



Practical Considerations in Completing and Using Form F Effectively and Efficiently

Enterprise Risk Management (ERM) and Own Risk and Solvency Assessment (ORSA) Committee
September 28, 2018—Webinar

Moderator

- Dave Heppen, MAAA, FCAS
 - ▣ Vice Chairperson, ERM/ORSA Committee



Presenters

- Bruce Jenson, CPA
 - ▣ Senior manager, Financial Regulatory Services Division, National Association of Insurance Commissioners (NAIC)
- Michelle Young, MAAA, FSA
 - ▣ Member, ERM/ORSA Committee
- Navid Zarinejad, MAAA, FCAS, CPCU
 - ▣ Member, ERM/ORSA Committee



American Academy of Actuaries

- The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted 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.



Form F Background

- Requirement of the NAIC Holding Company Model Act ([#440](#)) adopted in 2010 (Section 4L)
 - Intended to address issues relating to group risk exposures and contagion risk that emerged during financial crisis
 - Annual “Enterprise Risk Report” filed by ultimate controlling person/entity of each insurer
 - Report shall... “identify the material risks within the holding company system that could pose enterprise risk to the insurer”



Form F Background

- Insurance Holding Company System Model Regulation ([#450](#)) outlines report contents (Section 20) and provides reporting template
 - Adoption of Act and Regulation required for state accreditation beginning Jan. 1, 2016
- Filed with the lead state as determined by the Financial Analysis Handbook
 - Lead state listing available at the following link:
 - <https://isiteplus.naic.org/leadState/publeadstate/pubLSHtml>



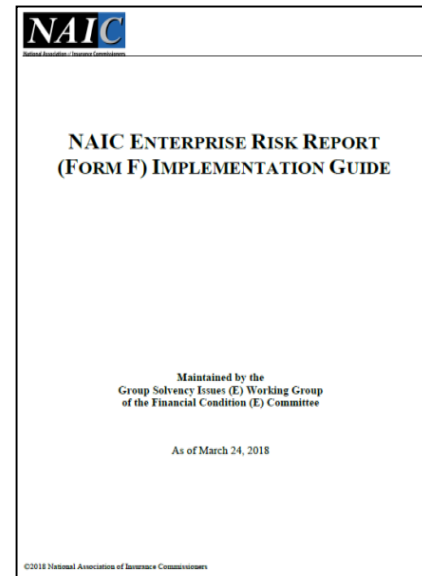
Form F Implementation Guide

- 2016—Regulators identified concerns with quality of information provided in Form F
 - [Survey of states](#) indicated that 86% found Form F reports to be “Somewhat Effective” or “Ineffective”
- 2017—[Form F/ORSA Comparison Chart](#) and [Form F Implementation Guide](#) were developed to clarify regulators’ expectations



Form F Implementation Guide

- 2018—Implementation Guide Adopted by Group Solvency Issues (E) Working Group
- Non-authoritative
 - ▣ Purpose is to assist insurers and regulators in maximizing the usefulness of the Form F by proposing best practices for consideration in preparing and reviewing Form F filings



Form F Implementation Guide

- Outlines situations where a waiver may be requested
 - ORSA filed at the ultimate controlling person (UCP) level and covers all enterprise risks
 - Limited size and structure of group
- Cautions filers against stating that no enterprise risks have been identified
- Provides additional considerations and examples of information beneficial to regulators
- Lists due dates by state and provides an example certification



Form F Content

- What are the key elements included in Form F?
- Who is typically responsible for providing these elements?
- What are common challenges found in the information provided in Form F?
- What are examples of practical methods for completing Form F effectively and efficiently?



Form F—Key Elements

#	Topic from Model #450
1	Material developments regarding strategy, internal audit, compliance, or risk management
2	Acquisition, disposal, or reallocation of insurance and financial entities within the group
3	Changes of shareholders of insurance holding company system exceeding 10% of voting securities
4	Developments in investigations, regulatory activities, or litigation that may have a significant bearing or impact on the group
5	Business plan of the group and summarized strategies for next 12 months

Form F Key Elements—Continued

#	Topic from Model #450
6	Material concerns of the insurance holding company system raised by a supervisory college
7	Identification of group capital resources and material distribution patterns
8	Potential negative movement in the credit ratings and individual insurer financial strength ratings assessment of the group (rating score and outlook)
9	Information on corporate or parental guarantees throughout the group and expected sources of liquidity should such guarantees be called upon
10	Identification of any material activity or development of the group that, in the opinion of senior management, could adversely affect the group

Comparison to ORSA

- How does the information provided in Form F compare to the information provided in ORSA Summary reports?
- Can ORSA filers gain efficiencies in completing Form F?



Form F vs. ORSA

Key Similarities

- Both intended to provide insight into material risks of enterprise / group
- Strong confidentiality protections in place (ORSA has additional trade and proprietary protection)

Key Differences

- Material risks: defined differently; ERM framework info in ORSA; requirements vary; quantification
- Potential for different reporting levels/entities covered; non-insurance entities
- Exemptions
- Timing of filing and with which regulator
- Attestation requirements



Form F—Practical Examples

- Hypothetical case studies



Company A—Small Insurance Co.

Single legal
entity

Direct
premium <
\$500m

Developing
ERM
framework

- ❑ Exempt from filing ORSA Summary Report
- ❑ Form F provides only insight into material risks to regulator
- ❑ May assist company in strengthening ERM framework



Company B—Insurance Group

Insurance
holding system
includes UCP

Direct
premium >
\$500m

Strong ERM
framework

- ❑ ORSA Summary Report and Form F filed at same level with same regulator
- ❑ ORSA Summary Report may provide more info if includes non-insurance entities; potential Form F exemption
- ❑ Limited helpfulness to company



Company C—International Group

Insurance
Holding system
subset of UCP

Direct
premium >
\$500m

Strong ERM
framework

- ❑ ORSA Summary Report and Form F filed at different levels and covers different entities; potentially different regulators
- ❑ Form F could offer regulators insight into Group and non-insurance entities
- ❑ Benefit to companies?



Summary—Company Perspective

- What challenges do companies face in completing Form F?
 - Companies with limited experienced may not go beyond the minimum requirements.
- How can companies make the process of completing Form F more efficient and effective?



Summary—Regulatory Perspective

- What improvements can be made to the information typically seen in Form F filings today?
 - Form F is often filled out citing publicly available information;
 - Companies only report on required material risks they feel haven't been mitigated;
 - Limited to no insight on other risks.



Questions?



AMERICAN ACADEMY *of* ACTUARIES

Objective. Independent. Effective.™