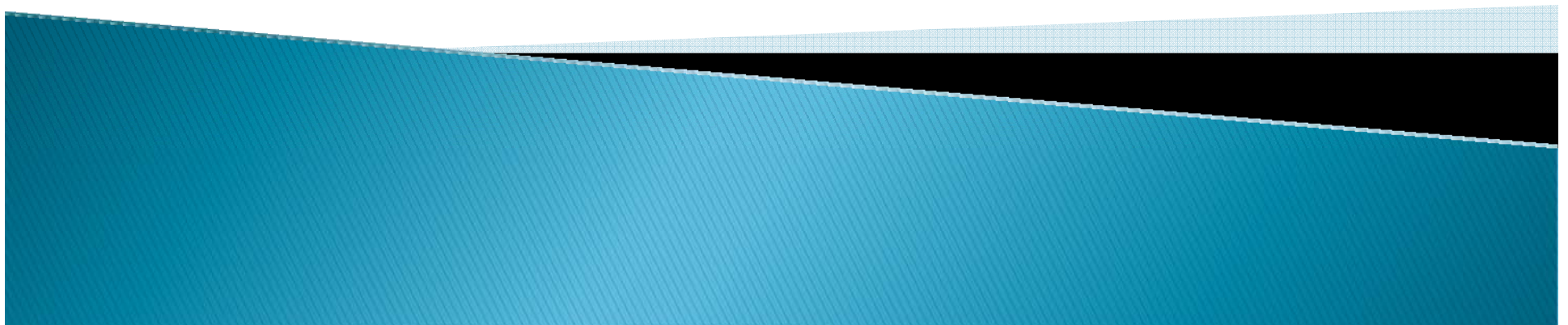


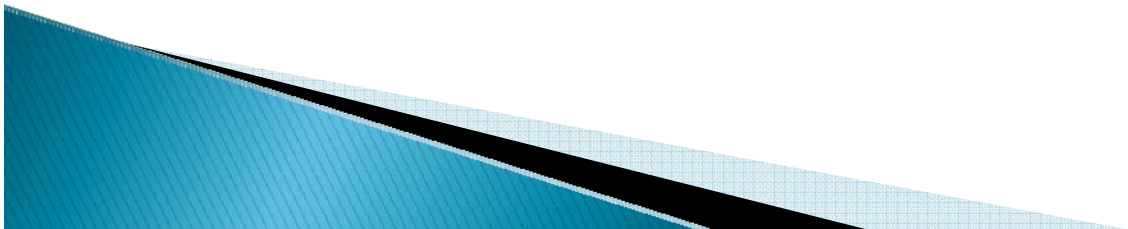
Corporate Governance, ERM and the NAIC – A Regulator’s Perspective

Mary D Miller FCAS, MAAA
Ohio Department of Insurance
June 16, 2008



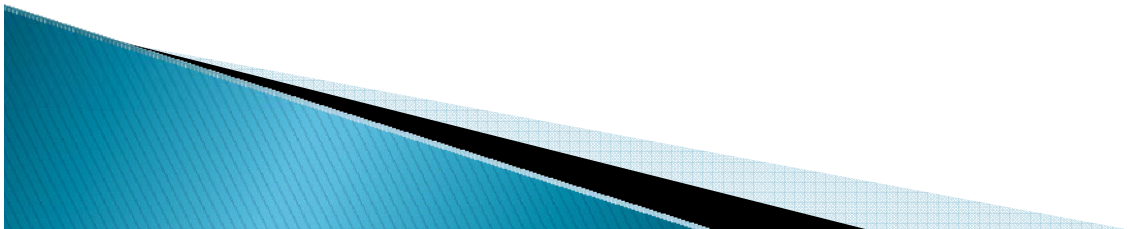
Today's Focus

- ▶ Risk Focused Examinations and the NAIC
- ▶ Corporate Governance for Risk Management Act
- ▶ Principles Based Reserving – P&C vs. Life



