

**Preparing for the US ORSA**  
Jayashree Ishwar  
SVP, Enterprise Risk Management  
Erie Insurance Group

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**AGENDA**

- What Is ORSA?
- How Can You Prepare For It?
- Beyond Compliance Towards Resilience

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**WHAT IS ORSA?**

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**Risk Focused Examinations Today**

- Shift from Statutory Financial Based to a Holistic Approach
- Point in Time Versus Prospective Solvency View
- Based on Identification, Understanding and Assessment of Enterprise Wide Risks
- Significant Focus on Risk Mitigation Strategies and Controls
- Supplements Risk Based Capital Views
- ORSA is a Next Step in this Evolution

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**WHAT IS ORSA?**

- Own Risk and Solvency Assessment is a mandatory reporting requirement
- An Organization's OWN Evaluation of Risks and Resulting View of Solvency
- Required for Regulatory Supervision and Equivalence With Other Regulatory Regimes
- Recognizes that regulatory capital models may sometimes miss inherent complexity and correlation across risks and a prospective view of solvency

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**WHAT IS ORSA?**

- Linked to an Organization's Strategy
- Proportional to its Risk Profile and Complexity

So One Size Will Not Fit All!

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**ORSA - DRAFT**

- Expected Implementation is January 1, 2014
- ORSA Summary Report to be Filed With Regulator annually
- ORSA Guidance Manual Will be Provided by NAIC and Adopted by States
- ORSA generally expected to be conducted at the Group Level. However, Regulators have ability to ask for an ORSA for a specific entity
- Currently, ORSA Summary Report is Expected to be Kept Confidential. Lead Regulator Concept Not Clear
- Dedicated Risk Management Function (?)

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**ORSA - DRAFT**

- Exemptions
  - Insurer DWP < \$500M and Group DWP < \$1,000M
  - Override Authority to Seek ORSA Based on Unique Circumstances or RBC Triggers
  - Transition Rules for Companies No Longer Exempt
- Sections Of The ORSA
  - Section 1: Description Of The Risk Management Policy
  - Section 2: Quantitative Measurements Of Risk Exposure In Normal And Stressed Environments
  - Section 3: Group Economic Capital And Prospective Solvency Assessment

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**Section 1 – Risk Management Policy**

- Risk Culture And Governance
- Risk Identification And Prioritization
- Risk Appetite, Tolerances And Limits
- Risk Management And Controls
- Risk Reporting And Communication

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**Section 2 – Quantitative Measurement**

- Quantification Of Risks Identified In Section 1
  - Normal And Stressed Environments
  - Scenario Analysis or Stochastic Models
- Documentation
  - Description Of Risk
  - Quantification Approach
  - Key Assumptions
  - Outcomes Compared To Risk Tolerance
  - Reverse Stress Tests As Applicable
  - Risk Responses

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**Section 3 – Prospective Solvency Assessment**

- Group Solvency
  - ORSA Draft Versus Guidance Manual
  - Expected Horizon: 2 To 5 Years
- Documentation
  - Definition Of Solvency
  - Time Horizon Of Risk Exposure
  - High-level Risks And Materiality
  - Quantification Approach
  - Capital Allocation Methodology
  - Measurement Metric
  - Target Level Of Capital
  - Correlations & Diversification

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**HOW CAN YOU PREPARE FOR ORSA?**

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**Preparing for ORSA**

- Strategic view of outcomes from the ORSA exercise
- Stewardship of ORSA and stakeholder buy in
- Resource needs for initial implementation and future production support
- Project plan to develop the components as well as the repeatable process that underlies the ORSA
- Demonstrate integration of ORSA with current risk management and ERM elements
- Determine ORSA summary report components and detail
- Documentation!

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**Preparing for Section 1 – Risk Management Policy**

Risk Culture And Governance

- Risk Management Framework
- Tone At The Top
- Governance should include A discussion of risk oversight at the board, management and functional levels
- ERM integration
- Ownership of significant risks
- View of risk return measures versus traditional accounting metrics

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**Preparing for Section 1 – Risk Management Policy**

Risk Identification And Prioritization

- Top Down And Bottom Up Approaches
- Quantification And Prioritization
- Consistent view across risk that are quantitative and qualitative
- Emerging Risks

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**Preparing for Section 1 – Risk Management Policy**

Risk Appetite, Tolerances And Limits

- Do you have A view of your firm’s risk appetite and risk tolerance?
- What decisions does this drive?
- Have you ever breached your tolerance?
- What are the consequences of breaching the risk tolerance or risk limit?

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**Preparing for Section 1 – Risk Management Policy**

Risk Management And Controls

- How do you manage your most significant risks?
- Risk response plans for more extreme events
- Where is the accountability for managing significant risks?
- How are your internal audit and compliance groups involved?

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**Preparing for Section 1 – Risk Management Policy**

Risk Reporting And Communication

- What metrics do the board and management use in their oversight of risk?
- Significant decisions and risk metrics
- How do these metrics drive behavior within the business?
- What actions do these metrics initiate when the trend is not favorable?
- Communication
- Risk education

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**Inventory of Risk Management Policies**

- ERM Policy
- Risk Inventory/Taxonomy
- Identify Significant Risks To The Company/Group
- Risk Monitoring Process
- Investment Policy, Including ALM Policies
- Liquidity Management Process
- Hedging Policy
- Underwriting Policy
- Overarching Pricing Policy

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**Inventory of Risk Management Policies**

- Product Development Cycle Documentation
- Claims Policies
- Fraud Management Process
- Customer Retention Programs
- Counterparty Risk Management
- M&A Process
- Incentive Compensation Design And Links To ERM
- Risk Tolerance Statement And Management Of Risks Within Tolerance
- *This Is Not An Exhaustive List*

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**Preparing for Section 2 – Quantitative Measurement**

**Quantification Of Risks Identified In Section 1**

- Consider nature, scale and complexity of risks
- Determine quantification approach for each risk
- Scenario analysis under normal and stressed environments versus stochastic models
- Correlations and association across risks

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**Preparing for Section 2 – Quantitative Measurement**

Documentation

- Description Of Risk
- Quantification Approach
- Key Assumptions
- Outcomes Compared To Risk Tolerance
- Reverse Stress Tests As Applicable
- Risk Responses

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**Section 3 – Prospective Solvency Assessment**

Group Solvency

- Capital Adequacy and Definition of Solvency
  - Economic, GAAP, Statutory, Regulatory, Rating Agency views
- Expected Horizon: 2 To 5 Years
- Modeled Risks
- Methodology
- Metric and Target Capital
- Correlation and Diversification
- Capital Fungibility
- Links with Strategic Plan

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**Section 3 – Prospective Solvency Assessment**

Documentation

- Why a specific definition of solvency was chosen
- Why the chosen Time horizon for risk exposure is appropriate
- Modeled and non modeled risks
- Quantification Approach
- Capital Allocation methodology
- Rationale for the Measurement metric
- Risk Transfer impact and estimation of dislocation impact

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**Watch List**

- Own Risk and Solvency Assessment Model Act
- NAIC ORSA Guidance Manual
- Your Own State Regulator’s Publications on the topic
- Rating Agencies’ take on ORSA Implementation After the Model Act is promulgated

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**BEYOND COMPLIANCE  
TOWARDS RESILIENCE**

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**More Than Just ORSA**

- ORSA Requirements are Mandatory
- Where is the value for you?
- Embed ERM Further

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**QUESTIONS?**

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