

- President Jenn Stephen welcomed everyone to the meeting and thanked AMTrust for hosting the meeting. Jenn also read the Anti-Trust and Speaker Policy Statements.
- Vice President Gary Behling spoke about openings for officers in this year's election cycle and encouraged anyone interested to speak with any current officer.
- Jenn also promoted our upcoming E-Day to be held in June or July in Michigan. AAA is no longer able to host the event, so we are looking for a new location. We will also have a Chapter event at the National Conference in September in Phoenix and are planning to hold a winter meeting as well.
- Cheryl Brunette of Maiden Re told everyone about the IRES Joint Market Regulation Forum to be held August 3-6 in St. Louis. This is an excellent opportunity to meet one on one with regulators.
- Our first speaker of the day was Bill Harrington, Chief Examiner, Office of Risk Assessment at the Ohio Department of Insurance. Bill discussed ORSA (Own Risk and Solvency Assessment) and gave an overview of the requirements of an ORSA report.
- Our second speaker was Melissa Berry from Thomson Reuters who spoke about issues related to climate change effecting the property and casualty industry.
- AMTrust provided several door-prizes which were drawn for at this time. Everyone in attendance named Cheryl won a prize, as well as a few fortunate others.
- Our final speaker was Jerry Shafran, CEO of Compliance Assurance Corporation. Jerry gave a presentation titled "Proactive Compliance Best Practices." The discussion touched on compliance life cycle management to help compliance professionals to establish a consistent, repeatable methodology for managing compliance with new and changed regulations.



**ODI**

**Ohio Department  
of Insurance**

John R. Kasich, Governor

Mary Taylor, Lt. Governor/Director

***Association of Insurance  
Compliance Professionals  
April 7, 2014***

William C. Harrington, Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance



# Background

- International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICP) 16 - Enterprise Risk Management (including ORSA) and ICP 8 – Risk Management & Internal Controls.
  - ICPs are used by the International Monetary Fund (IMF) to perform the Financial Sector Assessment Program.
- Financial Sector & Assessment Program (FSAP).
- Improve Solvency Regulation in the U.S.
- Assist the regulator with Risk-Focused Analysis and Examinations.
- Aid the ability to evaluate the insurer's ability to withstand stresses.



# What is ERM?

- Enterprise Risk Management (“ERM”) - the process of planning, organizing, leading, and controlling all activities of a company in an integrated fashion in order to minimize the effects of risk on the company’s capital and earnings.

# Benefits of ERM

## BEFORE ERM

- “Siloed” approach
- Weak risk assessment process
- Qualitative measurements
- Reactive focus on mitigation
- Risks ID’d but not *Owned*
- Risks perceived only as threats

## AFTER ERM

- Collaborative approach
- Strong risk assessment process
- Quantitative measurements
- Proactive focus, “best practices” controls
- Risks Owned, monitored
- Better alignment of all business units towards strategic company goals



# Why ERM for Insurers?

## Regulatory Drivers

- Solvency II, European
- SOX
- Dodd-Frank
- Regulators/Audits
- Banking and Securities
- *NAIC "ORSA" .....*

## Business Drivers

- Strategic Analysis
- Rating Agencies (S&P, AM Best, Moody's)
- Financial Auditors
- Shareholders and other stakeholders

# International Regulation & ERM

- Non-US regulatory requirements potentially driving better risk management – ex. Solvency II. How are these regulations related? How are they different?
- How are the NAIC and State Regulators coordinating with European and international regulators on the above requirements?

# A New Perspective

Adopting an ERM program is often a major cultural change for many companies.

# Implementing ERM

- Who Is/Should Be Involved?
- Strategic Decision-making, Financial Modeling & Capital Analysis

# *Setting Effective Controls*

A primary goal of ERM is to ensure, company-wide, that controls are effective and are operating as intended to **mitigate risk/loss**.

Customized suites of specific control techniques, policies, and procedures are used to reduce or mitigate identified risks.

Controls won't eliminate 100% of all risk.  
BUT, well-developed, sustainable controls can have a direct financial impact on the company.

# Significance of ERM/ORSA

ICP 16 states:

- A purpose of both risk and capital management is to protect policyholders and capital providers from adverse events.
- ERM is an acknowledged practice and has become an established discipline.
- The ability of an insurer to reflect risks in a robust manner in its own assessment of risk and solvency is supported by an effective overall ERM framework, and by embedding its risk management policy in its operations.