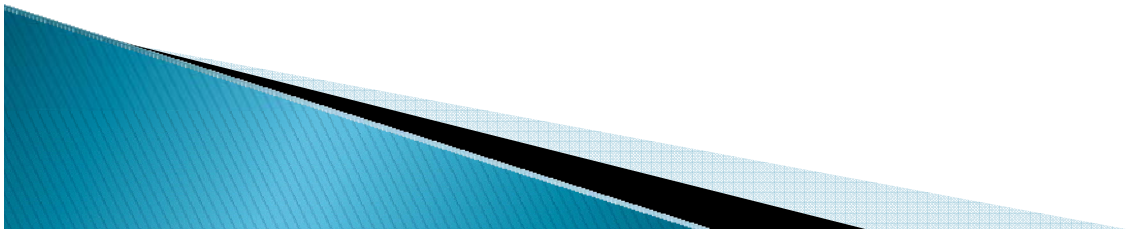
Risk and the NAIC

- ▶ Financial Analysts/Examiners have used Risk Assessment for many years – SRA's
- ▶ Focus was on the past – Balance Sheet
- ▶ Used to determine whether prior period financials were fairly stated



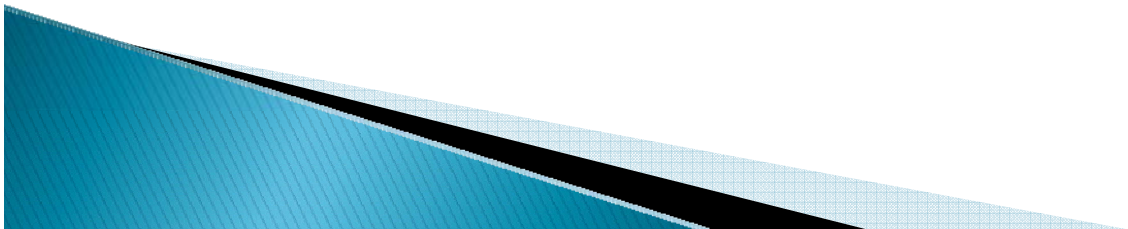
Change is the Air

- ▶ Risk – Focused Surveillance Process
- ▶ Evolution or Revolution?
- ▶ CARRMEL Rating Determines Priority
- ▶ Coordinated Examinations
- ▶ Emphasis on
 - Corporate Governance
 - Quality of the Board
 - Risk Management



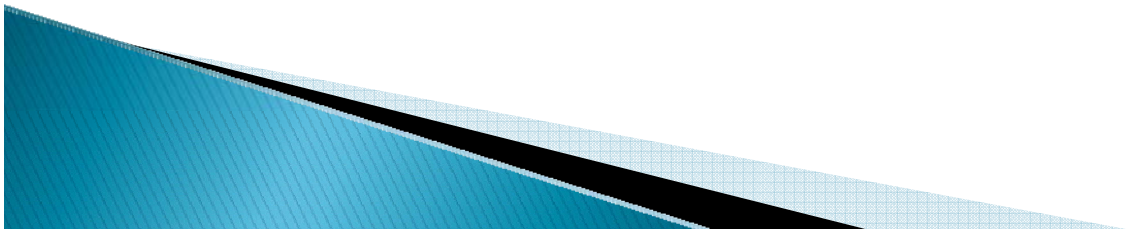
CARRMEL rating

- Prioritization system
- Improves decision-making and communications
- Validated/Revised as part of the examination effort
- Facilitates analysis to identify strengths and weaknesses
- Scores management
- As time goes on, it becomes a better tool



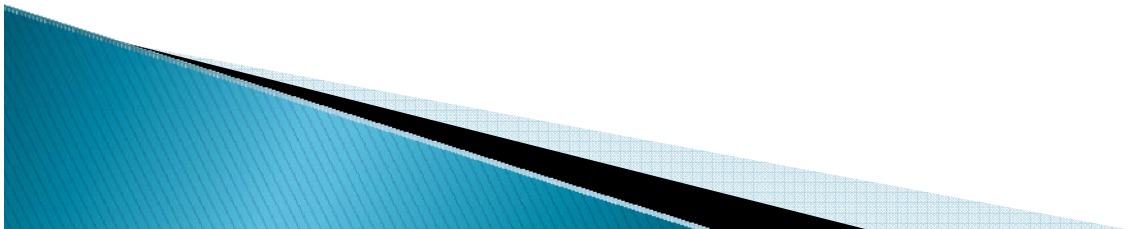
CARRMEL

- ▶ Capital Adequacy
- ▶ Asset Quality
- ▶ Reserves
- ▶ Reinsurance
- ▶ Management
- ▶ Earnings
- ▶ Liquidity



