

Message From the Chair

by Aaron E. Lunt, JD, CPCU, ARe



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Prior to joining TWG, Lunt spent over five years with a large commercial insurer, most recently serving as their Vice President of Laws, Regulations and Public Policy Support. In that capacity, Lunt handled a spectrum of insurance regulatory issues relating to the Dodd-Frank Wall Street Reform & Consumer Protection Act, the Terrorism Risk Insurance Act, large commercial deregulation, regulatory requirements review, and new law and regulation analysis and implementation support.

Lunt is an Illinois-licensed attorney and also holds the Chartered Property Casualty Underwriter (CPCU) and Associate in Reinsurance (ARe) designations. Currently, Lunt serves as the Chairman of the Regulatory & Legislative Interest Group of the CPCU Society.

As we enter 2013, I'm excited to see what lies ahead for our industry, the CPCU Society and our Interest Group! 2012 was an active year; 2013 will be no different. On behalf of the Regulatory & Legislative Interest Group (Regs & Legs) Committee, it is a pleasure to serve this Interest Group and we are *constantly* challenging ourselves to 1) maintain a level of excellence, 2) increase value to our membership, and 3) enhance the CPCU® brand and promote the insurance compliance profession. Here are a few thoughts and highlights about 2013:

Maintain our Level of Excellence

Within the CPCU Society's Circle of Excellence Program, the Regs & Legs Interest Group has recently attained the highest status, *Platinum*, and will hold that status through this year's annual meeting in New Orleans! There are many factors that contribute to reaching a point total to achieve Platinum status, including the publication of newsletters, hosting webinars, communicating via Linked In, member presentations, local CPCU chapter outreach and the promotion of Interest Groups and other items in local forums. The Regs & Legs Committee is committed to maintaining the Platinum status and increasing our membership, which currently stands above 300 members! Platinum status in the CoE program is one example of our commitment to excellence, which we plan to maintain, and build upon, in 2013!



CIRCLE OF EXCELLENCE RECOGNITION PROGRAM

Increase Membership Value

The Regs & Legs Interest Group is made up of a wide spectrum of compliance professionals, with varying degrees of experience and knowledge. What a great asset! The Regs & Legs Committee wants to increase membership value through educational opportunities (e.g., newsletter articles and webinars), distribution of information (e.g., website postings and links) and connectivity/networking with other Interest Group members (e.g., at the Annual Meeting events and other medium). This is where we can use your help. If there are improvements or changes you would like to see to our Interest Group, please let us know! You can either contact me at aaron.lunt@thewarrantygroup.com or either of our Vice-Chairs, Keith Langan, CPCU, JD, at keith.langan@ffic.com, or Loren McGlade, CPCU, ARM, ARe, APA, CIPA, ACE, at Loren.McGlade@aig.com. We're committed to

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you and we want to hear your thoughts on improvement!

Enhance the CPCU Brand and Our Compliance Profession

This is the natural offspring of the above-mentioned items, but the affinity we all share is the fact that we're committed to the CPCU designation. This preeminent designation carries prestige, and responsibility. Through our Interest Group, the Committee is constantly looking for opportunities to promote the CPCU brand. We encourage you to do the same and to share your thoughts on how you are putting this into practice. Are you an Interest Group member serving in your local community, active with your local CPCU chapter, authoring a book in your specialty or mentoring college students towards an insurance career? These things—and many more—are exactly the types of things we'd love to hear about, so let us know!

Now What?

The year 2013 will be exciting and the Regs & Legs Committee will be committed and engaged. We want to amplify our footprint in the insurance industry, but we need the help of all Interest Group members. Are you an expert in a certain field and open to conducting a webinar, drafting an article or finding opportunities to showcase your expertise? Let us know! Please hold us accountable as we strive to 1) maintain our level of excellence, 2) increase member value and 3) promote the CPCU brand. I look forward to an interesting and productive 2013 and am excited to see what is in store for our regulated industry!