# Significance of ERM/ORSA

- Focuses on enterprise risk management practices as well as outcomes.
- ORSA considers the insurers “Own” assessment.
- Sophistication of an insurer’s ERM and the nature of the ORSA depends on the nature, scale and complexity of its risks, business and structure.
- Benefits to Insurers.
  - Improves ability to identify and mitigate risks.

# Regulatory Requirements

- *Risk Management and Own Risk and Solvency Assessment Model Act.*
  - Legal framework for ORSA requirement.
  - Adopted by NAIC Executive/Plenary on Sept. 12, 2012.
- *NAIC ORSA Guidance Manual.*
  - Provides guidance to insurers/groups for reporting on ORSA.
  - Adopted by NAIC in March 2012.
  - Revisions currently under consideration by the Working Group.

# NAIC Own Risk and Solvency Assessment Guidance Manual

- The Manual is intended to provide guidance to an insurer and/or the insurance group with regard to reporting on its own risk and solvency assessment (ORSA).
- ORSA Summary Report should discuss three major areas:
  - Section 1 – Description of the Insurer’s Risk Management Framework.
  - Section 2 – Insurer’s Assessment of Risk Exposure.
  - Section 3 – Risk Capital and Prospective Solvency Assessment.

# NAIC Own Risk and Solvency Assessment Guidance Manual

## SECTION 1 – DESCRIPTION OF THE RISK MANAGEMENT FRAMEWORK.

- An effective Enterprise Risk Management (ERM) Framework should at a minimum include the following key principles:
  - Risk Culture and Governance.
  - Risk Identification and Prioritization.
  - Risk Appetite, Tolerances and Limits.
  - Risk Management and Controls.
  - Risk Reporting and Communication.

# NAIC Own Risk and Solvency Assessment Guidance Manual.

## SECTION 2 – INSURER ASSESSMENT OF RISK EXPOSURES.

- Document the quantitative and/or qualitative assessments of risk exposure in both normal and stressed environments for material risk categories.
- This assessment should consider a range of outcomes using risk assessment techniques that are appropriate to the nature, scale and complexity of the risks.
- Examples of relevant material risk categories might include, but not be limited to, credit, market, liquidity, underwriting, and operational risks.



# NAIC Own Risk and Solvency Assessment Guidance Manual

## SECTION 3 –RISK CAPITAL AND PROSPECTIVE SOLVENCY ASSESSMENT.

- Document how the company combines the qualitative elements of its risk management policy and the quantitative measures of risk exposure in determining the level of financial resources it needs to manage its current business and over a longer term business cycle.
- If the insurer does not have the necessary available capital to meet its current and projected risk capital requirements then it should describe the management actions it has taken or will take to remediate any capital adequacy concerns.
- The information is intended to assist regulators in forming subjective assessments of the quality of insurer's risk and capital management.



# *Risk Management and Own Risk and Solvency Assessment Model Act*

Act imposes three core requirements on a state's domestic insurers (unless exempt):

Maintain a risk management framework.

Complete an Own Risk and Solvency Assessment (ORSA).

File an ORSA Summary Report with the insurance commissioner.



# Risk Management and Own Risk and Solvency Assessment Model Act

- Act includes Provisions for:
  - Exemptions.
    - <\$500 million Premium for insurers.
    - <\$1 billion Premium for groups.
  - ORSA documents are Confidential.
  - Act will be effective on January 1, 2015.
    - The first filing of the ORSA Summary Report shall be in 2015 (most likely in the 3<sup>rd</sup> & 4<sup>th</sup> quarters).

# ORSA

- Current Status – ORSA (E) Subgroup.
  - 2013 ORSA Feedback Pilot Project.
    - Conducted in September 2013 – 22 volunteer insurers/groups.
    - Provided Feedback to Industry.
      - [http://www.naic.org/committees\\_e\\_orsa\\_wg.htm](http://www.naic.org/committees_e_orsa_wg.htm)
    - ORSA Subgroup Report to Financial Condition (E) Committee.
      - Make a few modifications to the ORSA Guidance Manual.
      - Post observations to NAIC website.
      - Referrals sent to Financial Analysis and Financial Examination Handbook Working Groups - Subgroup to continue to provide guidance to these Groups.
      - No Part B Accreditation Standards at this time.

