AMERICAN ACADEMY *of* ACTUARIES

March 18, 2011

Director Christina Urias
Chair of the International Solvency (EX) Working Group
National Association of Insurance Commissioners (NAIC)
Via email: kdefrain@naic.org

The American Academy of Actuaries[1] ERM Committee is pleased to provide comments on the NAIC's International Solvency (EX) Working Group's *U.S. Own Risk and Solvency Assessment (ORSA) Proposal.*

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. In addition, we recognize the regulatory principles described within the International Association of Insurance Supervisor (IAIS) Insurance Core Principle (ICP) 16, Enterprise Risk Management. Our prepared comments do not discuss or address these principles.

We are pleased that the NAIC clarified several of the questions that we raised within our comment letter dated October 4, 2010. Therefore, most of our Committee's recent discussion on this proposal focused on the regulatory reporting requirements identified in paragraph 11.

We understand that one of the primary goals of the NAIC is to develop an understanding of the processes by which insurers identify, assess, monitor, and mitigate risk. We believe that the intent of a US ORSA requirement is to provide regulators access to internally prepared ORSAs; it is not to create a separate "regulatory prescribed ORSA." We therefore reiterate the comment made in our prior letter that overly onerous or standardized reporting requirements will likely make the information less valuable to the regulators. We encourage the NAIC to focus on the appropriateness of the risk management assessments performed by insurers and allow for potentially wide diversity in the form of the reporting on this assessment.

As currently identified, the proposed US ORSA regulatory reporting requirements could prove to be very challenging for many insurers regardless of their size. The NAIC should consider a requirement that insurers provide a comprehensive initial report of the results of their ORSA, and then file subsequent reports based on material changes only. For example, while an insurer would provide a description of its material risks and risk management policies in the first reporting period, subsequent reporting would highlight only those material changes to the

[1]The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public on behalf of 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.

policies and risk outcomes previously shared. This type of change-based reporting could benefit both regulators and insurers by mitigating the cost and effort of unnecessary regulatory reporting in subsequent periods while still providing the relevant information that the filing is intended to document.

In the remainder of this submission, we offer specific comments to select sections of the exposure draft:

Paragraph 6 — We strongly believe that ORSA should be conducted and reported on the same basis as risk is managed within an insurance group. Other requirements could create a level of compliance which is of less value to insurers and regulators. We do, however, recognize the need for state regulators to understand the specific risk profile of individual legal entities should it differ from the group. At a minimum, we strongly urge the NAIC to allow pooled reporting for members of inter-company pools since the risk profile of these entities would not differ by insurance legal entity.

Paragraph 7 — We agree that this reporting should be done as described in paragraph 7. We also agree that the risks associated with non-insurance entities within a group should be considered within an ORSA, especially if the risks arising from these entities could affect the risk profile of the group. We believe that an ORSA should cover all material risk exposures of the group, whether or not they are reported on the balance sheet.

Paragraph 8 — The frequency and extent of ORSA reporting should be dependent upon how the regulators intend to use the information provided. In most cases, annual reporting of the full ORSA would be a burdensome requirement of little practical use, particularly those of insurance groups with literally dozens of companies or on very small well capitalized companies with fewer available resources. Full annual reporting will also place an unnecessary burden on regulators to review literally hundreds of ORSAs in a short period of time. We acknowledge, however, that special circumstances such as an economic crisis or a significant change in risk profile or risk management approach may trigger a need for more frequent reporting. Weakly capitalized companies may also need more frequent reporting and analysis.

An option discussed by the ERM Committee is a modified approach to this new requirement. While all insurers would be required to perform this assessment internally as part of their ERM activities, the frequency and extent of the regulatory reporting of ORSAs could be increased (e.g., annual reporting) for only certain insurers based upon criteria or triggers established by the regulators. Once the regulators are able to refine their intended use of this new information and develop their departments' internal resources and expertise required to review ORSAs, an appropriate reporting frequency could then be determined.

Also, to underscore a comment from our October 2010 communication, the need for regulators to ensure the confidentiality of the information contained within the ORSA report is critical as it would likely include highly sensitive and proprietary information.

Paragraph 9 We believe the ORSA should be the delegated responsibility of a senior officer of the management team with the appropriate level of experience, and the Board should provide an appropriate level of review and oversight.

Paragraph 21 The ORSA report should contain an examination and quantification of any material deviation of actual risks from the risk tolerance levels established by the group, including whether this deviation is temporary, and any future plans/recommendations in this regard. Significant changes to risk tolerance levels should be communicated to and approved by the Board and discussed in the ORSA report.

Paragraph 26 It is our understanding that three to five year business plans may not be as prevalent as currently envisioned within the proposal and, in situations where extended planning does take place, there may be less rigor to the business planning process for years three through five than for years one and two. The focus of the ORSA should be more about a company's ability to withstand multi-year stress scenarios than about multi-year business plans.

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
Risk Management & Financial Reporting Council
American Academy of Actuaries

The members of the ERM Committee:

Mary Bahna-Nolan
Nancy Bennett
Rowen Bell
Wayne Blackburn
Maryellen Coggins, chairperson
Karen Detoro
Lijia Guo
Malgorzata Jankowiak-Roslanowska
Shiraz Jetha
Bruce Jones
Matthew Lantz
Joseph Lebens
Melissa Salton
James Lynch
John Nigh, vice chairperson
Syed Mehmud
James Reiskytl
Thomas Rhodes
Larry Rubin
Francis Sabatini
Debbie Schwab
Poojan Shah
Craig Thorburn