P.S. Start planning to attend the CPCU Society's Annual Meeting and Seminars in New Orleans this October! The Regs & Legs Committee will once again showcase its popular "GameOn" workshop—featuring a game-show format with trivia

questions, prizes and a New-Orleans' themed twist! In addition, we are hopeful to host our second-annual "Regs, Legs & Eggs" breakfast, which will provide a fantastic networking opportunity—with industry speaker. Oh, one more thing, join us on Linked In—see link below!

<http://www.linkedin.com/groups?homeNewMember=&gid=2217041&trk=> ■



CPCU
SOCIETY

Get Exposed

We're always looking for quality article content for the Regulatory & Legislative Interest Group newsletter. If you, or someone you know, have knowledge in a given insurance area that could be shared with other insurance professionals, we're interested in talking with you.

Don't worry about not being a journalism major. We have folks that can arrange and edit the content to publication-ready status. Here are some benefits of being a contributing writer to *Compliance Matters*:

- Sharing knowledge with other insurance professionals
- Gaining exposure as a thought leader or authority on a given subject
- Expanding your networking base
- Achieving overall career development

To jump on this opportunity, please email either Aaron E. Lunt, JD, CPCU, ARe, at aaron.lunt@thewarrantygroup.com or David Keleher ARM, CPCU, CIC, AIM, at dkeleher@NAIC.org.

Enterprise Risk Management and the Compliance Professional

by Denise Tessier, CPCU, JD, ARé



Denise Tessier, CPCU, JD, ARé, joined Wolters Kluwer Financial Services Company in March 2011, as a Senior Regulatory Consultant in the Insurance Compliance Solutions and Enterprise Risk Compliance division. Tessier is an attorney with more than fifteen years of experience in the insurance and reinsurance industry. In her current role, she helps Wolters Kluwer Financial Services' clients in the insurance industry meet regulatory compliance and enterprise risk management requirements, as well as implement tools and services that address specific needs in those areas.

Prior to joining Wolters Kluwer Financial Services, Tessier was U.S. General Counsel and Compliance Officer with the Aspen Insurance Group, an international property and casualty specialty insurance and reinsurance company. Earlier in her career, she worked at The Hartford Financial Services Group for more than ten years, where she held a number of roles, including Assistant Counsel within the corporate law department and Senior Consultant in the Claims division.

Tessier received her JD from Western New England College School of Law in Springfield, MA, and her B.A. in Economics from Providence College, Providence, RI. She holds the Chartered Property Casualty Underwriter (CPCU) and Associate in Reinsurance (ARé) designations from The Institutes. She is a frequent writer and speaker on insurance compliance and risk management issues, and has a regular column addressing enterprise risk management for insurance companies on www.propertycasualty360.com, the leading online resource for P&C news, analysis, trends, and industry activity.

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Enterprise risk management (ERM) has become one of the most important and valuable management tools for insurance companies. Increased focus on ERM by regulators, auditing firms, and rating agencies has heightened pressure on carriers to adopt robust ERM programs. Recent developments at both the state and federal level in 2012 will drive ERM initiatives further. What does this mean for an insurer's compliance function, as a main pillar of the ERM framework?

This article will review current regulatory drivers of ERM, the fundamentals of the enterprise risk review process, and the challenges and opportunities companies are facing while trying to integrate traditional compliance activities into a larger ERM program, highlighting the increasingly visible role of the Compliance professional.

Broadening the Compliance Horizon Into an Enterprise Risk View

Enterprise risk management is 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. While a Compliance team or department typically manages specific kinds of risk to the company, typically risks stemming from specific laws or regulations, an ERM program has a much broader scope. Its view is of the "whole world" of risk throughout a company. Compliance risks are only part of the ERM picture, but they are some of the most significant risks to the company from a financial perspective, ranking high in priority for managerial review and action. The challenge facing many compliance professionals today is how best to integrate compliance risks into a wider world of risk in a formal ERM structure.

Drivers of ERM—Why Should Compliance Care?

