ORSA: The Next Step in Prudential Regulation in the U.S.

Michael F. Consedine, Commissioner, Pennsylvania Insurance Department
Risk Management and ORSA Model Act - adopted by NAIC in September 2012

- Imposes 3 core requirements on a state’s domestic insurers (unless exempt)
  1. Maintain a risk management framework (§ 3)
  2. Complete an Own Risk and Solvency Assessment (ORSA) (§ 4)
  3. File an ORSA Summary Report with the insurance commissioner (§ 5)

- Effective January 1, 2015
- Exempts insurers <$500 million premium, groups<$1 billion premium

Current Status
- The ORSA Model Law is available for states to adopt as law.
- 4 states have passed legislation to-date – IA, ME, NH, RI
- The NAIC is considering certain sections of the Model as Accreditation requirements.
• **ORSA Guidance Manual** - Adopted by NAIC in March 2012

• Guidance Manual provides the following:
  - Summary Report, at a minimum, should discuss:
    - Section 1 – Description of Insurer’s Risk Management Framework
    - Section 2 – Insurer’s Assessment of Risk Exposure
    - Section 3 – Group Risk Capital and Prospective Solvency Assessment
  - Regulators will use the ORSA Summary Report to gain a high-level understanding of the group’s process for assessing risk
    - Will be used in conjunction with Enterprise Risk Report, current regulatory processes including holding company analysis, and coordinated exams, to do more in depth group supervision
  - ORSA Summary Report may be provided in any combination as long as all insurance legal entities within the group are represented
U.S. ORSA Section 1
Description: Risk Management Framework

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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U.S. ORSA Section 2
Insurer Assessment of Risk Exposures

Risk Exposure

Each Material Risk Category

Quantitative and Qualitative Assessment

Normal (Expected) Environment

Stressed Environment
Section 3 combines the qualitative elements of risk management policy with the quantitative measures of risk exposure to determine the level of financial resource needs.
ORSA Feedback Pilot Project

- 2012 ORSA Pilot Project
  - Results – Feedback to Volunteers & Industry, Revisions to ORSA Guidance Manual, Recommendations for Analysis and Exams

- 2013 ORSA Pilot Project
  - November 2013
    - Expectations: 1) Provide Feedback to Volunteers & Industry; and 2) Focus on Development of Regulatory Guidance

- Regulatory Guidance
  - High Level Initially
  - Evolving Process

- State Implementation Experience
Questions?