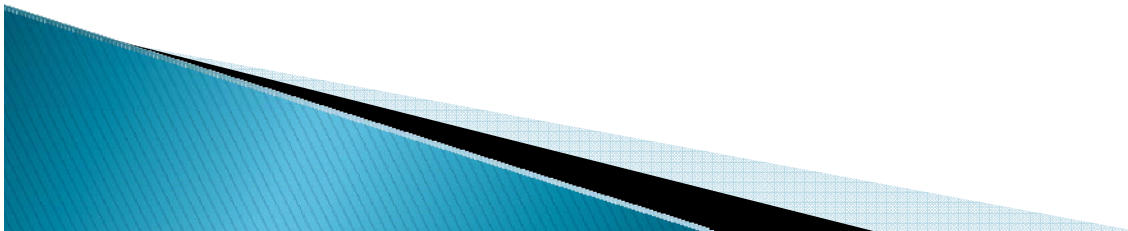
Corporate Governance

- ▶ Board of Directors
- ▶ Senior Management
- ▶ Control Functions
 - Audit
 - Compliance
 - Risk management



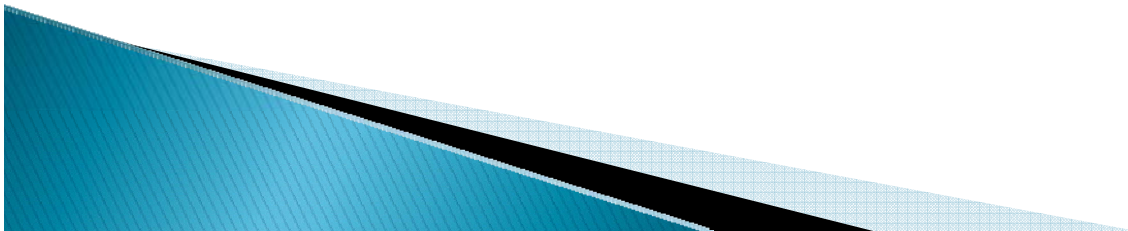
Top-Down, Risk-Focused Surveillance Process

1. Assess external and internal audit functions
 - Maximize use where appropriate
2. Interview senior management
 - Assessing corporate governance and ERM
3. Focus on high risk areas (examples include):
 - Reserves
 - Reinsurance
 - Inter-company transactions



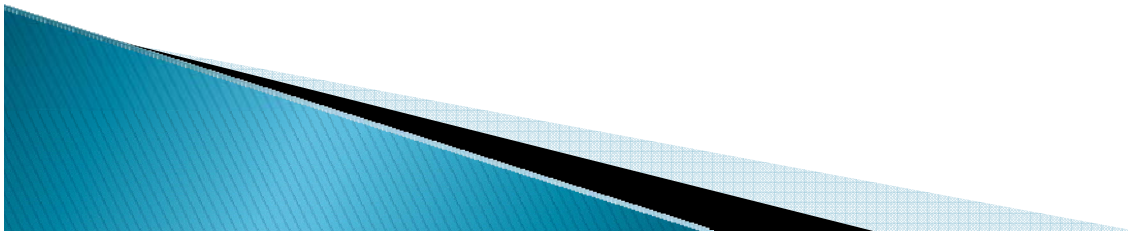
Objectives

- ▶ Identification of risks
- ▶ Assessment of governance structure
- ▶ Allocation of Department resources
- ▶ Assessment of risk management framework & practices
- ▶ Meaningful communication of findings with Board and/or Senior Management
- ▶ Update CARRMEL rating