For many years, the primary incentives for companies to adopt ERM programs have been mandatory or emerging legal and regulatory obligations—a prime responsibility of the compliance function. These obligations continue to expand rapidly. For example, public companies are subject to Section 404 of the Sarbanes-Oxley Act of 2002, which required U.S. publicly-traded corporations to conduct internal control assessments. In 2007, the Securities and Exchange Commission (SEC), which also governs public companies, increased emphasis on corporate risk assessment, and now specifically requires entities to perform certain risk assessment such as a fraud review, involving estimates of potential (or experienced) related exposure to the organization, and mitigation efforts. The SEC has further issued rules requiring disclosures relating to the extent of the board's role in risk oversight. The New York Stock Exchange corporate governance rules also require that Audit Committees of its listed companies "discuss policies with respect to risk assessment and risk management." Specific requirements vary and should be reviewed for each organization.

Specifically with regards to insurers, nearly all state departments of insurance are now requiring periodic risk-based exams of insurance carriers of all sizes. While traditional financial examinations focused on historical fiscal information, they provided a picture of a company only as of a point in time. Risk-based exams focus on the risks of the entire company and the entity's solvency in the future, enabling regulators to catch more problems early on. Regulators also now review in more depth overall corporate management strategies, potential future exposures to risk, and loss specific to a company's underwriting plan. They expect companies to have a strong ERM program to identify, mitigate, and manage risk day-to-day, as well as on a strategic basis.

Another major driver of ERM is the proposed National Association of Insurance Commissioner's (NAIC's) Own Risk and

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Solvency Assessment (ORSA) Report. An ORSA proposal has evolved significantly over the past several years, potentially requiring carriers writing over \$500M of direct written premium, or groups writing more than \$1B of direct premium, to report to state regulators a detailed review of their solvency position in light of specific risks faced by the company. While the NAIC's recommendations have yet to be finalized and adopted into law by individual states, insurers may be expected to have an ORSA process in place as part of their broader ERM strategy, and establish capital planning in light of their unique risks. NAIC is also coordinating heavily with international regulators to improve consistency with their risk and compliance frameworks, which may impact global carriers.

Further, rating agencies are expecting organizations to adopt robust risk management programs, and will evaluate ERM as part of the agencies' ranking systems. Maintaining strong ratings has been the impetus towards ERM for many carriers who may not otherwise be subject to significant risk self-examination requirements. Standard & Poor's (S&P) has been the most active in promoting the ERM concept. It has developed a detailed eight-part rating framework or matrix, with ERM being a key component. A.M. Best and Moody's have followed with their own analysis tools, and may have differing perspectives that should be uniquely addressed.

Finally, companies are being driven to ERM to further business or financial goals. Leading companies are setting strategic targets for their ERM efforts such as:

- better identification of risks, to minimize "surprises" or shocks to the company
- beefing up controls and risk mitigation techniques
- achieving cost savings and efficiencies, by better ranking competing risk and control priorities, and allocating resources to higher priority items more effectively
- improving the capital planning process
- securing a reputational or competitive advantage, by leading the adoption of industry ERM best practices

An effective ERM program can also help steer the direction of the organization, helping to identify what business, products or services to grow. Risk management not only protects revenue, but ultimately provides the company with new ways of seeing opportunities.

Moving Compliance into a Wider World of Risk—The ERM Framework

Adopting an ERM program, and looking at risks through multiple perspectives across the organization, is often a major cultural change for many companies. For the Compliance team, an ERM initiative can lead to new ways of looking at compliance risk, as more attention is paid to a thorough quantification of risk, as well as the ripple effects a compliance breach may have in other departments or functional areas such as claims, underwriting and finance. There are many benefits to Compliance from the establishment of an ERM framework, as noted below. But first, an introductory description of an ERM program may be helpful.

The first step in the ERM process is generally a "risk assessment" phase, identifying current and emerging risks by business unit or department. A "risk library" or "risk register" listing all risks of the company is the ultimate product of the assessment phase. This can be accomplished via face-to-face interviews or group meetings, surveys or questionnaires, researching industry press, and by using experts and consultants. In the risk assessment process, even the smallest tidbits of information about potential sources of loss are important to help identify patterns and trends.