# ORSA

- Next Steps for Regulators.
  - Adopt Revised ORSA Guidance Manual.
  - 2014 ORSA Feedback Pilot Program.
- Identify the Roles of Financial Analysts and Financial Examiners in the review of ORSA and Draft Regulatory Guidance.

- Questions?



**ODI**  
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# CLIMATE CHANGE & INSURANCE: PREDICTIONS AND PLANNING

THOMSON REUTERS  
**ACCELUS**<sup>TM</sup>



**MELISSA D. BERRY**

**APRIL 7, 2014**

# CLIMATE CHANGE & INSURANCE

## Agenda

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- Climate Change – Definition and Consequences
- Implications for the Insurance Industry
- Industry Preparedness
- Insurance Market Impact
- Checklists
- Questions



# CLIMATE CHANGE & INSURANCE

## What is climate change?

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- Intergovernmental Panel on Climate Change (**IPCC**): A change in the state of the climate that can be identified (e.g. using statistical tests) by changes in the mean and/or the variability of its properties, and that persists for an extended period, typically decades or longer. It refers to **any change in climate over time**, whether due to natural variability or as a result of human activity.
- United Nations Framework Convention on Climate Change (UNFCCC): A change of climate that is attributed **directly or indirectly to human activity** that alters the composition of the global atmosphere and that is in addition to natural climate variability observed over comparable time periods.
  - ❑ UNFCCC makes a distinction between climate change attributable to human activities altering the atmospheric composition, and climate variability attributable to natural causes.

# CLIMATE CHANGE & INSURANCE

## Consequences of Climate Change (U.S)

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- U.S. 2013 BILLION DOLLAR WEATHER EVENTS

