

Emerging Trends in Quantitative ERM

NAIC ORSA Update

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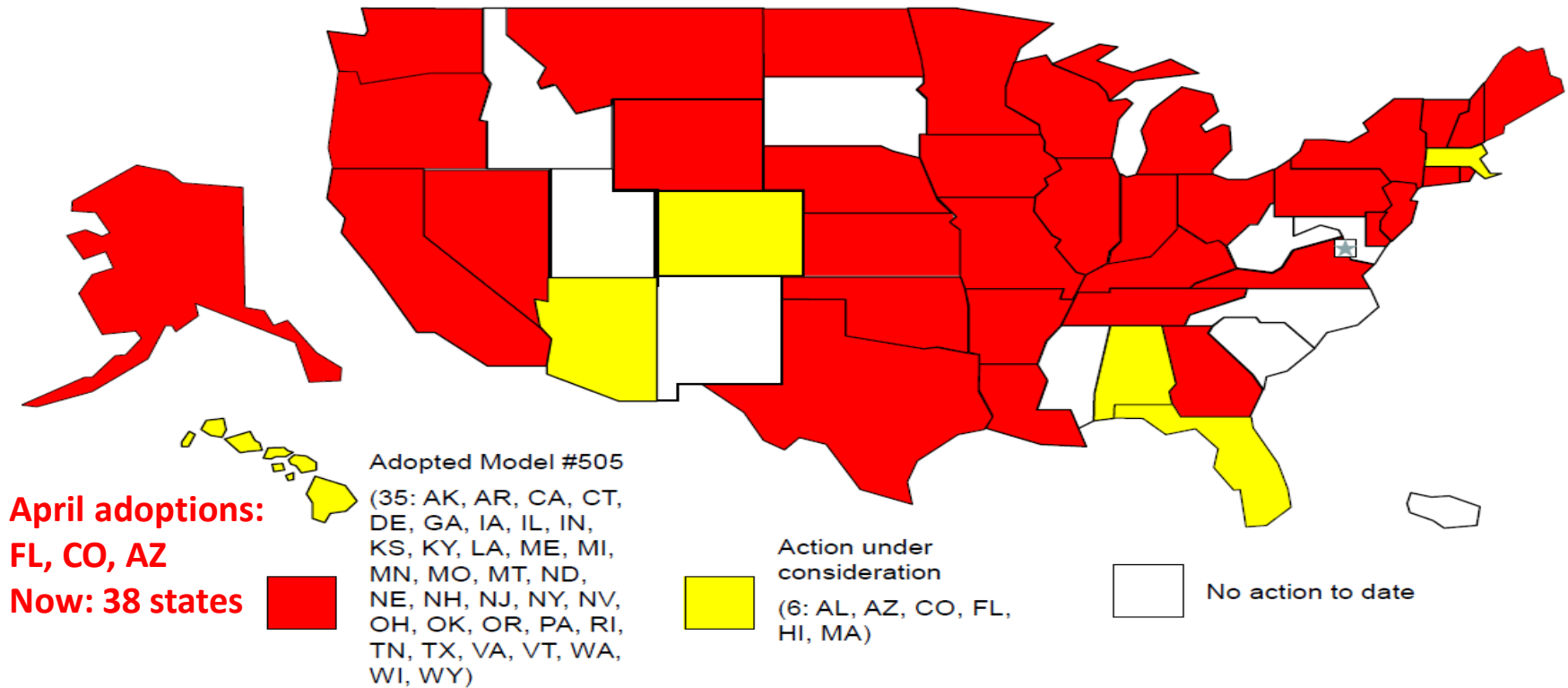
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Content

- Current status of NAIC ORSA initiatives and first year's reviews by the state Departments Of Insurance (DOI)
- Latest NAIC observations for each of the 3 sections of the ORSA based on actual reviews
- Emerging trends in quantitative ERM based on ORSA reviews

Current State ORSA Adoption

Implementation of Model Act #505
 Risk Management and Own Risk and Solvency Assessment Model Act
 [status as of March 14, 2016]



This map represents state action or pending state action addressing the topic of the model. This map does not reflect a determination as to whether the pending or enacted legislation contains all elements of the model or whether a state meets any applicable accreditation standards.