Risks are also reviewed with respect to their impact on other company operations or departments. For example, the risk of a compliance breach, such as failure of an appointed broker to adhere to producer licensing laws, may result in a direct statutory financial penalty or fine charged to the company as a result of a market conduct exam, but may also have a knock-on impact to:

- affected underwriters, in the form of a lost business partner relationship, and future revenue stream
- the Legal department, if litigation ensues relating to the broker violation
- Marketing or and Public relations staff who may need to manage press and public relations communications regarding the issue

Accounting, to the extent that reconciliations or other financial transactions need to be carried out to verify producer cash flows or terminate banking relationships.

Once risks are identified, they can be scored or rated, and prioritized by their significance. Resources and activities can then be focused around the most dangerous risks, and the most beneficial controls. To this end, companies establish standard scales and metrics for evaluation of different risks for like-to-like comparisons. Metrics complimenting or completing risk analysis commonly include:

- Frequency: This is the likelihood of a risk occurring, usually classified on some scale from "very unlikely" to "very probable"
- Severity, or Magnitude: This measures of the impact of the risk should it occur, or a consequence. Severity is also measured on a continuum of potential loss, from insignificant or immaterial, to extreme.
- Velocity & Duration: How fast might a loss happen? How long will it last? A natural disaster will likely have an extreme, sudden impact, whereas poor business conditions or increased competition may be just as damaging, but may build up, peak and run down over much longer period of time, potentially offering more time to implement loss mitigation techniques or make strategic management changes.
- Degree of Causation or Connectivity: Is the risk one which may have waves of impact in multiple areas of the company? For example, an internal bookkeeping error may only affect the finance department, whereas a failure to follow underwriting guidelines or protocols could have an impact not only on the

underwriting department, but could lead to an increase in claims, fines, fees or penalties, and could lead to legal or regulatory issues. Controls should exist to prevent both types of losses, but with a limited amount of time and money, the company may choose to address the latter situation first.

Once risks are assessed and prioritized, the next step is to catalog the company's controls, the specific techniques, policies, and procedures which are used to reduce or mitigate identified risks. Even the most effective controls won't necessarily eliminate 100% of all risk, but well-developed, sustainable controls will have a direct financial impact on a company, helping to prevent large losses, or regulatory fines, fees or penalties.

From the implementation stage, and continuing as long as the program is running, an ERM program should have planned milestone for participants to evaluate prior work—successes and failures—and make adjustments. Risk monitoring protocols should be scheduled on a regular basis, so that risks can be reviewed, re-ranked, and controls can be tested and tweaked. Monitoring regulatory change is also important, to consider how new laws and proposals might impact risks and controls within the ERM program.

Most ERM programs also have a robust reporting component. Reporting of risks, controls, and prioritization results is typically made to multiple levels of management, with information about risks and controlled tailored to each group. Some reports will be very high level, summarizing the very top risks and controls for the company. Other detailed reports might be run for specific risks sorted by department, line of business, or by legal entity.

Finally, with all of the above information at hand, knowing the full range of risks it faces, and controls at its disposal, the company can tackle some practical business decisions. In the final strategic

analysis phase, managers may discuss the allocation of company resources, and evaluate whether potential gains will outbalance losses in a proposed course of corporate action. ERM strategic analysis can be used to help answer questions such as:

- Should we enter into a new line of business or develop a new product?
- Should we expand and open a branch office in X location?
- How much capital should the company hold in reserves?

Having strong controls which mitigate the “downside” of risk, a company can then focus on the “upside” of risk—potential opportunities.

The ERM Process—Benefits for Compliance

Prior to the implementation of an ERM program, companies often approach risk control and compliance activities with a “siloe approach;” that is, there is little or no collaboration or standardization of mitigation techniques or controls between business units. Risk assessments are typically done—if at all—informally, with rough qualitative measures, rather than with consistent quantitative guidelines. Risk management efforts often focus disproportionately on risk avoidance techniques and reactive risk controls, rather than proactive, preventative measures. Frequently, risks are identified but are not assigned specific owners who are responsible for mitigating or improving the risk situation. And too often, risks are only ultimately perceived as threats, when they also could present significant opportunities for the company.

