

# STATE LEGISLATIVE BRIEF



## The Risk Management and Own Risk and Solvency Assessment Model Act

- *In part due to lessons learned from the 2008 financial crisis, the NAIC developed the Risk Management and Own Risk and Solvency Assessment (ORSA) Model Act (#505) to provide insurance regulators a clearer picture of the enterprise risk management practices of U.S. insurers, including the risks potentially posed to policyholders from other non-insurance entities within a holding company.*
- *Under the ORSA Model Act, insurers must provide regulators an annual assessment of all reasonably foreseeable and relevant material risks that could have an impact on an insurer's ability to meet its policyholder obligations (e.g. underwriting, credit, market, operational, liquidity, etc.), both on a legal entity and group basis.*
- *The ORSA Model Act is an accreditation standard, effective Jan. 1, 2018.*

### Background

In the wake of the 2008 global financial crisis, it became clear that U.S. state insurance regulators needed the ability to assess the holding company's financial condition as a whole, and its impact on an insurer within the holding company system. In November 2011, the NAIC adopted the ORSA Model Act to address this need. An ORSA, also recognized globally as a regulatory best practice, requires insurance companies to report on their current and future risk through an internal risk self-assessment process, and allows regulators to form an enhanced view of an insurer's ability to withstand financial stress.

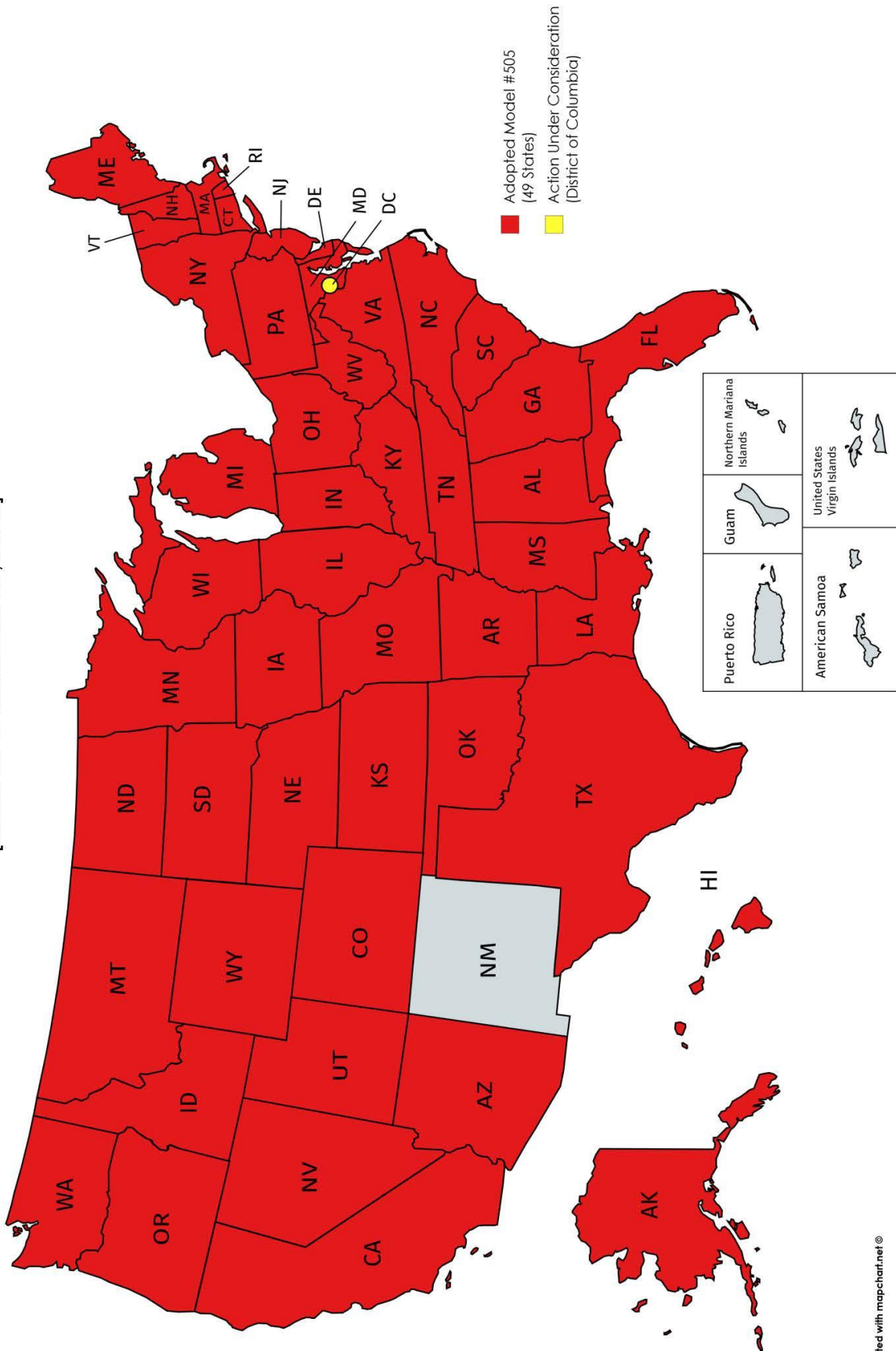
The ORSA Model Act sets out two primary goals: 1) to foster an effective level of enterprise risk-management at all insurers, through which each insurer identifies, assesses, monitors, prioritizes and reports on its material and relevant risk (identified by the insurer, using techniques appropriate to 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 ORSA Model Act requires any U.S. insurer that writes more than \$500 million of annual direct written and assumed premium, and any insurance group that collectively writes more than \$1 billion of annual direct written and assumed premium, to conduct an ORSA no less than once per year and present the results in a confidential ORSA Summary Report to state regulators. ORSA is a continuous, evolving process intended to develop, assess and present an insurer's enterprise risk-management framework. The actual results and contents of an ORSA Summary Report will consist of documents demonstrating the results of the self-assessment, and will vary from company to company.

### Key Points

- ✓ To date, 49 states have implemented the model act: AL, AK, AR, AZ, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, MA, MD, ME, MI, MN, MS, MO, MT, NC, ND, NE, NH, NJ, NV, NY, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WI, WV and WY.
- ✓ The ORSA represents an insurer's internal assessment of the risks associated with its current business plan and sufficiency of capital resources to support those risks. Insurers with less than \$500 million in gross premium, or groups with less than \$1 billion in gross premium are exempt from the requirement of the act.
- ✓ The ORSA Summary Report is a confidential document filed with the state insurance commissioner, not subject to public disclosure.
- ✓ Industry has largely supported the NAIC's ORSA project, following the development of the ORSA Guidance Manual, which provides insurers the flexibility consistent with the intent of the Summary Report, and the specific aspects of confidentiality addressed in the model.
- ✓ States that have adopted the model act have received initial training through the NAIC and will continue to develop best practices for integrating information received through the ORSA Summary Report into ongoing solvency monitoring efforts.

# Implementation of Model #505 Risk Management and Own Risk and Solvency Assessment Model Act [status as of December 27, 2018]



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This map represents state action or pending state action addressing the topic of the model. This map does not reflect a determination as to whether the pending or enacted legislation contains all elements of the model or whether a state meets any applicable accreditation standards.