U.S. 2013 Billion-dollar Weather and Climate Disasters



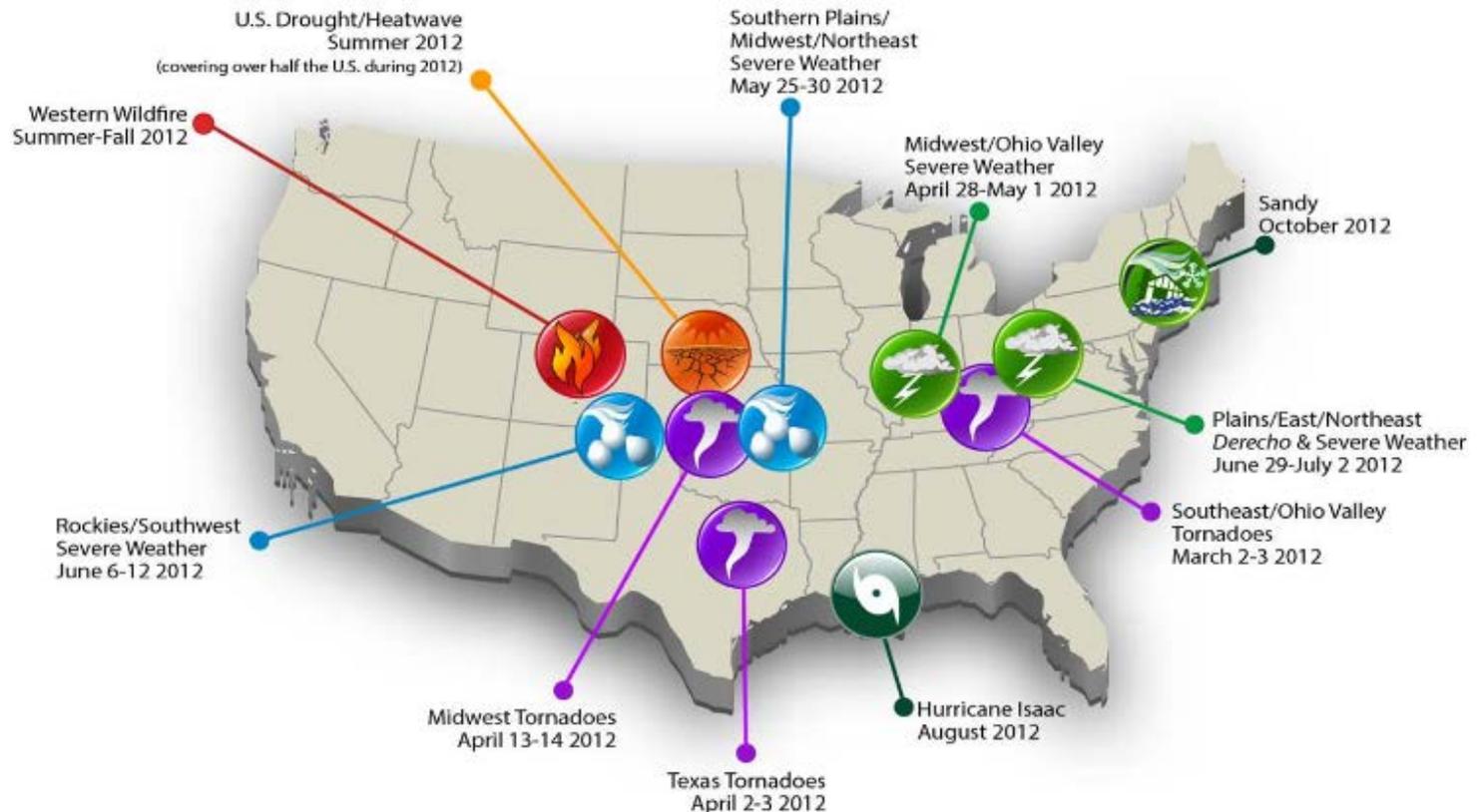
# CLIMATE CHANGE & INSURANCE

## Consequences of Climate Change (U.S.)

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- 2012 BILLION DOLLAR WEATHER EVENTS

### U.S. 2012 Billion-dollar Weather and Climate Disasters

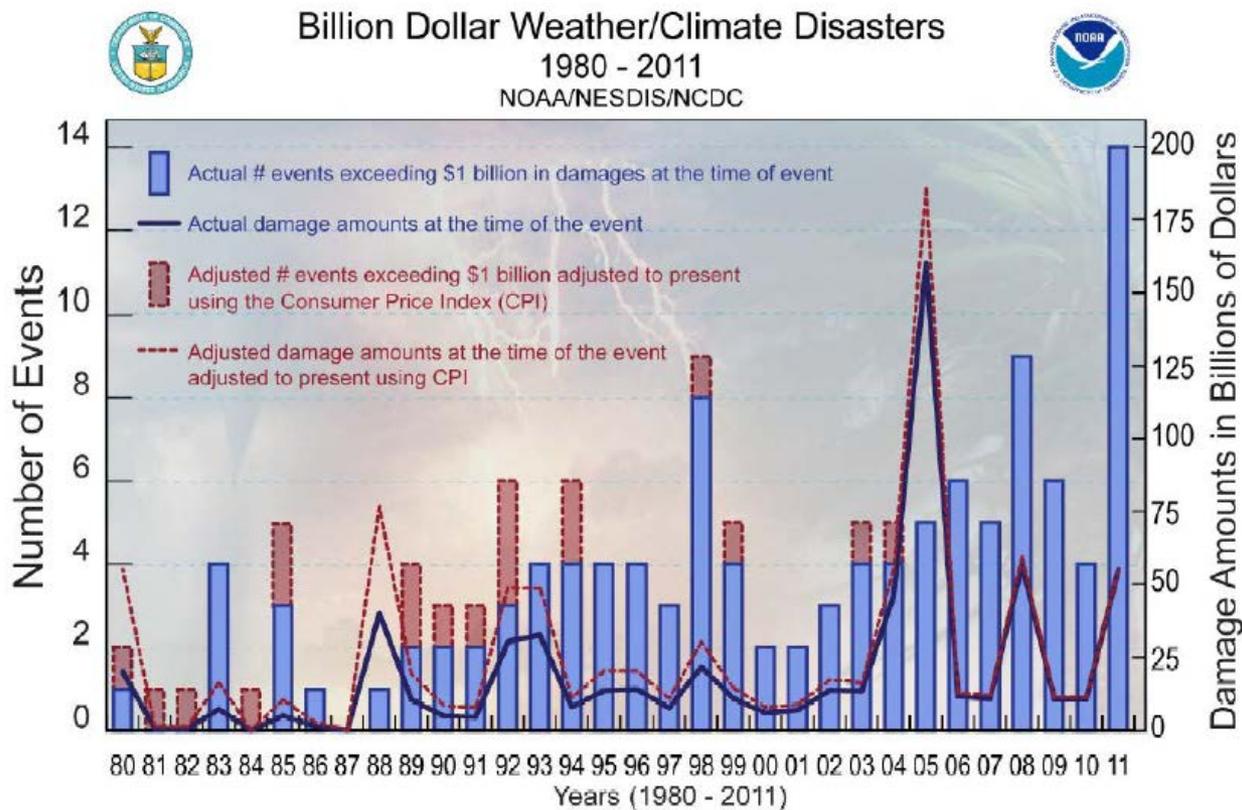


Source: National Oceanic and Atmospheric Administration (NOAA)