Bringing risk management in multiple departments into one ERM program or function significantly improves the company's chances of managing risks well, and can particularly help the compliance function do its job better. Insurers need to have a consistent and standard approach to risk throughout their organization. When they achieve this, particularly when facilitated by procedures and technology that help them

centralize the process, companies benefit from having a more transparent view of risk within their organization.

Foremost, having an ERM program broadens the relationship between Compliance and other business units in the organization. Discussions of potential loss faced across the enterprise by an action, event or activity can deepen all participants' understanding of inter-dependencies between departments. Legal, regulatory, and compliance staff or functions, where previously segregated or siloe, become more aligned, facilitating the sharing of information on issues of common interest. Communications and overall relationships may also improve between Compliance and other operational areas like Underwriting, Claims, and Finance, as all areas come to better understand each others' concerns and priorities.

As a result, implementation of a formal ERM risk assessment process often provides new perspectives on how information about the company's risks should be organized and managed, particularly compliance risks. This new perspective often leads to re-assignments of resources and staff responsibilities, warranting new or revised workflows, managerial approval procedures, or attestation processes.

Further, when the calculation of risks and the costs of controls can be measured in dollars, priorities can more easily be set. ERM highlights areas where additional staff/time/money is needed. It also encourages the strengthening of controls, particularly compliance-related measures, and offers an opportunity for the company to implement “best practices” with respect to its day-to-day policies and procedures. In many cases, adopting a strong ERM program can increase the profile and value of the Compliance function itself, as the Compliance department often leads significant operational improvement projects identified by an ERM team.

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Challenges for Compliance when Adopting ERM

Although there are many advantages of adopting ERM, the process is not always easy or smooth. There are several challenges in designing an ERM program which may particularly impact or affect the Compliance team.

Challenge #1: Defining the Compliance Function Itself

An initial problem is how to define the “Compliance” function itself. One of the first tasks in setting up an ERM program is to identify and segregate the major operational areas or functions in the organization which share the same type of risk, into discrete “Business Units” or organizational units. The hierarchy of responsibility for risk in an ERM program may or may not match named Departments in the company, or what human resources would put into an organizational chart for other business purposes, but is an allocation solely for the identification, management and control of common risks.

There are a number of ways to define how “compliance risks” will be managed within an entity, and each company is different. The process of determining who should be responsible can be difficult, requiring significant discussion and thought. The architect(s) of the ERM program must fully explore the question of who is already responsible for what risks, and what controls, and who should be responsible for them in the future? The range of risks that could be considered “compliance risk” is very broad, and may include, for some companies:

- Violation of the company’s Code of Conduct and Ethics;
- Failure to adhere to state laws regarding advertising to and communications with policyholders;
- Non-compliance specifically with policy rate and form filing procedures;
- Violation of “good-faith” claim handling laws and regulations; or
- Breach of internal underwriting guidelines and authorities.

In this process, there is often a lot of overlap and duplication of duties and roles, particularly between the Compliance, Legal, Operations, and Human Resource Departments.

For example, some companies may make a distinction between management of “internal controls” created from company-specific policy preferences, and “external controls” that are created as a result of specific legal or regulatory requirements, so that the Compliance team is assigned to managing internal policies and procedures, while the Legal team manages new laws and regulations. In other companies, a Compliance team may be tracking new laws and regulations, but the Law Department is responsible for other functions such as corporate contracts or licensing, or may be charged with developing day-to-day policies and procedures once Compliance passes on news of legislative changes. As another example, the company’s Code of Ethics and Conduct may be drafted, monitored and enforced by the Law Department, a Compliance Department, Human Resources—or all three.

Drawing out the various possible combinations of risks, controls, and associated responsibilities can be one of the most confusing and time consuming phases of developing an ERM program, and the Compliance function is usually the most difficult to color in effectively—often remaining a “grey area.”

Challenge #2: Keeping Risks and Controls Updated to Reflect Regulatory Change

A second major challenge to Compliance is keeping abreast of changes in compliance and regulatory risk, once they are identified or defined, and carrying that through to the ERM program. When new products and services are being offered, or as laws and regulations change, the company must re-define what “risks” are being tracked in the ERM program, re-score or re-prioritize the risks in terms of their significance to the company, and revise any controls used to mitigate them. The Compliance team is often responsible for this ongoing risk/control review in the ERM process.

