

ENTERPRISE RISK MANAGEMENT

ERM

Symposium

Where Cutting Edge Theory Meets State of the Art Practice

2012 ERM Symposium
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Washington, D.C.

Integrating ORSA Requirements
Between Europe and the US



Unique P&C Risk Characteristics

- Individual insureds
 - Claim frequency unknown
 - Claim severity unknown (limit may apply)
 - Timing/duration of claim payments unknown
 - Definition of insured loss can be open to interpretation
- Larger risk portfolios
 - Exposure to natural and man-made catastrophes
 - Mass tort and other “casualty catastrophe” exposure
 - Interdependencies between LOBs, insureds

Unique P&C Financial Considerations

- Asset/liability management
 - “Long tailed” lines skew liability durations
 - Asset quality and liquidity important due to uncertainty in claim payment timing
 - Low, flat yield curves present a challenge
- Underwriting cycles
 - Driven by capital flows, investment returns
 - Sharp price increases followed by long periods of decline
 - Reserve and capital adequacy areas of regulatory focus

International ORSA Challenges

- Coordination between European and US regulatory regimes:
 - Swiss Solvency Test
 - Solvency II
 - NAIC ORSA
- Minimize duplication of effort
- Avoid potential inconsistencies

“Top-down” approach

- Internal model driven at the group level
- Capital allocated to geographies and entities
- Risks identified and assessed globally and locally against allocated capital and risk tolerances/limits
- Global ORSA report with local “chapters”

“Bottom-up” approach

- Consistent internal model applied locally
- Capital aggregated across entities and geographies
- Risks identified and assessed globally and locally against calculated capital and risk tolerances/limits
- Local ORSA reports with a global “wrapper”

“Blended” approach

- Internal model driven at the group level (local input)
- Capital allocated to geographies and entities
- Common risks and themes identified globally and assessed locally, with results aggregated
- Unique local risks identified and assessed against risk tolerance/limit, reported to group consistently
- Separate local and global ORSA reports with common format, leveraging common content

Other considerations

- Confidentiality
- NAIC model versus individual state regulation
- Differing rules concerning international trade
 - OFAC, FCPA, etc.
- Non-insurance entities
- Holding companies

Planning

- NAIC targeting effective date of 1/1/2014
- Work towards creating a “model” ORSA report in 2013 based on 12/31/2012 financials
 - Develop report format and pro-forma content for sections 1, 2 and 3 during CY 2012
 - Focus on risk quantification and modeling
 - Create skeletal draft ORSA based on 12/31/2011 financials and address gaps during 2013