# CLIMATE CHANGE & INSURANCE

## Consequences of Climate Change (U.S.)

- U.S. BILLION DOLLAR EVENTS 1980-2011





# CLIMATE CHANGE & INSURANCE

## Consequences of Climate Change (U.S.)

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<u>Type of Events (#)</u>	<u>Damages</u>
• Tropical Cyclones (31)	• \$417.9 billion
• Droughts/Heatwaves (16)	• \$210.1 billion
• Severe Local Storms (43)	• \$ 94.6 billion
• Non-Tropical Floods (16)	• \$ 85.1 billion
• Winter Storms (10)	• \$ 29.3 billion
• Wildfires (11)	• \$ 22.2 billion
• Freezes (6)	• \$ 20.5 billion



# CLIMATE CHANGE & INSURANCE

## Implications for the Insurance Industry (Global)

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- ❑ Insured losses were \$45 billion in 2013
  - ❑ **\$37 billion** from natural catastrophes; **\$8 billion** man-made disasters
  - ❑ Down from \$81 billion in 2012
  - ❑ Less than the inflation-adjusted 10-year average of \$61 billion
  - ❑ Reduced losses attributed to benign hurricane season in U.S.
- ❑ Insured losses were \$77 billion in 2012 (3<sup>rd</sup>)
  - ❑ **\$69 billion** in weather-related events; **\$2 billion** from earthquakes; **\$6 billion** from man-made disasters
  - ❑ Super Storm Sandy insured losses were **\$35 billion** (approx. \$20-25 billion from private insurance and \$11 billion from federal insurance programs)
  - ❑ Corn Belt drought resulted in \$16 billion in insurance claims



# CLIMATE CHANGE & INSURANCE

## Implications for the Insurance Industry (Global)

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- Increasing costs of global climate change-related events
  - ❑ **308 natural catastrophes in 2013**
    - ❑ 150 natural catastrophes; 158 man-made
    - ❑ Typhoon Haiyan, which struck the Philippines in November 2013, resulted in the deaths of 7,500 people and left 4 million homeless
  - ❑ Total economic losses from natural catastrophes and man-made disasters were **\$140 billion in 2013**
    - ❑ Down from **\$196 billion in 2012**
    - ❑ Less than the inflation-adjusted 10-year average of \$190 billion

# CLIMATE CHANGE & INSURANCE

## Implications for the Insurance Industry (Global)

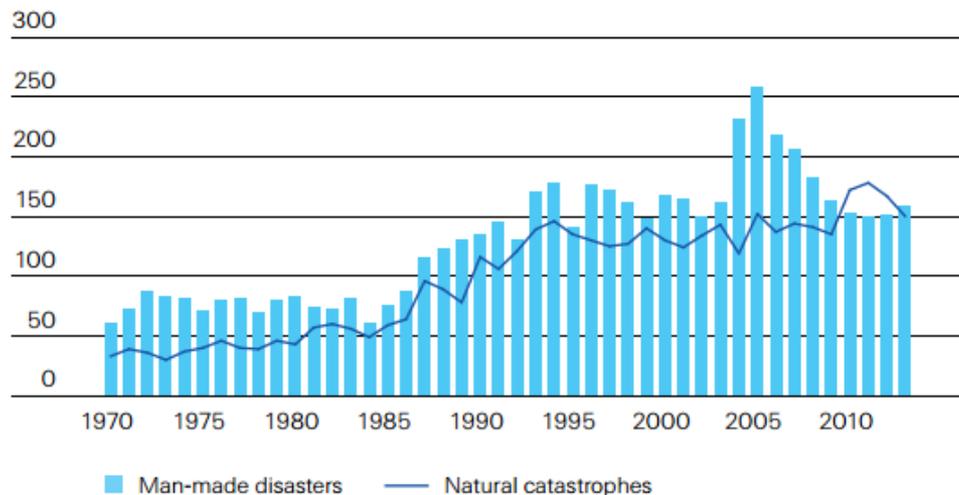
### Catastrophes in 2013 – global overview

There were 150 natural and 158 man-made disasters in 2013.

