



ERM Expectations for Non-ORSA Filers

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Learning Objectives

- To describe the ERM framework an insurer below the ORSA premium threshold should have
- To identify the questions that a regulator may ask to decide if the ERM framework is appropriate for the nature, size and complexity of the risks of the insurer
- To describe an implementation plan for insurers that are starting developing an ERM framework and that can be used by regulators in their discussion with the insurer to establish priorities

What do all these have in common?

- December 15, 2010: the United States filed a complaint in District Court against **BP Exploration & Production** (and several other defendants) alleged to be responsible for the spill from oil rig Deepwater Horizon in the Gulf of Mexico (source: www.epa.gov)
- January 2, 2015: **the City of Flint, MI**, is found to be in violation of the Safe Drinking Water Act because of the level of total trihalomethanes, or TTHM, in the water (source: www.npr.org)
- April 4, 2018: **Facebook** data harvesting scandal widens to 87 million people (source: www.nbcnews.com)
- May 3, 2018: The US government has charged the former chief executive officer of **Volkswagen** with fraud in the company's diesel emissions-cheating scandal (source: <http://money.cnn.com>)
- And the list goes on

What are Risk, Insurance and ERM?

- Several definitions of Risk, but they all have in common:
 - **uncertainty or undesirable outcomes**
- Insurance as defined by the NAIC's consumer glossary:
 - an economic device transferring risk from an individual to a company and **reducing the uncertainty** of risk via pooling (source: http://www.naic.org/consumer_glossary.htm#I)
- ERM as defined by COSO (Committee of the Sponsoring Organizations):
 - Enterprise risk management is **a process**, effected by an entity's board of directors, management and other personnel, applied in **strategy setting** and across the enterprise, designed to **identify** potential events that may affect the entity, and **manage risk** to be **within its risk appetite**, to provide **reasonable assurance** regarding the achievement of entity objectives.

Questions for audience

Please raise your hand. How many of you think that an insurer should have in place:

1. a framework to identify, manage, control and document the “key risks” to its business strategy regardless of the amount of premiums they underwrite?
2. a framework to determine “how big” the risks are regardless of the amount of premiums they underwrite?

Regulators' main concern

- Current Solvency
 - Degree to which assets of insurer exceed its liabilities
- Prospective Solvency
 - Ability of insurer to meet long-term obligations and accomplish long-term goals
- Solvency Assessment
 - Process by which stakeholders determine the current and/or prospective solvency standing of a company

ORSA

Form F

**Regulatory Filings
for Assessments of
Financial Solvency**

MAR

Annual reporting and audits and actuarial options

Corporate Governance Annual Disclosure

MAR Internal Audit Requirements

State Specific ERM reports- NYC R203 reporting

Information Security Program

Existing and New Regulatory Filings

Filing	Premium Requirement
ORSA	\$500M legal entity; \$1 B at Group
Form F (“enterprise risk”)	No premium requirement
NYC R203 reporting	\$500M legal entity; \$1 B at Group
MAR	\$500M legal entity; \$1 B at Group
Actuarial Opinions and Reports	No premium requirement
Annual Statements/ Audit Opinions	No premium requirement
RBC < CAL (for RBC filers)	No premium requirement
NEW – CGAD (ML #305)	No premium requirement
NEW - Information Security Program (ML #668)	Licensee with fewer than 10 employees or subject to HIPAA and has an HIPAA compliant IPS

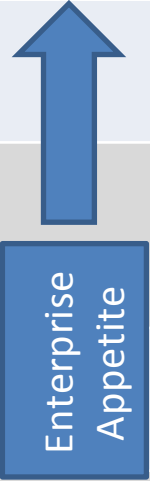
ORSA can be called for “troubled” companies

From ORSA ML #505:

