identifies risk and prioritizes such risks in a way that all potential material risks are addressed in the framework.

Leadership Practices
Internal and external best practices, support functions, business lines and regions are systematically gathered and maintained. A routine, timely reporting structure directs risks and opportunities to senior management. The ERM Process promotes frontline employees’ participation and documents risk issues’ or opportunities’ significance. Process owners regularly review and recommend risk indicators that best measure their areas’ risks. The results of internal adverse event planning are considered a strategic opportunity.

Managed Practices
Process owners aggressively manage a growing list of business area specific risks locally to create context for risk assessment activities as a foundation of the ERM Process. Risk indicators deemed critical to their areas are regularly reviewed in collaboration with the ERM team. Measures ensure downside and upside outcomes of risks and opportunities are aggressively managed. Standardized evaluation criteria of impact, likelihood and controls’ effectiveness are used to prioritize risk for follow-up activity. Risk mitigation is integrated with assessments to monitor effective use.
Repeatable Practices
An ERM team manages a growing list of business area specific risks, creating context for risk assessment as a foundation of the ERM Process. Risk indicator lists are collected by most process owners. Upside and downside outcomes of risk are understood and managed. Standardized evaluation criteria of impact, likelihood and controls’ effectiveness are used, prioritizing risk for follow-ups. Enterprise level information on risks and opportunities are shared. Risk mitigation is integrated with assessments to monitor effective use.

Initial Practices
Formal lists of risks for each department and discussions of risk are part of the ERM Process. Corporate risk indicators are collected centrally, based on past events. Departments might maintain their own informal risk checklists that affect their areas, leading to potential inconsistency, inapplicability, lack of sharing or under-reporting.

Ad Hoc Practices
Risk is owned by specialists, centrally or within a department. Risk information provided to risk managers is probably incomplete, dated or circumstantial, so there’s high risk of misinformed decisions, with potentially severe consequences. Further mitigation, supposedly completed, is probably inadequate or invalid.

Non-existent Practices
There might be a belief that the most important risks are known, although there is probably little documentation.

3. Risk Appetite, Tolerances and Limits
The Guidance Manual states that a formal risk appetite statement, and associated risk tolerances and limits are foundational elements of risk management for an insurer; understanding of the risk appetite statement ensures alignment with risk strategy by the board of directors. Not included in the manual, but widely considered, is that risk appetite statements should be easy to communicate and for stakeholders to understand, and closely tied to the organizations strategy and address its material risks. It should be used to help set boundaries and expectations by using quantitative limits and statements for risk that are difficult to measure. These boundaries may be expressed in terms of earnings, capital, or other metrics (growth, volatility). The objective is to put mechanisms in place to measure the risk the organization is willing to accept. For example, the risk appetite statement may require the organization to maintain sufficient capital to cover a 1 year horizon with 99.97% confidence, or maintain an “AA” solvency standard.

After the overall risk appetite for the organization is set, the underlying risk tolerances and limits can be selected and applied to individual business units and risk areas. The risk tolerances/limits provide direction outlining the Company’s tolerance for taking on certain risks, which sometimes can be established and communicated in the form of the maximum amount of such risk the entity is willing to take (e.g. no more than 10% of the new business written/invested assets). However, in many cases these will be coupled with more specific and detailed limits or guidelines the company uses (e.g. equity securities not to exceed 5% of assets, counterparty exposure to a specific reinsurer not to exceed a specific dollar amount, catastrophe risk (1 in 500 year event) not to exceed more than 20% of required capital). The limits should be measurable and should be monitored as often as needed in order to prevent a company from unknowingly breaching its limits. The effectiveness of these items may be best measured by the impact they have on the organization, which can be difficult to demonstrate in a written report. Due to the varying level of detail and specificity different organizations incorporate into their risk appetites, tolerances and limits, regulators should consider these elements collectively to reach an overall assessment in this area.
Leadership Practices
A risk appetite statement has been developed to set clear boundaries and expectations for the organization to follow by establishing quantitative limits and qualitative statements. A process for delegating authority to accept risk levels in accordance with the risk appetite statement is communicated throughout the organization. Risk management uncovers risk, reduces uncertainty and costs and increases return on equity in accordance with this statement. The management team and risk management committee define tolerance levels and limits for all business units and significant risk areas in accordance with the risk appetite. A mechanism compares and reports actual assessed risk versus risk tolerance. The organization manages business areas and has a diverse portfolio collection to balance risk positions. Management prioritizes resource allocation based on the gap between risk appetite and assessed risk and opportunity. The established risk appetite is examined periodically. Example: Take more risk and gain more market share versus a conservative hold position and protect the brand.

Managed Practices
Risk appetite is considered in each ERM Process step. Resource allocation decisions consider the evaluation criteria of business areas. The organization forecasts planned mitigation’s potential effects versus risk tolerance as part of the ERM Process. Portfolio views are dynamic and risk tolerance is evaluated based on different views. Risk is managed by process owners. Risk tolerance is evaluated as a decision to increase performance and measure results. Risk-reward tradeoffs within the business are understood and guide actions.