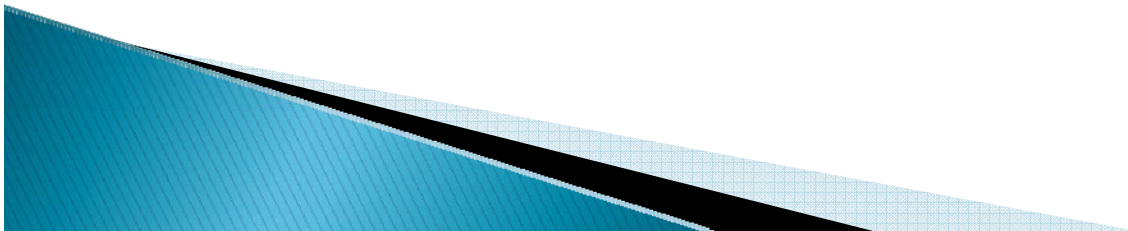
Risk Management Principles

- ▶ Active Board and Senior Management oversight
- ▶ Adequate policies, limits and procedures
- ▶ Adequate risk management, monitoring and management information systems
- ▶ Comprehensive internal controls
- ▶ Compliance to law, regulations, and internal policies



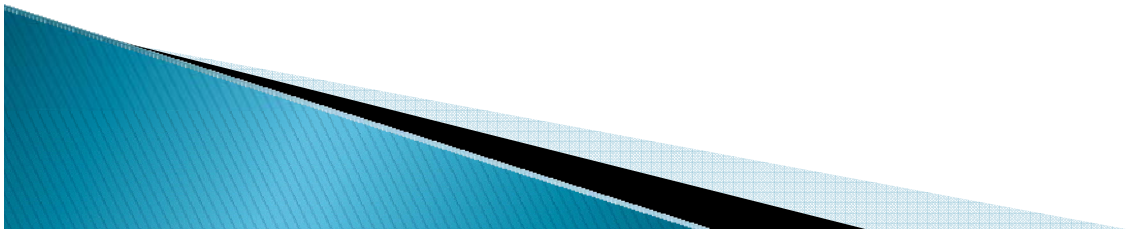
Assessment of Risk Management Framework & Practices

- ▶ Tone at the top
 - Audit/compliance relationships
- ▶ Adherence to Board policies and procedures
- ▶ Internal control environment



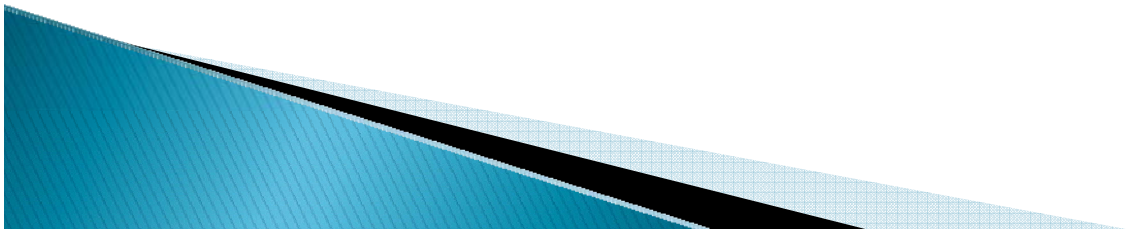
Inherent Risks

- Credit
- Market
- Pricing/Underwriting
- Reserving
- Liquidity
- Operational
- Legal
- Strategic
- Reputation



Application of these Risks to Key Business Activities

- Pricing/Underwriting
- Reinsurance
- Investments
- Claims/Reserves
- Support
 - Accounting
 - Actuarial
 - IT
 - Legal
 - Human Resources