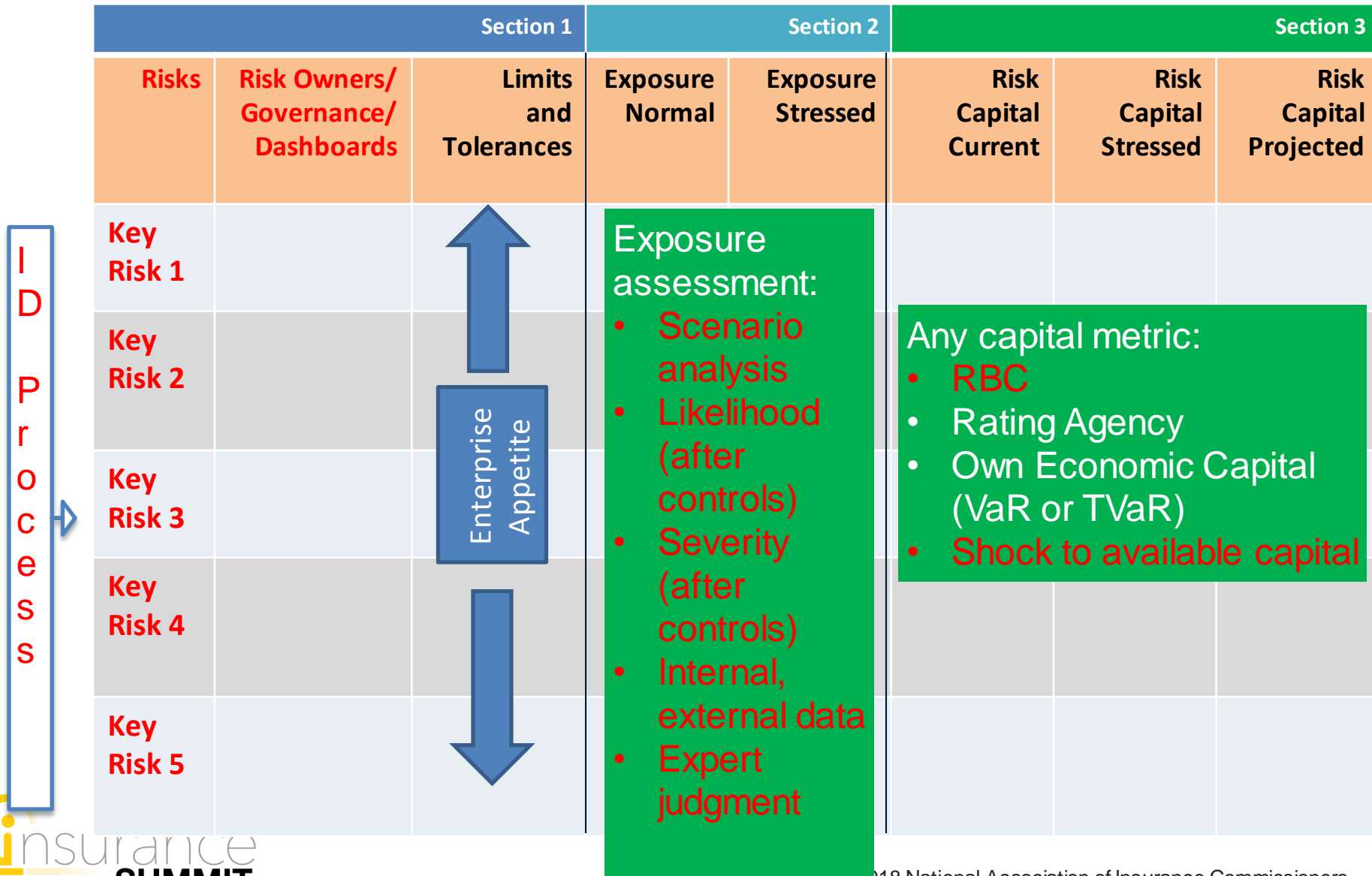
- The commissioner **may require that an insurer maintain a risk management framework, conduct an ORSA and file an ORSA Summary Report based on unique circumstances** including, but not limited to, the type and volume of business written, ownership and organizational structure, federal agency requests, and international supervisor requests.
- (2) The commissioner may require that an insurer maintain a risk management framework, conduct an ORSA and file an ORSA Summary Report **if the insurer has Risk-Based Capital for company action level** event as set forth in [insert cross-reference to appropriate section of Risk-Based Capital (RBC) Model Act], meets one or more of the standards of an **insurer deemed to be in hazardous financial condition** as defined in [insert cross-reference to appropriate section of Model Regulation to define standards and commissioner’s authority over companies deemed to be in hazardous financial condition], or otherwise exhibits qualities of a **troubled insurer as determined by the commissioner.**