Repeatable Practices
Risk assumptions within management decisions are clearly communicated. There’s a structure for evaluating risk on an enterprise-wide basis and for gauging risk tolerance. Risks and opportunities are routinely identified, evaluated and executed in alignment with risk tolerances. The ERM framework quantifies gaps between actual and target tolerances as part of the ERM Process. Portfolio views to balance risk positions are created and risk tolerance is evaluated based on portfolio analysis.

Initial Practices
Risk assumptions are only implied within management decisions and aren’t understood outside senior leadership with direct responsibility. There’s no ERM framework for resource allocation. Defining different views of business areas from a risk perspective can’t be easily created and compared.

Ad Hoc Practices
Risk management might lack a portfolio view of risk. Risk management might be viewed as risk avoidance and meeting compliance requirements or transferring risk through insurance. Risk management might be a quantitative approach focused on the analysis of high-volume and mission-critical areas.

Non-existent Practices
The need for formalizing risk tolerance and appetite isn’t understood.

4. Risk Management and Controls
The Guidance Manual stresses managing risk is an ongoing ERM activity, operating at many levels within the organization. This principle is discussed within the governance section above from the standpoint that a key aspect of managing and controlling the risks of the organization is the governance process put in place. For many companies, the day to day governance starts with the business units, but those units put mechanisms in place to identify, quantify and monitor risks, which is reported up to the next level based upon the risk reporting and risk limits put in place. In addition, controls are also put in
place on the backend, by either the internal audit team, or some independent consultant, which is designed to ensure compliance and a continual enhancement approach. Therefore, the objective is to put controls in place to ensure the organization is abiding by its limits.

Leadership Practices
ERM, as a management aspect, is embedded in all business processes and strategies. Roles and responsibilities are process driven with teams collaborating across central and field positions. Risk and performance assumptions within qualitative assessments are routinely revisited and updated. The organization uses an ERM process of sequential steps that improves decision-making and performance. A collaborative, enterprise-wide approach is in place to establish a risk management committee staffed by all relevant supporters. Accountability for risk management is woven into all processes, support functions, business lines and geographies as a way to achieve goals. To evaluate and review the effectiveness of ERM efforts and related controls, the organization has implemented a ‘Three Lines of Defense’ model or similar system of checks and balances that is highly effective and fully integrated into the insurer’s business processes. The first line of defense may consist of business unit owners and other front line employees applying internal controls and risk responses in their areas of responsibility. The second line of defense could consist of risk management, compliance and legal staff providing oversight to the first line of defense and establishing framework requirements to ensure risks are actively and appropriately managed. The third line of defense may consist of auditors performing independent reviews of the efforts of the first two lines of defense to report back independently to the board of directors.

Managed Practices
Management is clearly defined and enforced at every level. A risk policy articulates management’s responsibility for risk management, according to established risk management processes. A risk management committee exists and management develops and reviews risk plans. The ERM Process is coordinated with managers’ active participation. Opportunities associated with risk are part of risk plans’ expected outcome. Authentication, audit trail, integrity and accessibility promote roll-up information and information sharing. Periodic reports measure ERM progress for stakeholders, including the Board of Directors. The organization has implemented a “Three Lines of Defense” model to review and assess its control effectiveness, but those processes may not yet be fully integrated or optimized.

Repeatable Practices
The ERM Process accommodates all business and support areas’ needs. ERM is a process of steps to identify, assess, evaluate, mitigate and monitor. ERM Process includes the management of opportunities. A risk management committee exists and senior management actively reviews risk plans. The ERM Process is collaborative and directs important issues to senior management. The “Three Lines of Defense” are generally in place, but are not yet performing at a highly effective level.

Initial Practices
Management recognizes a need for an Enterprise Risk Management Process. Agreement exists on a framework, which describes roles and responsibilities. Evaluation criteria are accepted. Risk mitigation activities are sometimes identified but not often executed. Qualitative assessment methods are used first in all areas and determine what needs deeper quantitative methods, analysis, tools and models. The “Three Lines of Defense” are not yet fully established, although some efforts have been made to put these processes in place.

Ad Hoc Practices
Management is reactive and ERM might not yet be seen as a process. Few processes and controls are standardized and are instead improvised. There are no standard risk assessment criteria. Risk management is involved in business initiatives only in later stages or centrally. Risk roles and responsibilities are informal. Risk assessment is improvised. Standard collection and assessment processes aren’t identified.

**Non-existent Practices**
There’s little recognition of the ERM Process’s importance or controls in place to ensure its effectiveness.