Number of events: 308

Based on *sigma* criteria, there were 308 catastrophic events in 2013, down from 318 in 2012. Of the total, 150 were natural catastrophes, down from 167, and 158 were man-made, up from 151.

**Figure 1**  
Number of catastrophic events,  
1970–2013



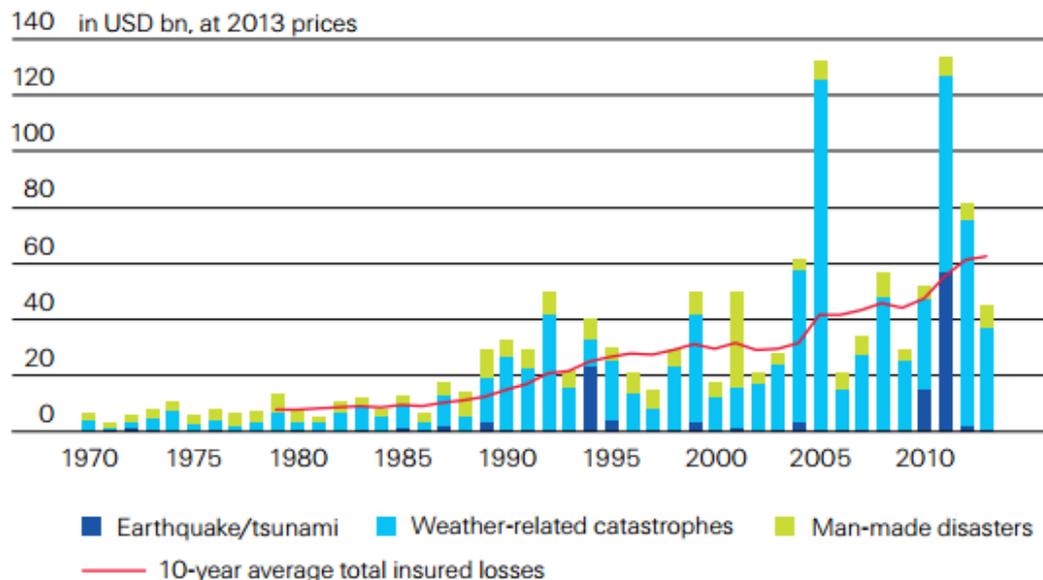
# CLIMATE CHANGE & INSURANCE

## Implications for the Insurance Industry (Global)

**Figure 3**

Insured catastrophe losses, 1970–2013

- 1992: Hurricane Andrew
- 1994: Northridge earthquake
- 1999: Winter Storm Lothar
- 2001: 9/11 attacks
- 2004: Hurricanes Ivan, Charley, Frances
- 2005: Hurricanes Katrina, Rita, Wilma
- 2008: Hurricanes Ike, Gustav
- 2010: Chile, New Zealand earthquakes
- 2011: Japan, New Zealand earthquakes, Thailand flood
- 2012: Hurricane Sandy



Source: Swiss Re Economic Research & Consulting

# CLIMATE CHANGE & INSURANCE

## Implications for the Insurance Industry

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- Changes in Risk Modeling
  - ❑ Risk Management Solutions recently acknowledged that its 100-year database of historical Atlantic hurricane activity is no longer a valid predictor of future risk
  - ❑ New catastrophe model for Atlantic storms projects for the next five years:
    - ❑ Likelihood of a Category 3 storm making landfall on the U.S. coast is about **20 percent higher** than previously modeled
    - ❑ Modeled losses will **increase by 40 percent** on average for the Gulf Coast, Florida and the Southeast
    - ❑ Modeled losses will **increase by 25 percent to 30 percent** on average for mid-Atlantic and Northeast coastal regions

# CLIMATE CHANGE & INSURANCE

## Implications for the Insurance Industry

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- NAIC identifies climate as "any significant change in the measures of climate over an extended period of time that includes major changes in relative temperatures, precipitation, or wind patterns that occur over several decades or longer"
- NAIC 2013 Financial Condition Examiners Handbook
  - Revisions adopted in late 2012
  - Incorporate risk-focused examination questions regarding any potential **impact of climate change on solvency**
  - Specifically designed to help examiners identify unmitigated risks
  - Provide a framework for examining such risks and their impact on how an insurer invests its assets and prices its products



