



AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

July 22, 2014

Mr. Jim Hattaway, Co-Chair  
Mr. Doug Slape, Co-Chair  
Risk-Focused Surveillance (E) Working Group  
National Association of Insurance Commissioners  
Via email: c/o Becky Meyer ([bmeyer@naic.org](mailto:bmeyer@naic.org))

Re: Comments on Re-exposure of ORSA Guidance in the Financial Analysis and Financial Condition Examiners Handbooks regarding reviewing and utilizing ORSA Summary Reports

Dear Messrs. Hattaway and Mr. Slape,

On behalf of the American Academy of Actuaries<sup>1</sup> ORSA Subgroup, I appreciate the opportunity to provide comments on the June 2014 updated drafts of guidance on Own Risk Solvency Assessment (ORSA) review to be incorporated in the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook*.

The ORSA Subgroup appreciates the working group's efforts to address the comments received on the first draft in such a timely manner. It is evident from the currently exposed revisions, that many of our prior comments, as outlined in our May 16, 2014 letter,<sup>2</sup> were considered and addressed. To the extent any of the detailed comments in that letter were not addressed, we have not reiterated them below. Instead we have chosen to offer our comments on the revised drafts, specifically related to any changes from the prior versions.

- The added clarification regarding the role of the Lead State is helpful, as is the specific commentary regarding the uniqueness of each ORSA report and associated dialogue. We agree with the suggestion that the Lead State analyst may want to include the Lead State actuary and examiner in the discussions.
- The reduced specificity in some of the guidance is appropriate in light of the current evolving status of ORSA. Because of the developing practices in enterprise risk management (ERM) and ORSA reporting, the early stages of ORSA use by the regulatory community, and the desire by the NAIC to maintain a principle-based approach, additional time may be needed to fully develop an approach for using an ORSA report as part of financial surveillance. Over time, more specific guidance for analysts and examiners might be appropriate.

---

<sup>1</sup> The American Academy of Actuaries is an 18,000-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.

<sup>2</sup> [http://actuary.org/files/Acad\\_on\\_ORSA\\_exam\\_guidance\\_051614.pdf](http://actuary.org/files/Acad_on_ORSA_exam_guidance_051614.pdf)

- We appreciate the acknowledgement that the ERM framework needs to be adapted to the scale and complexity of the insurer. Thus, a company could have a robust risk measurement in one area and a less robust measurement for another area depending on its ownership structure, risk profile, capital position, strategic business plan or any other specific characteristics or unique set of circumstances. We believe it is the alignment of the maturity level of a risk management system with the key characteristics or circumstances of the company (ownership structure, risk profile, capital position, strategic business plan, etc.) that should be evaluated instead of the ERM maturity level.
- We appreciate the added recognition that the Risk and Insurance Management Society's (RIMS) Risk Maturity Model is just one point of reference, and that other reference points and approaches to ERM may be appropriate for individual insurers depending on their unique circumstances.
- We continue to have some concern with the inclusion of the documentation templates in the guidance. While we appreciate that providing standard templates to help promote consistency may be desirable, inclusion of maturity assessment templates at this early stage may foster a "checklist" thought process for review of ORSA, and also could unduly weight the appropriateness of the RIMS maturity model for every insurance enterprise. We would suggest that the templates be removed in the initial guidance, and as knowledge evolves and experience with review processes grows, they could be introduced in a more productive way.

As we indicated in our prior letter, our subgroup is writing a document on how ORSA can support the regulatory review process, which we will share with interested regulators upon completion. While our document may have some degree of overlap with the guidance for analysts and examiners, it is intended to provide information for the regulatory community as well as insurance company executives, regarding ERM practices that are specific to the insurance industry and how those practices can provide valuable information regarding a company's risk profile. This effort will provide complementary information that may be helpful to analysts and examiners.

We also appreciate that the NAIC guidance places appropriate reliance on actuarial involvement in the surveillance process, and we will soon be publishing a document that presents the role of the actuary in the ORSA reporting process.

\*\*\*\*\*

We appreciate the opportunity to provide you with these comments and would be happy to discuss these comments with you further. If you have any questions, please contact Heather Jerbi, the Academy's assistant director of public policy, via email ([jerbi@actuary.org](mailto:jerbi@actuary.org)) or phone (202.223.8196).

Sincerely,

Patricia Matson, MAAA, FSA  
Chairperson, ORSA Subgroup  
Risk Management and Financial Reporting Council  
American Academy of Actuaries