5. **Risk Reporting and Communication**
The Guidance Manual indicates risk reporting and communication provides key constituents with transparency into the risk-management processes and facilitates active, informal decisions on risk-taking and management. The transparency is generally available because of reporting that can be made available to board members or compliance departments. However, most important is how the reports are being utilized to identify and manage risk at either the business unit level or some other level within the organization where decisions are made. The reporting provides the current measure of risk used to monitor such risk. Therefore, the objective is to have reporting in place that allows various decisions to be made throughout the organization and by the appropriate people, with ultimate ownership by the Board of Directors.

**Leadership Practices**
The ERM Process is an important element in strategy and planning. Evaluation and measurement of performance improvement is part of the risk culture. Measures for risk management include process and efficiency improvement. The organization measures the effectiveness of managing uncertainties and seizing risky opportunities. Deviations from plans or expectations are also measured against goals. A clear, concise and effective approach to monitor progress toward risk management goals is communicated regularly with business areas. Individual, management, departmental, divisional and corporate goals are linked with standard measurements. The results of key measurements and indicators are reviewed and discussed by senior management and board (or committee) members on a regular basis and as frequently as necessary to address breaches in risk tolerances or limits in a timely manner.

**Managed Practices**
The ERM Process is an integrated part of strategy and planning. Risks are aggressively considered as part of strategic planning. Risk management is a formal part of goal setting and achievement. Investment decisions for resource allocation examine the criteria for evaluating opportunity impact, timing and assurance. The organization forecasts planned mitigation’s potential effect on performance impact, timing and assurance prior to use. Employees at all levels use a risk-based approach to achieve goals. The results of key measurements and indicators are shared with senior management and board (or committee) members on a regular basis.

**Repeatable Practices**
The ERM Process contributes to strategy and planning. All goals have measures and all performance measures are linked with goals. While compliance might trigger reviews, other factors are integrated, including process improvement and efficiency. The organization indexes opportunities qualitatively and quantitatively, with consistent criteria. Employees understand how a risk-based approach helps them achieve goals. Accountability toward goals and risk’s implications are understood, and are articulated in ways frontline personnel understand. The results of key measurements and indicators are shared with senior management and board (or committee) members.
Initial Practices
The ERM Process is separate from strategy and planning. A need for an effective process to collect information on opportunities and provide strategic direction is recognized. Motivation for management or support areas to adopt a risk-based approach is lacking.

Ad Hoc Practices
Not all goals have measures and not all measures are linked with goals. Strategic goals aren’t articulated in terms the frontline management understands. Compliance focuses on policy and is geared toward satisfying external oversight bodies. Process improvements are separate from compliance activities. Decisions to act on risks might not be systematically tracked and monitored. Monitoring is done and metrics are chosen individually. Monitoring is reactive.

Non-existent Practices
No formal framework of indicators and measures for goals and management exists.

Examination Procedures for Section I

The following table provides example test procedures that could be performed by the examiner to verify the accuracy of information on risk management processes included in the ORSA Summary Report or to test the operating effectiveness of such practices. A number of these procedures may be performed in conjunction with other risk-focused examination processes and examiners should attempt to gain efficiencies by coordinating testing and review efforts wherever possible. Examiners should use professional judgment in selecting or tailoring procedures to assist in the assessment of each of the five risk management principles for the insurer. In addition, the examiner should incorporate any specific verification or testing recommendations made by the financial analyst into the planned examination procedures for Section I and consider the extent to which additional procedures should be utilized to test the changes that have been made to the insurer’s enterprise risk management framework since the last on-site examination.

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<th>Principle</th>
<th>Possible Test Procedures</th>
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| Risk Culture and Governance      | • Obtain and review board or committee minutes/packets for the director group responsible for ERM oversight and evaluate the level of oversight provided  
• Interview a board member(s) with responsibilities for risk management oversight to determine level of knowledge and involvement of directors in risk management processes  
• Interview company executives to get a feel for the “tone at the top” of the organization and the level of consistency in applying risk management processes across departments  
• Obtain and review information on the company’s compensation plans to determine that risk management decision making isn’t undermined by compensation structure  
• Obtain and review job descriptions or performance review criteria for select management positions to determine whether risk management elements are incorporated |
| Risk Identification and Prioritization | • Obtain a current copy of the organizations risk listing/universe and review for adequacy/appropriateness  
• Verify that the organization’s risk listing/universe is updated/reviewed on a regular basis by requesting copies at various dates  
• Interview select process owners/business unit leaders to verify their role in risk identification and prioritization  
• Interview risk management staff to understand and evaluate how risks are identified and aggregated across the organization |
| --- | --- |
| Risk Appetite, Tolerances and Limits | • Review board minutes to verify that the organization’s risk appetite is reviewed and approved on a regular basis  
• Review and evaluate steps taken to address breaches in risk limits on a sample basis (if applicable)  
• Interview select risk owners to get an understanding of how risk limits are set and updated  
• Verify that checks and balances (i.e., supervisory review) are in place to ensure that risk limits are set in accordance with the organization’s overall risk appetite |
| Risk Management and Controls | • Obtain minutes of internal risk management committee (or equivalent management group) meetings to review frequency and extent of oversight activities  
• Obtain a listing of internal audit reports to determine whether risk management processes are subject to frequent review  
• Identify and test the operating effectiveness of preventive controls in select areas to determine how risk limits are enforced |
| Risk Reporting and Communication | • Obtain a current copy of the organization’s risk dashboard (or equivalent report) to verify that metrics are tracked for all significant risk areas  
• Verify the frequency with which risk information is accumulated and reported by selecting a sample of historical risk dashboards (or equivalent reports) to review  
• Test the accuracy of information included on the risk dashboard (or equivalent report) on a sample basis  
• Review and evaluate the timeliness with which breaches in risk limits are reported and communicated to the appropriate authority |

