AMERICAN ACADEMY *of* ACTUARIES

January 31, 2012

Deputy Commissioner Danny Saenz
Own Risk and Solvency Assessment (E) Subgroup
National Association of Insurance Commissioners
Via email: c/o jkoenigsman@naic.org

Re: Comments on *NAIC ORSA Guidance Manual*

Dear Mr. Saenz,

On behalf of the American Academy of Actuaries[1] ORSA Subgroup, I appreciate the opportunity to provide comments on the December 2012 draft, *Guidance Manual for the Own Risk and Solvency Assessment (ORSA).*

Our comments, by section of the manual, are as follows (page numbers refer to the redline version):

Section	**Comment**
General	The manual is written for "Day 1" (initial implementation) guidance. Although the manual requests that the report "include a short summary of material changes to the ORSA from prior years," it doesn't provide relief from much of the "Day 1" background material that will be required within the first ORSA Summary Report in 2015 (i.e., content that is required in Section 1 - Description of the Insurer's Enterprise Risk Management Framework that continues to be valid year after year). Is it the NAIC's intent for the commissioner to receive some of the same material each year? If not, the manual should limit requirements for duplicative information. This also will serve to reduce the volume of material received by the lead state in Year 2 and beyond.
Page 1, I. Introduction	If an insurer is a member of a group, the insurer would be required to submit the report annually to the lead state commissioner. However, if an insurer is a domiciliary company, the insurer would be required to provide the report only upon request. This is inconsistent. We would suggest the manual be revised to indicate that an insurer that is a member of a group also report only upon request.

[1] The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Page 2-3, IA. Exemption	Additional language has been added that exempts certain insurers (unless they are identified by the state regulator as being non-exempt) from "maintaining a risk management framework" should they fall below a certain premium threshold. Insurance Core Principle (ICP) 16 does not offer an exemption based on premium volume, but rather requires the framework to be based on the size, scale, and complexity of that insurer. Since the first sentence of the manual states "The purpose of this Manual is to provide guidance to an insurer…with regard to reporting on its ORSA…" (emphasis added), we recommend that the manual not attempt to "exempt" an insurer from maintaining a risk management framework. It may be appropriate for an insurer to maintain a framework for its own internal purposes or for other external stakeholders. Since it was stated that this language was added to provide consistency with the Model Act, we suggest adding "for regulatory reporting purposes" to the end of the stem, before "if."
Page 2, IA. Exemption	It is our understanding that all insurers that are 1) members of a group and 2) not exempt under item (a) are now required to communicate their Group Risk Capital and Prospective Solvency Assessment in every ORSA report, even if they manage risk on a legal entity basis and plan to report on a legal entity basis. To avoid confusion, we suggest adding guidance to encourage insurers that are members of a group but reporting on a legal entity basis to share the information necessary to align the risk assessment communicated in Section 2 with the Group Risk Capital assessment in Section 3.
Page 2, IA. Exemption, second paragraph under A	This section is unclear now that some of the material before the example was deleted. We suggest that additional background information be added to provide further clarity to the reader.
Page 3, IA. Exemption and B. Application for Waiver	The manual states that special requests for an ORSA from an exempt company might be driven by federal or international regulators; however, there is no reference to it being driven by regulatory concerns about rapidly growing concentration of risk or risk management. The same comment applies to section B, which references type/volume of business but not risk exposures.
Page 4, IC. General Guidance, third paragraph from bottom	In the new paragraph, it is not clear to which report the statement “Such report should be reviewed for consistency…” applies. Does any reporting need to comply with ICP 16 or only the ones for internationally active groups? We recommend clarifying this point.
Page 6, II Section 1	The new paragraph refers to disclosure of the “basis of accounting” for the report. Since there could be more than one basis, we suggest referring to “bases of accounting.” We suggest the same approach for date or time period—use the plural form since there may be more than one. In the same paragraph, the word “accompanied” should be “accomplished.”

Page 8, III Section 2	Regarding the sentence “When quantifying a risk, the insurer should provide the results under both normal and stressed environments,” we suggest the word “quantifying” be replaced with “evaluating.” We also suggest “provide the results” be revised to “consider” or “analyze.” This is more consistent with how an insurer’s ORSA process operates.
Page 8, III Section 2	The sentence “Unless a particular assumption is stochastically modeled, the group’s management should set assumptions regarding the expected values based on their current anticipated experience studies and what they expect to occur during the next year” needs some clarification. First, it is unclear what is meant by an “anticipated experience study.” We recommend using “anticipated experience” or “experience studies.” Second, it is unclear why the manual limits the assumption setting to what is expected to occur during the next year only (as opposed to multiple future years). Finally, we suggest consideration be given to assumptions that are expected to change relative to recent experience and consideration of expert judgment. Assumptions used in risk management analysis consider not only retrospective and one-year prospective assumptions, but also assumptions regarding what may happen for many years to come.
Page 8, III Section 2 last paragraph on page	The sentence "The ORSA Summary Report should demonstrate the insurer's process for model validation…" is somewhat unclear. We suggest using "describe" instead of demonstrate.
Page 9, IV Section 3	The new sentence in the first paragraph is unclear, in particular with respect to the use of the word “equate.” Some could interpret this to mean that all entities must use the same capital approach for the group solvency assessment, which may be an onerous requirement for some companies. Others may interpret it to mean that some degree of comparative information between approaches s is required. We suggest clarifying that some degree of comparative information is what is expected.

In addition to these specific comments, we also wanted to provide you with information regarding two important developments for actuaries who perform Enterprise Risk Management (ERM) services. These could affect parts of the ORSA process, including the regulatory review of that process. The first relates to standards of practice that apply to actuaries that support an insurance company’s ORSA. Actuaries who are members of the American Academy of Actuaries, the Casualty Actuarial Society, the Society of Actuaries, the American Society of Pension Professionals, or the Conference of Consulting Actuaries are required to abide by Actuarial Standards of Practice (ASOPs), which establish appropriate standards of practice for actuaries. There are two recently-adopted ASOPs that relate to ERM work: ASOP No. 46, Risk Evaluation in Enterprise Risk Management and ASOP No. 47, Risk Treatment in Enterprise Risk Management. These ASOPs provide guidance for actuaries when performing risk evaluation and risk treatment activities in the context of ERM, including performance of these activities as part of the ORSA process.

The second development is the Chartered Enterprise Risk Analyst (CERA) credential that currently is being offered by the Society of Actuaries and the Casualty Actuarial Society. A CERA is trained in ERM principles regardless of industry. The CERA is unique in today's environment because the training is rigorous and it is internationally recognized. To the extent a CERA is involved in supporting ORSA analysis, it may be helpful for regulators to be aware of the CERA requirements.

We recognize that further efforts are underway regarding how the regulatory community will use the ORSA results in their review process. The way regulators use the ORSA is a very important component of the overall ORSA requirement and an important component of the overall U.S. Solvency Framework (e.g., RBC requirements). The ORSA Subgroup is interested in continuing to work with the NAIC and the regulatory community to achieve the objectives associated with the ORSA.

Thank you for this opportunity to comment. If you have any questions, please contact Tina Getachew, senior policy analyst, Risk Management and Financial Reporting Council, via email (getachew@actuary.org) or phone (202/223-8196).

Sincerely,
Patricia Matson
Chairperson, ORSA Subgroup
Risk Management & Financial Reporting Council
American Academy of Actuaries