Status Update on ORSA reviews

- ORSA Model Law to become an accreditation requirement on 1/1/18
- Overall number of reports expected (after all state adoptions):
 - 200 at group level plus
 - 100 at single legal entity level (from groups below the ORSA threshold)
- Number of ORSA reports reviewed by NAIC in last 18 months:
 - approx. 70
- Bulk of 2015 reports were filed with state DOI in Q4:
 - approx. 200
- State DOIs are reviewing, documenting internally and providing feedback to companies
- ORSA Subgroup under Group Solvency Issue (E) WG set up on Feb 10th, 2016
- NAIC ORSA training program for DOIs started in 2015 continues in 2016 and 2017

NAIC's ORSA Observations- Executive Summary/ Section I

Executive Summary

Risk Culture and
Governance

Risk Identification
and Prioritization

Risk Appetite,
Tolerance and
Limits

Risk Management
and Controls

Risk Reporting
and
Communication

NAIC's ORSA Observations- Executive Summary/ Section I

Executive Summary



***No Business Strategy with description of the main business goals**

*** No ORSA initiatives for next 12-24 months**

NAIC's ORSA Observations- Executive Summary/ Section I

Executive Summary

Risk Culture and
Governance



Risk Appetite,
Tolerance and
Limits

***No information on compensation for
key risk stakeholders**

***No risk owners**

NAIC's ORSA Observations- Executive Summary/ Section I

Executive Summary



Risk Identification
and Prioritization

Risk Appetite
Tolerance and
Limits

***Limited information on PROCESS
for identification of key risks**

and Controls

Risk Reporting
and
Communication

NAIC's ORSA Observations- Executive Summary/ Section I

Executive Summary



Risk Culture and
Governance

Risk Appetite,
Tolerance and
Limits

Risk
Management
and Controls

*** No articulation of individual limits and tolerances for key risks**

*** No risk appetite at enterprise level**

NAIC's ORSA Observations- Executive Summary/ Section I



* Limited description of
non-financial controls
around key risks

Structure and
Governance

Risk Identification
and Prioritization

Risk Appetite,
Tolerance and
Limits

Risk
Management
and Controls

Risk Reporting
and
Communication

NAIC's ORSA Observations- Executive Summary/ Section I



Executive Summary

Structure and
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Risk Identification
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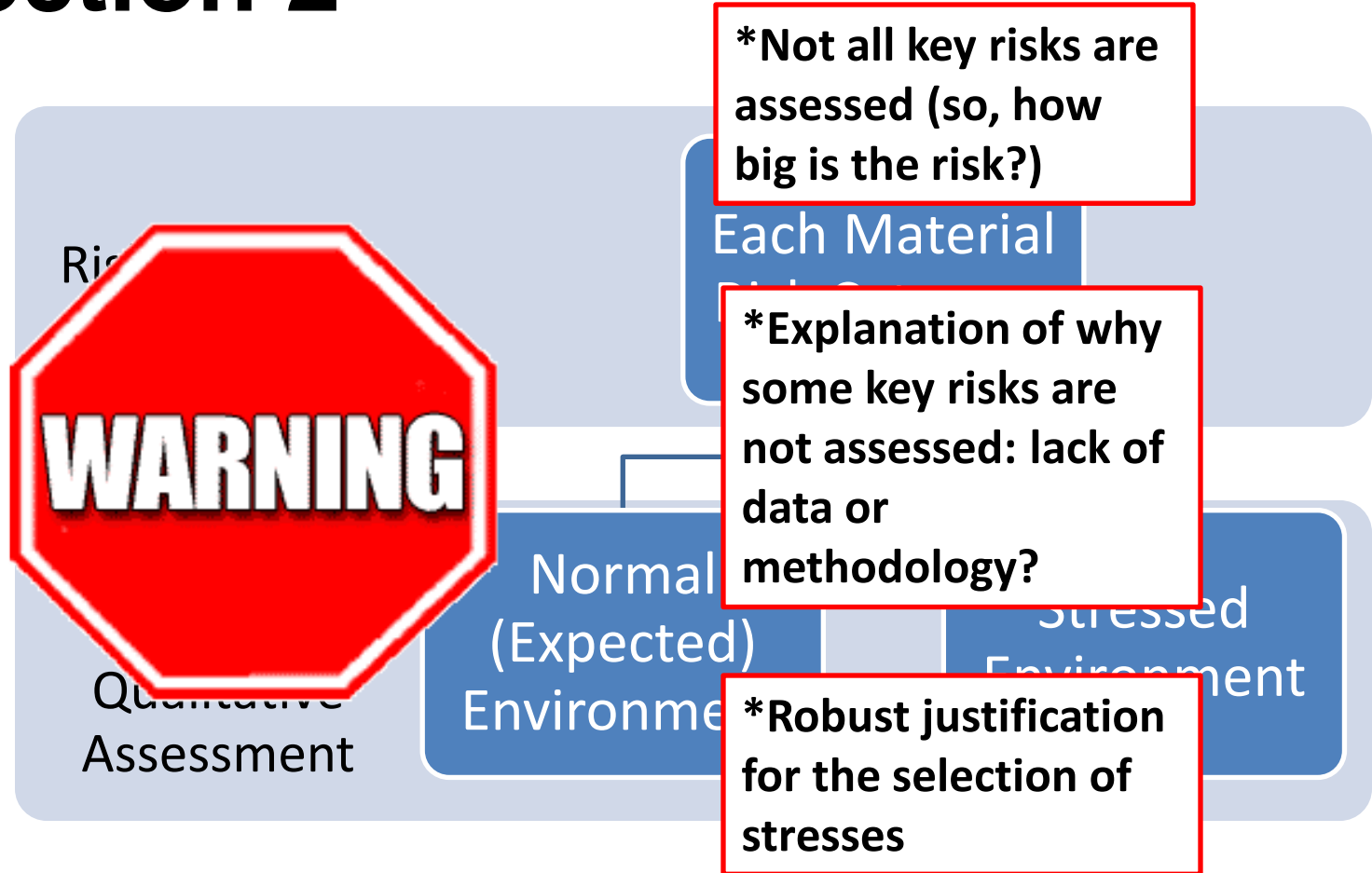
*** No KRIs to track risk
strategy**