**Required Documentation for Section I**

The examiner should prepare documentation summarizing the results of the risk management framework assessment by addressing each of the five principles set forth in the Guidance Manual as follows. Each assessment should first provide a summary of the analyst’s initial assessment, followed by a summary of the results of exam procedures, leading to a final exam assessment for each principle. The summary of exam results should provide rationale for any deviation from the analyst’s initial assessment of the principle. See the maturity level definitions previously presented in this guidance on ORSA.

1. **Risk Culture and Governance**—Governance structure that clearly defines and articulates roles, responsibilities and accountabilities; and a risk culture that supports accountability in risk-based decision making.
2. **Risk Identification and Prioritization**—Risk identification and prioritization process that is key to the organization; responsibility for this activity is clear; the risk management function is responsible for ensuring the process is appropriate and functioning properly at all organizational levels.

3. **Risk Appetite, Tolerances and Limits**—A formal risk appetite statement, and associated risk tolerances and limits are foundational elements of risk management for an insurer; understanding of the risk appetite statement ensures alignment with risk strategy by the board of directors. *(e.g. relationship between risk tolerances and the amount and quality of risk capital)*

4. **Risk Management and Controls**—Managing risk is an ongoing ERM activity, operating at many levels within the organization. *(e.g. monitoring processes and methods)*

5. **Risk Reporting and Communication**—Provides key constituents with transparency into the risk-management processes and facilitate active, informal decisions on risk-taking and management. *(e.g. risk assessment tools, feedback loops, used to monitor and respond to changes in risks, operations, economic environment, & strategies, and includes new risk information)*
Summary of Exam Results:

Final Exam Assessment:

☐ 5 – Leadership ☐ 4 – Managed ☐ 3 – Repeatable ☐ 2 – Initial ☐ 1 – Ad Hoc ☐ 0 – Non-existent

Overall Assessment
After considering the assessment of each of the five previously identified principles and taking into account any additional factors identified by the examiner during the review of ERM, develop an overall assessment of the insurer’s Risk Management Framework using the same risk maturity model. The assessment, along with findings from Section II and Section III, will assist the examination team in determining the extent of reliance to be placed on the insurer’s ORSA/ERM processes throughout the remaining phases of a full-scope examination and through modifications to the ongoing supervisory plan.

Overall Assessment Rationale:

☐ 5 – Leadership ☐ 4 – Managed ☐ 3 – Repeatable ☐ 2 – Initial ☐ 1 – Ad Hoc ☐ 0 – Non-existent

D. Review of Section II - Insurer’s Assessment of Risk Exposure

Section II of the ORSA Summary Report is required to provide a high level summary of the insurer’s quantitative and/or qualitative assessments of its risk exposure. There may be a great deal of variation in how this information is displayed from one insurer to the next, but in most cases, insurers tend to organize this information around the main risks of the insurer. The Guidance Manual does give possible examples of relevant material risk categories (credit, market, liquidity, underwriting, and operational risks).

Examiners may find the information regarding risk exposures the most beneficial aspect of the ORSA Summary Report, as this information may be useful in identifying risks and controls for use in the remaining phases of a risk-focused examination. This may be attributed to the fact that Section II provides risk information on the insurance group that may be grouped in categories similar to the NAIC’s nine branded risk classifications (see Exhibit L). However, the grouping of risk information in the report is entirely up to the insurer and the examiner should not expect each of the nine branded risk classifications to be directly addressed within Section II. As the nine branded risk classifications are familiar to examiners and companies alike, these categories will provide the format for the examiners review and assessment of the information provided by the insurer in Section II.