# CLIMATE CHANGE & INSURANCE

## Industry Preparedness

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- In March 2013, Ceres issued *Insurer Climate Risk Disclosure Survey, 2012 Findings & Recommendations*
- California, New York and Washington State insurance regulators required insurers that write in excess of \$300 million in direct written premiums doing business in their states to disclose their climate-related risks

# CLIMATE CHANGE & INSURANCE

## Industry Preparedness

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- Survey generated 184 distinct responses in four areas:
  - How the companies manage climate change issues
  - What drivers shape their strategies
  - What actions they take in their core functions or operations and
  - How they interact with external stakeholders
- Subdivided into 37 indicators

# CLIMATE CHANGE & INSURANCE

## Industry Preparedness

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- Ceres identified the following trends:
  - Smaller companies tend to be far less prepared than larger companies
  - P&C insurers show "more advanced understanding of the theoretical risks" climate change poses for their business
  - P&C insurers tended to be farther along in implementing tools needed to manage climate change risks when compared to Life, Annuity and Health insurers
  - Only 23 companies, mostly large and foreign-owned, had specific, comprehensive strategies to cope with climate change (12.5%)

# CLIMATE CHANGE & INSURANCE

## Industry Preparedness

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- **Action Drivers on Climate Change**

- Cost efficiencies, primarily energy savings
- Operational security, business continuity and claims processing when extreme event affects insurers' own operations
- Emerging risks from future climate trends
- Sustainability and related reputational benefits
- Client exposure to climate change

# CLIMATE CHANGE & INSURANCE

## Advanced Preparation

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- **Hope for the best; plan for the worst**
  - ❑ Check state requirements where your company operates. Many states have pre-disaster and post-disaster operating requirements.
  - ❑ Some states have orders that initiate automatically when disaster or emergency declarations are declared.
  - ❑ Company procedures used to prepare for handling imminent disasters and initiated after a disaster should be reviewed periodically to confirm that they are in compliance with regulatory requirements.

# CLIMATE CHANGE & INSURANCE

## Advanced Preparation

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- **Examples of pre-event requirements include:**

- ❑ Maintaining disaster preparedness or recovery procedures that include maintenance/reconstruction of records at another location.
- ❑ Providing primary and backup contact information for individuals the Commissioner may contact in the event of a disaster or catastrophic event.
- ❑ Filing protocols that will address approaching weather events, earthquakes, wildfires, urban fires or other civil commotions and government-declared emergencies predicted to impact part of or the entire state with Departments.
- ❑ Planning to implement liberalized claims handling processes during a disaster or catastrophic event declaration in order:
  - to accelerate claim payments;
  - to address issues such as lien holders and mortgagees; and
  - to expedite handling of additional living expense claims.

# CLIMATE CHANGE & INSURANCE

## Advanced Preparation

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- **Examples of pre-event requirements (cont.)**
  - ❑ Obtaining emergency adjuster licenses, as soon as possible.
  - ❑ Addressing underwriting issues, such as:
    - Grace periods for payment of premiums;
    - Temporary postponement of cancellations and nonrenewals of policies; and
    - Performance of other required duties by insureds.
  - ❑ Implementing the use of alternate forms of communication to provide insureds with recovery information.
  - ❑ Requiring each unit or department of the insurer and its producers to implement business continuity plans.
  - ❑ Providing a process for the expedited mediation of disputed claims.
  - ❑ Assisting employees in preparing plans for themselves and their families.

# CLIMATE CHANGE & INSURANCE

## Advanced Preparation

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- **Examples of post-event requirements include:**

- ❑ Emergency adjuster licensing.
- ❑ Resolving claims as quickly and fairly as possible.
- ❑ Mediation procedures.
- ❑ Procedures for temporary postponement of cancellations and nonrenewals of insurance policies.
- ❑ Grace periods for payment of premiums and performance of other duties by insureds.
- ❑ Claims reporting requirements.
- ❑ Claims handling procedures.
- ❑ Temporarily waiving time restrictions on prescription medication refills and for the replacement of durable medical items, equipment or supplies .
- ❑ Specific claims handling procedures appropriate to specific events, i.e., hurricanes, wildfires, earthquakes, etc.

# CLIMATE CHANGE & INSURANCE QUESTIONS

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