

## **ERM VIDEO INSIGHTS**

### **Transcript of Jeff Lovern and Bruce Branson** ***ERM and ORSA in the Insurance Industry***

**Bruce:** Hi I am Bruce Branson. I am the associate director of Enterprise Risk Management Initiative at NC State University. Talking today with Jeff Lovern. Jeff is the Chief Risk Officer and has the ERM function at American Fidelity Corporation in Oklahoma City. Jeff is going to talk to us today about ORSA and some challenges that the insurance industry is facing, dealing with this new regulation. Jeff thanks for joining us today. I thought we could start just talking a little about ORSA, can you help us understand a little but more about what that is?

**Jeff:** Yes, ORSA is a regulatory standard that has been adopted globally by many jurisdictions. Ultimately what regulators are looking to do, is they want to make sure that an insurance company is managed soundly, that they have risk management processes, and that their solvents for the protection of their policy holders. In the U.S., ORSA needs to be followed annually by insurance companies and in that report that gets filed annually needed to discuss is three things. Number one, describe your risk management framework. This is where you are going to talk about your board, your governance structure, your strategy, your risk appetite, all the way down to how you identify, manage, communicate risk through out your organization. The second section of the report involves assessment of risk, so you want to list your top risk within the document. You want to talk about how manage and communicate them, but ultimately how you quantify them and link them to capital, that's the key to the report. And in the third section is showing that you are solving not just today, but in the future across many different environments. When you step back and you put those three components together, what the regulator really wants to see is that, if you are going to change strategy as a company, that you identify the risks of that strategy and that those risks can be fore cast out into the future and provide feedback into the front end of the process. It can affect decisions and ultimately get bounced against your risk appetite.

**Bruce:** Sounds like a daunting task.

**Jeff:** Oh it's a big task, it's definitely a part of all insurance company ERM processes now.

**Bruce:** Can we talk a little bit about, maybe some of the specific ways you've tackled the projects to get this going?

**Jeff:** Absolutely, I think the first step is to uh, you only have enough space within a report. This is a report that has to get filed the regulator, but it also has to go to your top executives and it has to go to your board, so it has to be digestible. One of the benefits of going through the process is, it forces you to increase the altitude if you will with the risk you have to discuss. You can't throw 200-risk inventory into this document, you are really forced to focus on your fundamental 35-40 key risk. You got to start there, and for an insurance company, that can mean interest rate risk, liquidity risk, date of security risk, you literally have to think at that level. Once you get to that point where you got taxonomy of those basic categories, I've seen the

most successful parts of the process. Individuals asking, 'how do you manage that risk?' 'how do you communicate it?', and 'who owns it?'. Once you begin that discovery process at a high level, you articulate that within the document. And then finally you have to ask yourself, how many of these risks do we have quantified and how do they link to capital, which brings in the solvency component. Then working on your modeling so that you can forecast out your profit loss and also your balance sheet. You can run these risks through, get feedback on what the future may hold for your company and then that influences the decision that you make today.

**Bruce:** Sure, I know you've have had the opportunity to do this a couple of times in a couple of different organizations. I hope you might talk a little bit about what benefits you've seen from the ORSA process, maybe complementing what you're trying to accomplish in Enterprise Risk Management.

**Jeff:** Absolutely, I think there is a lot of alignment between what ORSA is seeking to achieve and also ERM development within a company. It has been very helpful as an ERM practitioner to utilize the elements of ORSA to help drive different aspects in different organizations. One of the great things I do find going through the process though, as you always go look into risk and you look into how organizations manage them, I think what is interesting is that organizations tend to have the processes in place. They have good people, I mean these are the organizations that have been around for a long time and have been successful for a reason. I am always fascinated when you go look at a risk and you really dig down into it, you do find generally that there are good processes and good people managing them. The ORSA and the ERM processes are just a good way of organizing what maybe a very fragmented system and into a more comprehensive framework.

**Bruce:** Super. I guess I would like to finally ask you to look into the crystal ball a little bit. Have you thought about what direction ORSA is heading? What would you foresee changing about ORSA, maybe in the up coming years?

**Jeff:** You know, for folks internationally they've had the opportunity of going through ORSA a couple times because they are a little ahead of the U.S. environment. The U.S. is still relatively new, we still have states adopting it, so companies are still doing their ORSAs in their own way. The NAIC, which is the body that publishes the standard does provide some prescription on what they want to see on there, but every company is sort of tackling it in their own unique way. What we always forget about, the regulator whose got to receive it and we have state regulators here in the U.S. that are about to be bombarded with all these ORSAs. They are learning too, so I think over the next 2-3 years we are going to have a learning exercise on both sides of the coin there and an evolution of ORSA.

**Bruce:** Well that sounds great. Jeff I appreciate you spending some time with us today, thank you.

**Jeff:** Thank you.