Regulatory value of ORSA

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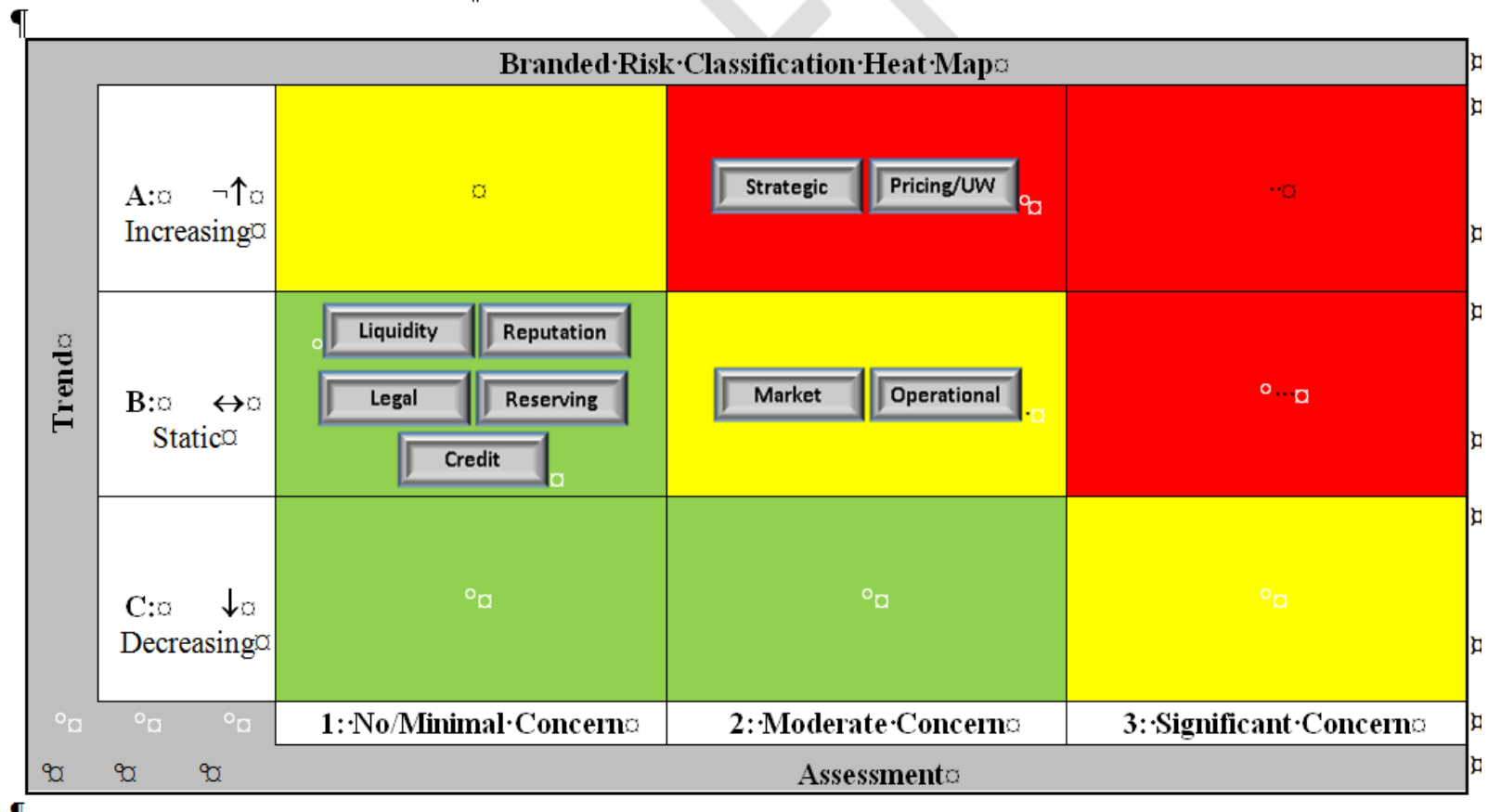
Section 1			Section 2		Section 3		
Risks	Risk Owners/ Governance/ Dashboards	Limits and Tolerances	Exposure Normal	Exposure Stressed	Risk Capital Current	Risk Capital Stressed	Risk Capital Projected
Key Risk 1			<div style="background-color: #00a651; color: white; padding: 10px;"> Exposure assessment: <ul style="list-style-type: none"> Scenario analysis Likelihood (after controls) Severity (after controls) Internal, external data Expert judgment </div>		<div style="background-color: #00a651; color: white; padding: 10px;"> Any capital metric: <ul style="list-style-type: none"> RBC Rating Agency Own Economic Capital (VaR or TVaR) Shock to available capital </div>		
Key Risk 2							
Key Risk 3							
Key Risk 4							
Key Risk 5							

What can any insurer be expected to do?