Management
and Controls

Risk Reporting
and
Communication

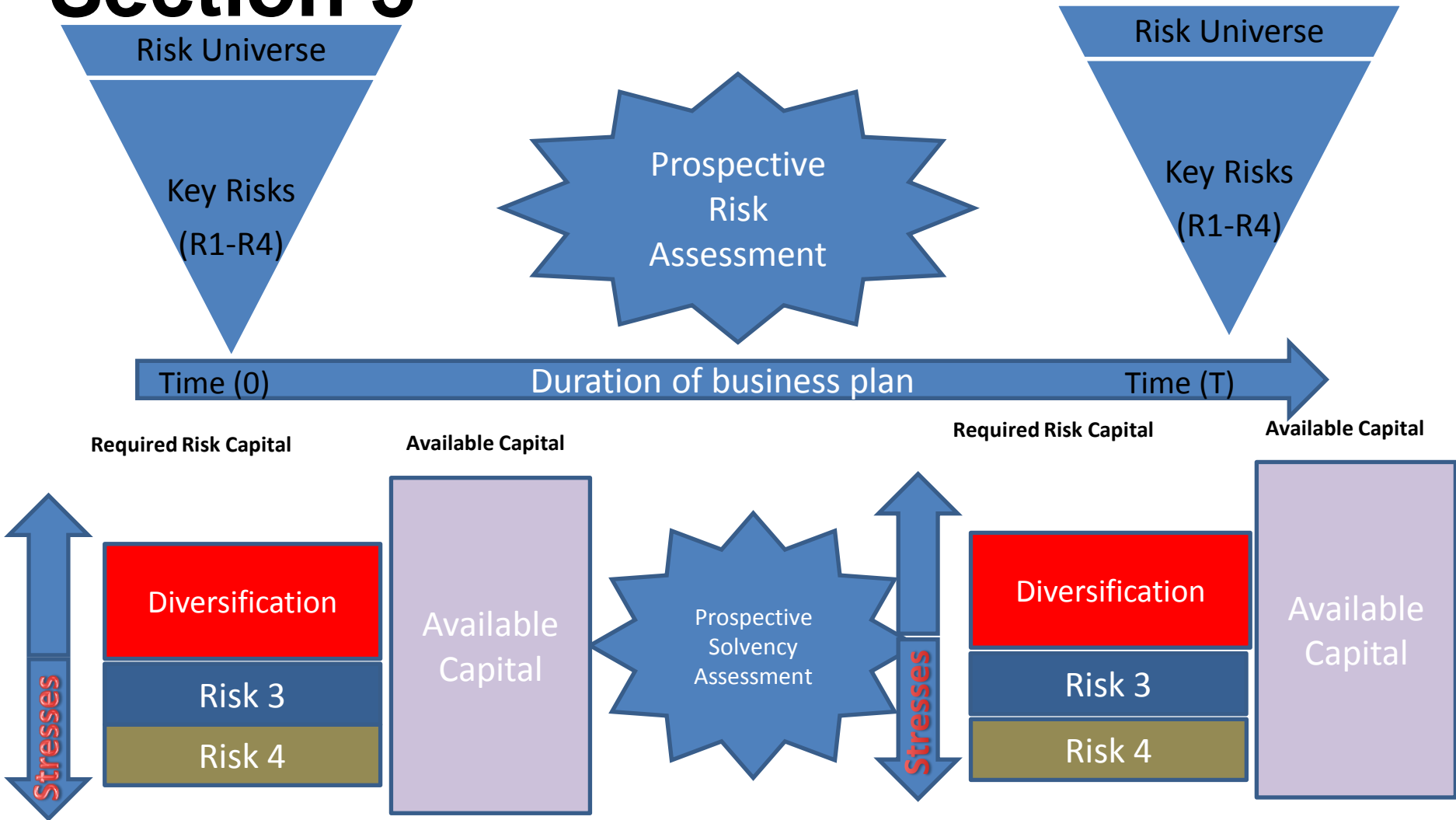
NAIC's ORSA Observations-

Section 2

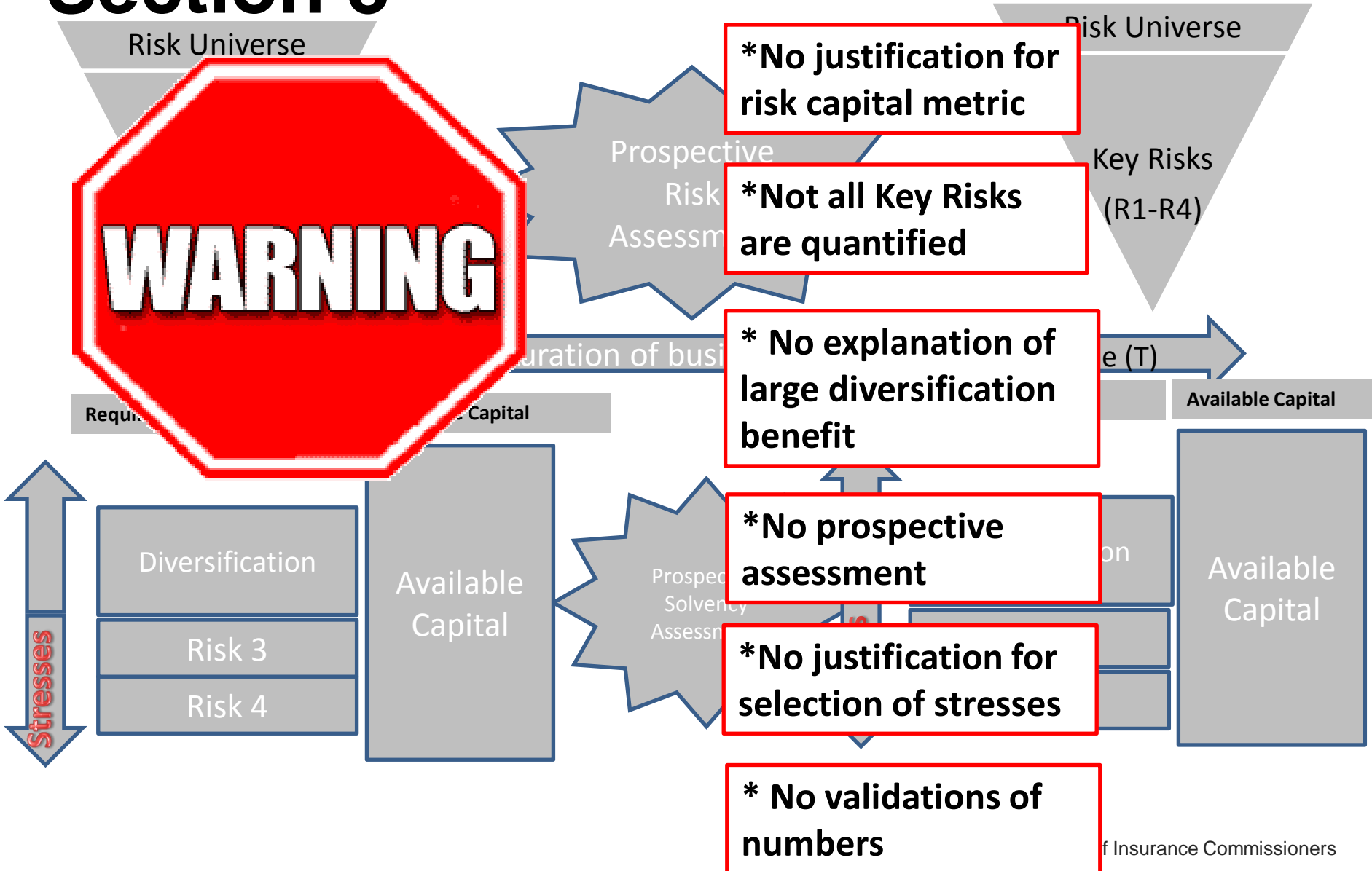


NAIC's ORSA Observations-

Section 3



NAIC's ORSA Observations- Section 3



***No justification for risk capital metric**

***Not all Key Risks are quantified**

*** No explanation of large diversification benefit**

***No prospective assessment**

***No justification for selection of stresses**

*** No validations of numbers**

Emerging trends in quantitative ERM based on ORSA reviews

Main areas:

- Individual risk exposures against limits and overall appetite
- Risk capital modeling
- Stress testing frameworks
- Key risk indicators

Main drivers:

- Tone at the top that dictates maturity and priorities of ERM
- Ability of in-house ERM function to be a business partner

Main limitations:

- Availability and quality of data
- Knowledge of methodologies

For follow-up questions

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