Stress Testing

In addition to providing background information on each significant risk the insurer is facing, Section II also requires the risk exposures to be documented under both normal and stressed environments. Therefore, as part of evaluating the information presented on significant risks, the examiner is expected to consider the appropriateness of the stress scenarios identified and stress testing performed by the insurer. In so doing, the examiner should evaluate the reasonableness of the assumptions and methodologies used by the insurer in conducting stress scenarios/testing. Before such an evaluation is designed, the examiner should obtain information from the analyst to determine the extent to which that the state has already been provided information on the assumptions and methodologies. The presumption is that the analyst’s evaluation of such assumptions and methodologies may have been more cursory and the examiner’s evaluation would therefore be more in-depth, reviewing additional internal documentation and detail to validate the robustness of the processes used by the insurer to develop assumptions and methodologies. Some common scenarios that may be considered by the insurer for each of the nine branded risk classifications are presented as follows:
1. Credit
   - Counterparty exposure (loss of specified amount to reinsurer, derivatives party, supplier)
   - Equity securities (40%/50% drop, no growth in stocks in 3 years)
   - General widening of credit spreads (increase in defaults)
   - Other risk assets

2. Market
   - 300 basis point pop up in interest rates
   - Prolonged low interest rates (10 year treasury of 1%)
   - Material drop in GDP & related impacts
   - Stock market crash or specific extreme condition (Great Depression)
   - Eurozone collapse
   - U.S. Treasury collapse
   - Foreign currency shocks (e.g. percentages)
   - Municipal bond market collapse
   - Prolonged multiple market downturn (e.g. 2008/2009 crisis/or 1987 stock market drop-or 50% drop in equities, 150bp of realized credit losses)

3. Pricing/Underwriting
   - Significant drop in sales/premiums due to varying reasons
   - Impact of 20% reduction in mortality rates on annuities
   - Material product demonstrates specific losses (e.g. 1 in 20 year events)
   - Severe pandemic (e.g. Avian bird flu based upon World Health Organization mortality assumption)
   - California and New Madrid earthquakes, biological, chemical or nuclear terrorist attacks in locations of heaviest coverage (consider a specified level of industry losses)
   - Atlantic hurricane (consider a specified level of industry losses previously unseen/may consider specified levels per different lines of coverage) in different areas (far northeast, northeast, southeast, etc.)
   - U.S. tornado over major metropolitan area with largest exposure
   - Japanese typhoon/earthquake (consider a specified level of industry losses previously unseen)
   - Major aviation/marine collision
   - Dirty bomb attack
   - Drop in rating to BB

4. Reserving
   - Specified level of adverse development (e.g. 30%)
   - Regulatory policy change requires additional reserves (e.g. 30%)

5. Liquidity
   - Catastrophe results in material immediate claims of 3X normalized amounts
   - Call on any existing debt
   - Material spike in lapses (e.g. 3X normal rates)
   - Drop in rating to BB

6. Operational
   - Loss of systems for 30 days
   - Terrorist act
The examiner should not expect the insurer to have performed stress testing in each of these areas, but should consider whether stress testing has been performed to evaluate the impact that the most significant solvency risks facing the insurer could have on its ongoing operations. In reviewing the insurer’s efforts in this area, the examiner’s focus would be on considering if additional information and support for the stress testing of individual risks is available in order to test the effectiveness of such processes. In evaluating the effectiveness of the insurer’s stress testing for each of the nine branded risk classifications (if applicable), the examiner should consider each of the following elements:

- Was each of the most significant solvency risks facing the company identified and subjected to scenario analysis/stress testing?
- Were scenarios utilized to evaluate/stress the impact of such risks appropriately described and justified?
- Were techniques utilized to perform stress testing in accordance with company standards and industry best practices?
- Did the results of the stress testing indicate that the insurer had appropriately mitigated the impact that the risk might have on the insurer?

Required Documentation for Section II

Upon the conclusion of the examiner’s review and testing of the information provided in Section II and related processes, the following information should be documented by the examiner:

1. Based on your knowledge of the group, did the insurer include in its ORSA a discussion of risks within each of the branded risk classifications below you consider appropriate for the group?

Examiner Summary of Risks and Stress Testing

- **Credit**—Amounts actually collected or collectible are less than those contractually due.

  □ Yes, discussion of risks appears appropriate  □ Yes, but limited □ Not discussed, but appears applicable □ Not discussed, but does not appear applicable

Examiner Summary of Risks and Stress Testing

- **Market**—Movement in market rates or prices (such as interest rates, foreign exchange rates or equity prices) adversely affects the reported and/or market value of investments.
Examiner Summary of Risks and Stress Testing

- **Pricing/Underwriting**—Pricing and underwriting practices are inadequate to provide for risks assumed.

- **Reserving**—Actual losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.

- **Liquidity**—Inability to meet contractual obligations as they become due because of an inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.

- **Operational**—Operational problems such as inadequate information systems, breaches in internal controls, fraud or unforeseen catastrophes resulting in unexpected losses.

- **Legal**—Non-conformance with laws, rules, regulations, prescribed practices or ethical standards in any jurisdiction in which the entity operates will result in a disruption in business and financial loss.

- **Strategic**—Inability to implement appropriate business plans, to make decisions, to allocate resources or to adapt to changes in the business environment will adversely affect competitive position and financial condition.
Examiner Summary of Risks and Stress Testing

- **Reputational**—Negative publicity, whether true or not, causes a decline in the customer base, costly litigation and/or revenue reductions.