Why? - Use of Risk ID and Exposure Assessment in the IPS/GPS

BRANDED RISK ASSESSMENTS



Two key questions a regulator should ask an insurer: Risk ID and Risk Assessment

Why? – ERM Assessment in the GPS

- The analyst should provide a summary of the ERM function and its overall assessment for the holding company
 - If the insurer does not have a ERM function, comment on whether this is appropriate given the nature, size, complexity of the risks
 - But also explain how risks are identified, managed, controlled and reported in the absence of a dedicated ERM function

Why? – Exhibit M

- Exhibit M requires a review of the risk management function through discussions with senior management and BoD, understand of the ERM framework and inspection of relevant ERM documentation.
- For non-ORSA filers, the ORSA guidance in the Examiners Handbook is still helpful to identify the 5 (ORSA) building blocks of an ERM and assess the maturity of the ERM:
 - Risk Culture and Governance
 - Risk ID and Prioritization
 - Risk Appetite, Tolerance and Limits
 - Risk Management and Controls
 - Risk Reporting and Communications

Questions the regulator can ask the insurer

- Risk ID and Prioritization
 - What are your main business goals for the next X years and what are the key risks associated?
 - Describe the ID process: how and who is involved?
 - How have your risks changed over the last 5 years?
 - What emerging risks are you monitoring and how? Velocity?
 - Which risks were recently discussed at BoD level?
- Risk Assessment
 - How do you decide how much risk you want and when to take action?
 - What is the likelihood and potential severity associated with each key risk?
 - How did you determine that? What scenarios did you consider?
 - What did you report to management and BoD and what feedback did you get?
 - Which stresses do you consider in your financial forecast (p&l, balance sheet and cashflows, upward dividend streams, RBC ratios, Rating Agency requirements)?

Analysts should flag any issues to the examiner for follow-up

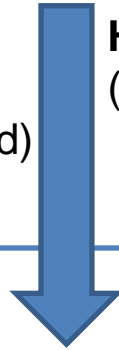
Documents the regulator can ask the insurer

- Any heat map used by the insurer to present key risks to BoD
- Documented risk policies
- Key Risk Indicator dashboard used to track risks and presented to senior management and BoD
- Minutes of BoD meetings where specific risks were discussed
- Internal Audit reports on risk control testing
- Financial projections
- ERM Presentations to rating agencies
- For SEC registrants obtain annual 10-K form and review the qualitative disclosures of risk factors in item 1A

When? – Request for ERM information

ERM information

Statutory Filings (Received) Statutory Filings (Reviewed) Form B Form F (Received) **ERM information** HCA / GPS (Completed) ORSA (Received) ORSA (Reviewed) Coordinated Exam (Completed)



March 1st	April 30 th (priority) OR June 30 th (non-priority)	April-June	October 31 st (domestic + multi-state) OR December 31 st (domestic only)	Sometime in CY (except few states)	Sometime in CY	“As of” date + 18 months OR 4 months after field work ends
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No prescribed timing for ERM info BUT what is the best practice?

A ERM development plan for the insurer

- Gap analysis:
 - What is that we already do?
 - Risk ID
 - Risk governance
 - Risk appetite
 - What is that we do not do?
 - Risk exposure quantification for all risks
 - Capital allocation to individual risks

A ERM development plan for the insurer

- Obtain internal sponsorship and articulate vision:
 - Management: how complex should the ERM be?
 - BoD: what answers do we want from ERM?
 - Executive sponsor: how much money are we willing to allocate to the development of ERM?
 - Actuarial / Internal Audit / Accounting: what capabilities we have and we can leverage?
- Regulator's guidance on what activity to prioritize:
 - Scenario analysis and risk quantification
 - Specific stresses of financial position



For Questions:

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