Session 27 L, ORSA from Regulators Perspective

Moderator:
Richard C. Tash, FSA, MAAA

Presenters:
Rhonda Kay Ahrens, FSA, MAAA
Matthew Kramer, FSA, CERA, MAAA
Panelists are
- Ronda Ahrens – Nebraska Dept of Insurance
- Matt Kramer – Milliman, Inc.
- Richard Tash - Moderator

Presentation Format:
- Question and answer session by panelists
- Interaction by audience throughout session
  - Pose own questions
  - Provide insight to questions being asked
- Questions should be general and not specific due to confidential nature of ORSA filings
Background - What is ORSA?

• A realistic view of the risks a company faces due to its
  – Operations
  – Strategic decisions
  – External views of company (reputation)
  – Any other risks

• Holistic view of risk and is not limited by formula

• Application of Enterprise Risk Management principles

• NAIC has Model Regulation

• 31 states have approved legislation in 2015

• Has been embraced for Life and Casualty, implemented in 2015 for health insurance companies
ORSA Background

• Roots in Enterprise Risk Management – SOA Def’n of ERM
  “ERM is the discipline by which an organization in any industry
  assesses, controls, exploits, finances and monitors risks from all
  sources for the purpose of increasing the organization’s short- and
  long-term value to its stakeholder.”

Key elements:
  – Discipline applies to any industry (including health insurance)
  – Monitors risks from all sources
  – To increase value to its stakeholder

• Life / Casualty have embraced ORSA more readily than health
  insurance. They have much longer liabilities than Health Insurance

• Often performed by Risk Officer/Unit although a necessary need for
  actuaries to be involved
ORSA Goals

1. To foster an effective level of ERM at all insurers, through which each insurer identifies, assesses, monitors, prioritizes and reports on its material and relevant risks identified by the insurer, using techniques that are appropriate to the nature, scale and complexity of the insurer’s risks, in a manner that is adequate to support risk and capital decisions;

2. To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

Key Goal Elements:

- Each insurer identifies its relative risks
  - Based on an honor system, no template and based on own review
  - Introspective review incorporating internal and external factors
- Supports risk and capital decisions
  - Helps drive strategic decisions; considers all risks when going into new ventures
- Supplements legal entity view
  - Confidential by state law

NAIC ORSA Guidance Manual
Which Organizations are Impacted?

- Any individual U.S. insurer that writes more than $500 million of annual direct written and assumed premium

- Insurance groups that collectively write more than $1 billion of annual direct written and assumed premium
Regulatory Environment

• NAIC Model Regulations

• 31 States Approved Model Regs for 2015; 6 more under consideration

• Frequency of filing: Annual signed by a Corporate Officer (Risk Officer)

• Penalty for non-compliance: By regulation, suggested is a daily penalty with a cap

• State overview: Regulators involved in review of ORSA filings
### Requirements of NAIC Model Act

#### Three required sections included in an ORSA report

<table>
<thead>
<tr>
<th>Describe ERM Framework</th>
<th>Assess Risk Exposures</th>
<th>Demonstrate Sufficiency of Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Risk culture and governance</td>
<td>• Quantitative and/or qualitative assessment of risk exposure in both normal and stressed periods</td>
<td>• Group assessment of risk capital: current capital sufficient to meet identified risks</td>
</tr>
<tr>
<td>• Risk identification and prioritization</td>
<td>• Details on risks identified along with assessment methods, key assumptions, risk mitigation activities and plausible adverse scenario outcomes</td>
<td>• Prospective solvency: future capital sufficient to support business plan</td>
</tr>
<tr>
<td>• Risk appetite, tolerances and limits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Risk management and controls</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Risk reporting and communication</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Organizational Structure

- Risk Analysis

#### Capital Sufficiency

- Risk Analysis
Risk Categories

- **Underwriting**: Ability to meet profit objectives
- **Credit**: Ability to meet obligations to members, providers, or vendors
- **Market**: How company will fare under different market & economic conditions
- **Strategic**: Risks associated with an insurer’s future plans to expand, modify or diversify business
- **Liquidity**: Risk of not being able to meet financial obligations by selling assets
- **Operational**: Risk of loss resulting from inadequate or failed processes, people and systems
- **Reputational**: Risks related to a tarnished brand or other intangible risk that may affect growth
- **Emerging**: Risk for unknown events such as technological advancements, regulatory/legislative changes or unanticipated catastrophic events

*Risk categories may overlap!*
### Multidisciplinary Team

**What is the role of various units within an insurance company?**

<table>
<thead>
<tr>
<th>Strategy &amp; Governance</th>
<th>Review strategic plans and risks associated in executing on these plans; review Board’s role in setting and monitoring strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting/Actuarial</td>
<td>Review rating process, communication internally and to clients, process to meet profit objectives</td>
</tr>
<tr>
<td>Operations</td>
<td>Assess risk in areas such as billing, enrollment, claims adjudication, member and provider services, IT</td>
</tr>
<tr>
<td>Care Management</td>
<td>Evaluate effectiveness of medical management programs; ensure compliance with federal and state regulatory requirements</td>
</tr>
<tr>
<td>Legal &amp; Compliance</td>
<td>Ensure product compliance and internal testing of ORSA</td>
</tr>
<tr>
<td>Stakeholder Group</td>
<td>Roles and Responsibilities</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>--------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Board Members</strong></td>
<td>• Involvement in company strategy, future directions</td>
</tr>
</tbody>
</table>
| **Senior Management**          | • Impacts strategy, operations, general oversight of company  
                                 |   • Implement policy and strategy                                                            |
| **Managers & Staff**           | • Knowledge of daily activities.  
                                 |   • Help uncover hidden risks                                                                |
| **Actuaries**                  | • Skilled in evaluating risk.  
                                 |   • Scenario test to put value to risk elements                                               |
| **Regulators**                 | • Review and audit reports.  
                                 |   • Interact with company and staff                                                           |
| **Vendors**                    | • Provide services to company.  
                                 |   • Important for efficiency, accuracy, and confidentiality                                    |
Questions to Panelists

1. What type of training did you have to be able to review and/or create ORSA reports?
2. How involved have Actuaries been in quantifying risks and creating ORSA reports?
3. What are the key elements of each of the 3 main sections of the ORSA report that you tend to focus on and why?
4. How well have the application of quantitative and qualitative assessments been applied?
5. What are the key items for improvement that Actuaries should focus on in the ORSA reports (this may be different by company)?
6. How might regulators use information in the ORSA reports to monitor a company’s risk?
7. What insights can you give regarding the use of stress tests versus stochastic analyses? How complete have the analytics been in ORSA filings?
8. From what you’ve seen, how would you evaluate the completeness by companies to extract all reasonable risks?
9. For companies that have multiple subsidiaries, what recommendations would you give whether to evaluate each company together or separately?
10. What recommendations might you suggest to improve ORSA reports for next year?