E. Review of Section III - Group Assessment of Risk Capital

Section III of the ORSA is unique in that it is required to be completed at the insurance group level, as opposed to the other sections that may be completed at a legal entity level. However, in many cases, insurers will choose to also complete Sections I and II at the group level as well. The requirement to complete Section III at the group level is important because it provides the means for insurance regulators to assess the sufficiency of capital of the entire insurance group based upon its existing business plan. The focus of financial analysis in reviewing Section III will be to understand the insurer’s assessment of the sufficiency of capital held at the group level to withstand potential losses and detrimental events, as well as the prospective outlook of the company’s solvency position. The focus of the examiner in reviewing Section III should be on understanding and evaluating the process used by the insurer to accumulate and present the information provided. To perform this review, the examiner may need to request additional detail supporting the group capital calculations performed by the insurer.

In focusing on the insurer’s process to calculate and assess its group risk capital, the examiner will need to consider the source of the group’s internal capital assessment. Some insurers will develop a group capital assessment based upon an internal model, whereas other insurers may rely on an external model developed by regulators or rating agencies (e.g., RBC, Best’s Capital Adequacy Ratio – BCAR, etc.). While the insurer is free to select whichever approach it feels is most appropriate to meet its needs, the examiner should consider whether the approach selected is consistent with the nature, size and extent of risks faced by the group.

**Internal Capital Models**

The Guidance Manual states the analysis of an insurer’s group assessment of risk capital requirements and associated capital adequacy description should be accompanied by a description of the approach used in conducting the analysis. This should include key methodologies, assumptions, and considerations used in quantifying available capital and risk capital. Examples of information to be provided in Section III describing an insurer’s processes in this area are provided in the Guidance Manual and examiners should become familiar with these elements in order to assess an insurer’s processes in this area.

In developing internal capital models, the insurer will typically use a series of individual risk models designed to quantify the necessary capital for different risks using various assumptions. These individual risk models may be based upon stochastic or deterministic scenarios depending upon the type of risk and availability of relevant data. A deterministic model is one in which one potential outcome, or point estimate, is calculated. Conversely, in a stochastic model, the result of the model is the average of a number of different scenarios that are probability weighted to reach an overall result. After individual risks are modeled using stochastic or deterministic scenarios, the results are aggregated to determine the total amount of capital required by the group to maintain its solvency standing. The most common
method attempts to develop an estimated amount of economic capital necessary to satisfy policyholder claims and other group obligations at a particular confidence level (e.g. 99.5% probability the insurer will be able to meet its obligations over the next 12 months).

Most economic capital models consider the likelihood that all of the modeled events will happen at the same time, some of which may offset each other. This factor is referred to as correlation, or diversification, since it refers to the belief that insurers can diversify their risks in a way that serve as a natural hedge against such risks happening simultaneously. The concept of correlation is generally not disputed and, in fact, it’s used within the NAIC’s risk-based capital formula. From this standpoint, it’s recognized that diversification of risk should theoretically reduce the amount of capital that an entity may need to hold at one time. However, what can vary significantly from company to company is the extent to which diversification benefits can reduce capital needs/requirements. In many cases, the diversification benefit can range from 40%-60% of the 99.5% probability.

In reviewing an insurer’s use of internal models, the examiner should gain an understanding of the work performed by the insurer to validate its own models, whether completed by internal audit, a third party consultant, or some other party. The importance of reviewing the insurer’s self-validation process is not only to gain comfort on the information provided in Section III of the report, but also due to the fact that the company is likely making business decisions based on the results of its modeling. As it’s a widely considered fact that the output of every internal model is wrong, it’s much more important to consider the reasonableness of the inputs and outputs and the processes used by the insurer/group. However, the examiner should be aware that many international regulators expect the group wide supervisor to perform a fair amount of testing on such models so they can be relied upon. Many other countries with this view actually require a specified group capital calculation for insurance groups based in their countries, where specified assumptions are required to be used. It may be important for the U.S. regulator to discuss these facts with the insurer and determine if other involved supervisors (countries) of this international active U.S. based insurer have such expectations in planning the examination of the group. Expectations may warrant the Lead State conducting a limited-scope exam or expanding the exam procedures in Section III to perform additional testing or validation of the internal models used in group capital calculations.

