AMERICAN ACADEMY of ACTUARIES

August 25, 2011

Director John Huff
Mr. Danny Saenz
Group Solvency Issues (EX) Working Group
National Association of Insurance Commissioners
Via email: DVacca@naic.org

Re: Comments on *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual*

Dear Director Huff and Mr. Saenz,

The American Academy of Actuaries[1] ERM Committee is pleased to present comments on the NAIC's Group Solvency Issues (EX) Working Group's *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual* (Manual).

As previously stated in our letter dated March 18, 2011 we agree that introduction of an ORSA requirement into the US solvency framework could provide regulators with meaningful insights into a company's risk management practices, and as a result, increase the efficiency and effectiveness of the regulatory review process. We also acknowledge the NAIC's consideration of the regulatory principles described within the International Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 16, Enterprise Risk Management.

In general, we believe that the Manual offers ORSA guidance that focuses on the most fundamental components of a strong ERM framework. We understand that this Manual was intentionally designed to avoid being overly prescriptive, and we believe the working group has largely accomplished this objective. We do, however, encourage the NAIC to add specific language into the Manual that reiterates that the ORSA is an internal process to which regulators will have access rather than a new regulatory process, thus avoiding any confusion.

We believe that the ORSA should be conducted and reported on the same basis as risk is managed within a group. If risk is in fact managed at an insurance group level, the ORSA would generally be conducted and reported at the group level. Should any given legal entities' risk profile materially differ from that of the group, a risk assessment at that legal entity level may be appropriate. We believe that the Manual appropriately allows for flexibility in approach by referencing "an insurance legal entity within an insurance group and/or the insurance group" in various contexts throughout the Manual, with further requests to "clearly identify diversification credits" and "address restrictions on the fungibility of capital" should group ORSAs occur. We

[1] The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

encourage the NAIC to clarify any group versus legal entity language within the Manual should our interpretation be incorrect. Regardless of the level at which the ORSA is conducted, we believe that ORSA documentation should clearly explain the group's rationale for the level at which it performs its analysis.

We recommend that the working group ensure that the Manual appropriately captures the distinction between an ORSA, which is an internal process, and an ORSA report, which may include a summary of the ORSA process, its results at a point in time, and any significant changes to those results over time, with further references to internal documentation. We have noticed several inconsistent references to ORSAs throughout the Manual.

We seek clarification on how frequently regulators would require an ORSA report to be filed. On page 8, the Manual states "On an annual basis, the insurer and/or insurance holding company system subject to this filing should provide a group economic capital assessment within their ORSA for the previous year-end." This sentence reads as though there is an expectation for a regulatory filing of an ORSA report annually, while the last sentence of the first paragraph on page 3 suggests a regulator would use its discretion to request an ORSA report "each year" subject to "a myriad of factors." This language should be clarified. As previously stated, we believe that the frequency and extent of ORSA reporting should be dependent upon how the regulators intend to use the information provided. To the extent annual reporting is required, we recommend that the NAIC further clarify its intended use of the information within the Manual.

We recognize that there is no single accepted definition of the term "economic capital" (referenced in the paragraph above) and therefore its meaning may differ from company to company. Regulators should anticipate observing many different bases for an insurer's internal measurement of economic capital. In addition, while not specifically stated within the Manual, it will be essential that regulators develop an understanding of how the results of an economic capital model are used within the business beyond a point-in-time solvency assessment. Such knowledge would shed further light on the company's understanding of and commitment to its ERM process.

Thank you for this opportunity to comment. If you have any questions, please contact Tina Getachew, senior policy analyst, Risk Management and Financial Reporting Council, via email (getachew@actuary.org) or phone (202/223-8196).

Sincerely,

Maryellen Coggins
Chairperson, ERM Committee
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