CRO Council Introduction

Mission

• The North American CRO Council is a professional risk management group that seeks to develop and promote best practices in risk management throughout the insurance industry

• Council members represent Chief Risk Officers of leading insurers based in North America, who as a group, aim to provide thought leadership and direction on the advancement of risk management best practices and risk-based solvency and liquidity assessments

Formation

• Developed and provisionally organized in 2010

• Founding membership and structure confirmed in Q1-2011
CRO Council Introduction, continued

**Membership Criteria**

- Physical headquarters in United States, Canada, or Bermuda
- Revenues of >$6B
- CRO (or equivalent) with enterprise responsibility
- Economic risk / capital modeling commitment

**Member Companies**

- 11 of the 15 largest North American Life insurers
- 12 of the 15 largest North American Property & Casualty insurers

**Operational Support**

- Anti-trust and governance counsel provided by Dewey & LeBoeuf LLP
- Secretariat support provided by Towers Watson
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<td>ACE Group</td>
<td>Sean Ringsted</td>
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<td>American International Group</td>
<td>Sid Sankaran</td>
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<td>The Allstate Corporation</td>
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<td>Chubb Group of Insurance Companies</td>
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<td>Genworth Financial</td>
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<td>Great-West Lifeco Inc.</td>
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<td>The Hartford Financial Services Group, Inc.</td>
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<td>Manulife Financial Corporation</td>
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<td>Massachusetts Mutual Life Insurance Company</td>
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<td>Nationwide Mutual Insurance Company</td>
<td>Michael W. Mahaffey</td>
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<td>New York Life Insurance Company</td>
<td>Gideon Pell</td>
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<td>Sun Life Assurance Company of Canada</td>
<td>Mike Stramaglia</td>
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<td>Stephen B. Gruppo</td>
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<td>Bill Hannon</td>
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<td>Unum Group</td>
<td>Mike Temple</td>
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<td>USAA</td>
<td>Torben Ostergaard</td>
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<td>XL Capital plc</td>
<td>Jacob Rosengarten</td>
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Committee Structure and Areas of Focus

Committee Structure

• U.S. Regulatory Developments
• International Developments
• Rating Agency Developments
• Emerging Risks
• Governance
• Programs

Example Areas of Focus

• Alignment and harmonization of regulatory and rating agency frameworks with industry best practices
• Promoting capital assessment based, in part, on internal risk models, and the appropriate recognition of risk identification, controls, and diversification
• Producing and distributing position papers on topical risk management issues
Own Risk and Solvency Assessment Review

• CRO Council welcomes the integration of risk management concepts and principles within the regulatory framework

• Reflects the continued evolution of practice within the industry, including
  • Identification of material risks
  • Measurement of potential financial impact
  • Mitigation of unacceptable risk
  • Assessment of adequacy of financial resources in relation to risks

• Many insurers are well along in development, implementation, and evolution of these systems and processes

• Capabilities will continue to be refined and strengthened over time

• Insightful regulatory review of these risk management systems and processes can strengthen solvency surveillance
Own Risk and Solvency Assessment Review

**Observation**
- Purpose of regulatory review of the ORSA (including group target capital calculation) is not sufficiently clear

**Implication**
- Difficult to evaluate requirements without clear context regarding intended use

**Recommendations**
- Clarify objectives and context for ORSA review prior to specifying any reporting requirements
- Provide examples of potential outcomes / actions
- Specify how regulatory review of the ORSA aligns with other proposals and into the NAIC’s overall supervisory framework (e.g., Form F enterprise risk report)
Own Risk and Solvency Assessment Review

Observation

• Requirements need to be aligned with internal company risk management practices (importance of “own” in ORSA)

Implication

• Potential to create additional compliance costs without corresponding benefits; documentation / reporting that could be artificial and/or less useful than intended

Recommendations

• Align risk and solvency assessment in a manner consistent with the internal business management structure of the company (may not be fully aligned with legal entity structure)
• Evaluate sufficiency of existing documentation before defining extensive requirements
• ORSAs should address all material risks (not all risks)
• ORSAs should vary considerably (by company and over time)
• Prescriptive approach problematic (principles-based favorable)
Own Risk and Solvency Assessment Review

Additional Areas of Concern

- Confidentiality; materials available for review vs. filing
- Role of the Board (oversight) vs. Role of Management
- Uniformity of approach/standards across jurisdictions
- Potentially heavy reporting/data requirements vs. discussions, interviews, presentation, and dialogue

Additional Group Capital Assessment Considerations

- Review of capital measures/targets within ORSA should consider company specific structure, risk profile, etc.
- No “one size fits all” approach to capital measurement (or ERM); evaluation should allow for legitimate variations in company approaches, and focus on the robustness of systems, methodology, processes (balancing qualitative vs. quantitative)
- Meaningful differences can and do exist (and will change as practices evolve over time)
The North American CRO Council welcomes the opportunity to continue provide an integrated industry perspective and to work with the NAIC in the continuing development of emerging regulatory standards.

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