Depending upon the strength of the insurer’s internal model validation processes, examiners may need to perform some level of independent testing to review and evaluate the internal model(s) utilized by the insurer for its group economic capital calculation. This is largely due to the challenges inherent in developing, implementing and maintaining an effective internal capital model. In instances where independent testing is deemed necessary, this testing may consist of procedures to evaluate the appropriateness of assumptions and methodologies used in stochastic/deterministic modeling scenarios for individual risks or in estimating the amount of diversification benefit realized. In so doing, the examiner may need to select a sample of individual risks for review and consideration and involve an actuary or other individual with experience in advanced mathematics/statistics to assist in the evaluation. Whether involving an actuary or other experienced professional, the primary focus of this review would be on evaluating the reasonableness of the inputs and outputs of the models. An actuary or other experienced professional may be able to provide input on the reasonableness of the inputs while the outputs may be most easily tested by performing a walkthrough in which the inputs are modified and the examiner, actuary or other experienced professional evaluates and discusses with the insurer the impact that the change has on the outputs.

External Capital Models

For a number of companies, the group capital assessment may be based largely on rating agency capital. Rating agencies measure capital in ways similar to economic capital, in that they attempt to develop a higher level of required capital than what may be required under regulatory capital models (e.g. RBC). However, they typically use either deterministic assumptions or factor based approaches, which may not
be as accurate in capturing particular specifics of each insurer’s business mix. Although these models also typically include a diversification benefit, the models are applied universally to all companies, and therefore provide a benchmark for relative comparisons. Virtually all insurers are rated by agencies, and the ratings can have a material impact on the perception of the insurer and the ability of the insurer to write business. Most notably, many commercial property/casualty products and many traditional life and annuity products require a fairly high rating (e.g. A or A-), and the loss of such rating can actually cause the specific insurer’s business model and related plans to completely fall apart. For this reason, even insurers that use internal capital models will usually track their perceived capital requirements from such models and will include them in the ORSA Summary Report.

Some insurers will also perform similar tracking of RBC, as well as other consolidated figures regarding regulatory capital. This type of analysis can also be helpful, and is extremely beneficial since it provides a hard line consolidated capital that must be maintained. This may be more valuable for some insurers than others (e.g. insurers that are less highly capitalized and do not sell rating sensitive business), however for most insures, this cannot replace similar disclosure of rating agency capital since it is usually set at a higher level and since an inability to retain a particular rating may create an inability to carry out the current business model.

In presenting its standing in relation to external capital models, insurers should provide information showing their potential standing after considering the impact of stresses. This information is beneficial as it can demonstrate what types of events an insurer could withstand before potentially losing their rating or violating regulatory capital requirements. While some of this information may be presented in Section II of the report, the impact of stresses on external capital models should be considered in an assessment of Section III. There are a number of ways this can be demonstrated including the rigor the insurer applies to its stress scenarios.

If an insurer bases its group capital assessment largely on rating agency capital calculations or regulatory capital requirements, the examiner should consider the appropriateness of such reliance based upon the nature, scale and complexity of the insurer’s risks. In addition, the examiner should consider whether the insurer has applied appropriate stress scenarios to its available capital to determine its prospective standing in relation to external capital models under a wide range of different scenarios.

Prospective Solvency Assessment

The Guidance Manual requires the insurer to consider the prospective solvency of the group. Many insurers will include information developed as part of their strategic planning including proforma financial information displaying possible expected results as well as projected capital adequacy in those future periods. However, the examiner should review the information provided to understand the impact such an exercise has on the ongoing business plans of the group. For example, to the extent such an exercise suggests that under expected outcomes, the group capital position will weaken, or recent trends may result in certain internal limits being breached, the examiner should understand what actions the insurer/group expects to take as a result of such an assessment (e.g. reduce certain risk exposure, raise additional capital, etc.). In addition, the examiner should consider how any planned changes in risk exposure or strategy may impact both the insurer’s short and long-term solvency positions. Finally, the examiner should consider whether the assumptions and methodologies used in preparing the prospective solvency assessment are consistent with the company’s business strategy and industry best practices.

Required Documentation for Section III

1. Summarize exam conclusions regarding the insurer’s assessment of group risk capital by addressing each of the following elements:
DRAFT 3/18/14

a. **Overall Method of Capital Measurement**: Discuss the method used (e.g. internal, external, combination) by the insurer in assessing its overall group capital target and their basis for such a decision.

b. **Internal Capital Models**: If internal capital models are utilized in the process to assess group risk capital, discuss each of the following items:
   i. Material assumptions and methodologies utilized in calculating capital to be allocated to individual risk components.
   ii. Material assumptions and methodologies utilized in calculating a diversification credit based on the correlation between risk components.
   iii. Controls over model validation and/or results of independent testing performed in this area.

c. **External Capital Models**: If external capital models are utilized in the process to assess group risk capital, discuss each of the following items:
   i. External capital models utilized and their importance to the insurance group.
   ii. Stress scenarios and testing applied to the external capital model to account for a wide range of potential events.

2. Summarize exam conclusions regarding the prospective solvency assessment provided by the insurance group by discussing each of the following elements:

   a. **Prospective Solvency Projections**: Discuss the material assumptions and methodologies utilized by the insurer in performing a prospective solvency assessment. Are assumptions consistent with the insurer’s overall business plan and strategy?

   b. **Changes in Risk Exposure**: Discuss material changes in individual risk exposures outlined by the insurer. Document whether any of the information provided present concerns to be addressed in the remaining phases of the examination.