Risk Assessment Steps

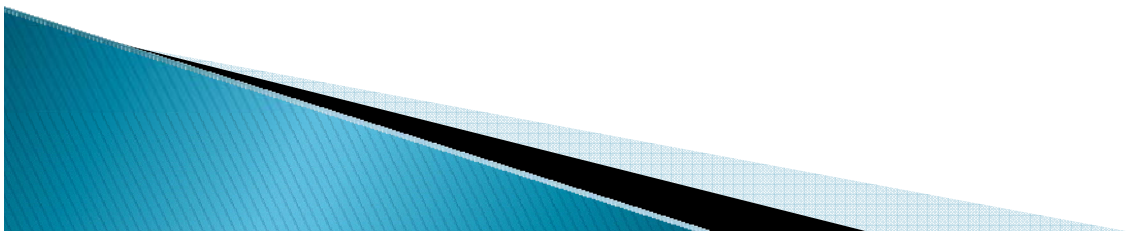
Identification of Inherent Risk

Plus

Assessment of Risk Management Processes

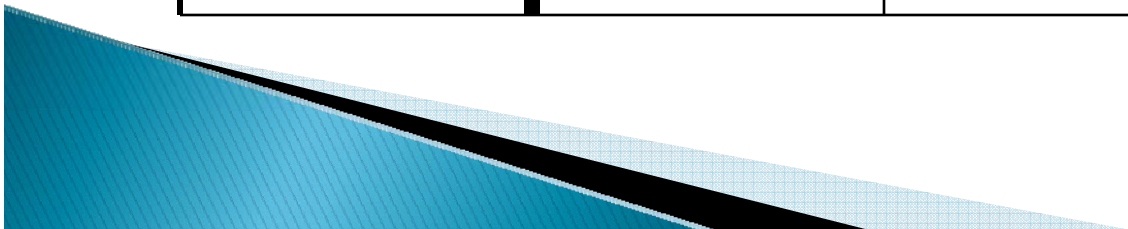
Equates to

Residual Risk Determination



Residual Risk Grid

| Inherent Risk | Strong Risk Controls | Acceptable Risk Controls | Weak Risk Controls |
|----------------------|-----------------------------|---------------------------------|---------------------------|
| High | Moderate to High | Moderate to High | High |
| Moderate | Moderate | Moderate to High | Moderate to High |
| Low | Low | Low | Low to Moderate |



Role of the Actuary

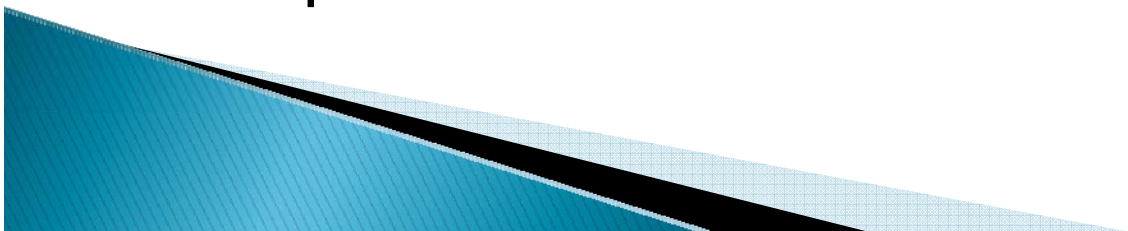
Increasing number in Chief Risk Officer positions

Important for Boards to understand the significance of Actuarial findings

- ▶ Personal interaction is desirable
- ▶ Ability to communicate is critical

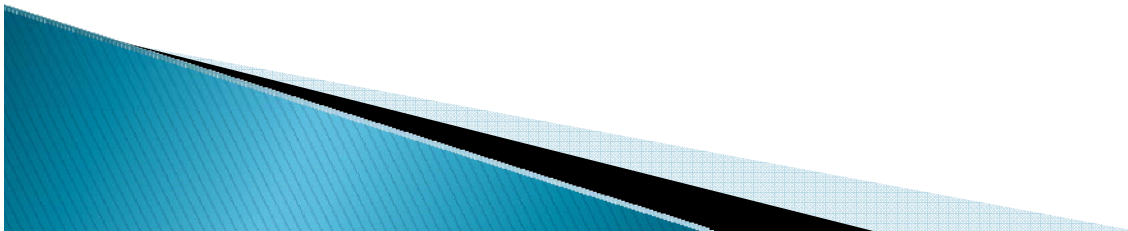
CoPLFR paper: An Overview for Audit Committee Members of P/C Insurers: Effective Use of Actuarial Expertise

http://www.actuary.org/pdf/casualty/audit_sept07.pdf



Corporate Governance for Risk Management Act

- ▶ Model Law Proposal
- ▶ Originally seemed to apply to all companies including P&C – later limited to Life PBA
- ▶ Mary Miller's view
 - Linking reserve and capital requirements
 - Overly prescriptive – more rules-based, less principles-based
 - Too much control of company operations to state
 - Authorized insurers vs. domestic



Comparisons to Life

- ▶ We (P&C) use many of the same terms but they are used in different ways. Difficult to apply concepts that are appropriate for all disciplines except at a very high level.
- ▶ Currently P&C has feedback mechanisms, e.g., 1 and 2 year development schedules that Life doesn't have.
- ▶ Life regulators have more uniformity now and are reluctant to move away from it. P&C regulators expect company differences.