F. **Utilization of ORSA Results in the Remaining Phases of the Examination**

The review and assessment of the insurer’s ORSA/ERM processes during an onsite examination is meant to provide input and feedback to the financial analyst for updating the insurer’s ongoing supervisory plan and in reaching a final assessment regarding the maturity of the insurer’s ERM framework. However, the knowledge gained by the examiner in performing this review and assessment should also be utilized to gain efficiencies, if appropriate, in the seven-phase risk-focused examination process.

The extent to which the examination team utilizes information from the insurer’s ORSA/ERM processes to create efficiencies should depend upon the overall assessment of the insurer’s ERM framework as follows:

<table>
<thead>
<tr>
<th>Maturity Level</th>
<th>Resulting Examination Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 - Leadership</td>
<td>Examination team may place a high degree of reliance on the insurer’s general ERM processes and related controls and should utilize ORSA conclusions to substantially reduce and focus the scope of remaining examination activities.</td>
</tr>
<tr>
<td>4 - Managed</td>
<td>Examination team may place a moderate-high degree of reliance on the insurer’s general ERM processes and related controls, while considering additional testing for significant individual controls/strategies. ORSA conclusions should be utilized to reduce and focus the scope of remaining examination activities.</td>
</tr>
</tbody>
</table>
While this guidance is developed with ORSA compliant insurers in mind, the concepts may also be applied to non-ORSA companies that have implemented risk management functions. Therefore, the examination team should customize the consideration of ERM processes during each examination to meet the needs of the insurer being reviewed.

While the results of the ERM maturity assessment can be broadly utilized in customizing risk-focused examination activities, additional guidance has been prepared to provide examples of specific information obtained through the ERM/ORSA review process can be utilized to reduce or facilitate the remaining phases of the financial examination. The examination team may be able to utilize information obtained through a review of ERM/ORSA processes to gain exam efficiencies as outlined in the following table:

<table>
<thead>
<tr>
<th>ERM/ORSA Information</th>
<th>Related Examination Process(es)</th>
<th>Explanation</th>
</tr>
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<tbody>
<tr>
<td>Section I – Description of the Insurer’s Risk Management Framework</td>
<td>Phase 1, Part Two: Understanding the Corporate Governance Structure</td>
<td>The examiner’s work to review and assess the insurer’s ERM framework as reported in the ORSA satisfies the requirement to review the insurer’s risk management practices as part of the Phase 1 corporate governance review.</td>
</tr>
<tr>
<td>Section I – Risk Identification &amp; Prioritization; Section II – Insurer’s Assessment of Risk Exposure</td>
<td>Phase 1, Part Five: Prospective Risk Assessment; Exhibit V – Prospective Risk Assessment; Phase 2: Identifying and Assessing Inherent Risks</td>
<td>The risks described, prioritized and quantified through the insurer’s ERM/ORSA processes should assist the examiner in identifying and assessing risks to be reviewed during the exam.</td>
</tr>
<tr>
<td>Section I – Risk Appetites Tolerances and Limits; Section II – Insurer’s Assessment of Risk Exposure</td>
<td>Phase 3 – Identify and Evaluate Risk Mitigation Strategies/ Controls; Exhibit V – Prospective Risk Assessment</td>
<td>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.</td>
</tr>
<tr>
<td>Section II – Insurer’s Assessment of Risk Exposure; Section III – Group Assessment of Risk Capital</td>
<td>Phase 5 – Establish/ Conduct Detail Test Procedures</td>
<td>The results of stress testing performed by the insurer as well as the amount of capital allocated to individual risk components may assist the examiner in determining the ultimate impact of unmitigated residual risks on the insurer. To the</td>
</tr>
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</table>
extent that certain residual risks are accepted by the company and capital is allocated to the risk under a wide range of potential outcomes, the examiner may choose to document this fact in Phase 5 and avoid documenting a finding in this area.

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<thead>
<tr>
<th>Section III – Group Assessment of Risk Capital</th>
<th>Exhibit DD – Critical Risk Categories (Capital Management)</th>
<th>The overall results of the group risk capital assessment as well as the prospective solvency assessment performed by the insurer should provide evidence of whether the company’s capital management plans are adequate. This information may be used to address risks related to capital management required to be considered by Exhibit DD – Critical Risk Categories.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section III – Prospective Solvency Assessment</td>
<td>Phase 6 – Update Prioritization &amp; Supervisory Plan; Phase 7 – Draft Exam Report &amp; Management Letter</td>
<td>Information provided in the insurer’s prospective solvency assessment should address the company’s ongoing strategy and business outlook. This information may be useful in reaching overall exam conclusions and determining steps for future monitoring efforts required to be documented in Phases 6 and 7 of the examination.</td>
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</tbody>
</table>