Insurers are constantly bombarded with changes to compliance and regulatory risk from multiple sources—the laws and regulations of 50+ states, the U.S. federal government, and international authorities—as well as facing related risks such as consumer complaints, and market conduct fines, fees and penalties. Over 11,000 new laws and regulations specifically relating to insurance are proposed in the U.S. each year, with over 3,000 laws finally enacted or adopted. From an ERM perspective, the pure number of laws and regulations can make it difficult to enunciate concise standard risk definitions or categories.

Likewise, it may be difficult to craft ERM controls that are broad and flexible enough to adjust to frequent changes in legal requirements. Regulators also may change their degree of scrutiny of certain kinds of activities or practices, so that a relatively low risk to the company one year might be a high risk to the company in another year. As an example, the risk of data breaches has become an increasing concern to insurers over the past 5 years. It is predicted that IT security-related risks and control costs will raise even further, as regulators and legislators focus their radar more on consumer privacy protection issues, drafting more stringent cyber security laws.

The Compliance professional can play a key role identifying current compliance regulatory risks—not just for the Compliance department, but for other affected areas, such as Claims or Underwriting. Having a solid process, reliable internal procedures and workflows for tracking regulatory change by the Compliance team can help streamline the ERM process as well, and ensure that it is as complete and up-to-date as possible.

Challenge #3: Assessing Risk Frequency and Severity for Compliance Functions

Quantifying risk may be another special challenge for Compliance in the ERM process. Compliance professionals may be well used to identifying and documenting compliance or legal risks, but may or may not be used to evaluating risk frequency or severity, or prioritizing the many and varied compliance issues need to be addressed, particularly as

respects departments outside of Compliance which may be impacted by a compliance breach. This depends on the company. Some companies have a “zero tolerance” rule to compliance or regulatory violations, and try to be 100% compliant with every law, to the letter, despite the potential likelihood of a fine or loss related to any violation. Other companies may do some cost-benefit analysis of implementing controls, but have difficulty allocating money or time to control functions when faced with several risks perceived as equally dangerous or significant.

The Compliance department may be somewhat at a natural disadvantage when in assessing individual risk. For Underwriting risks, risk magnitude might be a factor of policy limits, or aggregation of limits for a line of business, and there is usually system data which can support a rough estimate of severity as well as frequency of loss. Similarly, Claim staff usually have a wealth of historical claim file records, internal system data about loss history, and external industry statistics which can serve as a basis for a financial estimate of particular risks. It is also extremely difficult to quantify how compliance, legal or regulatory risks might be aggregated if they affect a number of departments across the company.

There are, however, a few resources which may assist Compliance in this assessment process. Laws and regulations may, in some cases, specify any fines, fees or penalties for a breach. State Department of Insurance websites and third party databases are available which disclose the results of past market conduct exams. This information often includes the financial penalties or license actions taken for violations. And finally—although this is, of course, the least preferred data source—the company may have tracked its own history of compliance breaches, either breach which lead to actual financial losses of some sort, or “near misses” which could have spawned claim, regulatory or legal action. With the implementation of ERM, the Compliance team may need to be more alert to such resources to assist with ERM risk reviews.

Challenge #4—Identifying and Implementing Best Practice Controls

“Policies and procedures” are one of the most important kinds of ERM “controls,” yet many companies seeking to implement ERM programs act as if the two concepts are separate and unrelated. In some companies, the Compliance department, responsible for daily policies and procedures, and risk management staff documenting company-wide ERM controls, are in two different departments, engaged in a tug-of-war, competing for attention and resources.

As noted above, as part of their ERM efforts, companies typically create a list or library of internal controls, all the measures taken by a company to manage risk. They can include such things as management approval hierarchies, IT security efforts, business continuity or backup plans, and outsourcing strategies. Ideally, companies should identify one risk register and one set of controls for the enterprise as a whole, making them easier to manage and measure over time, providing significant operational efficiency and save time/money in the long run.

“Policies and procedures” are a key subset of controls. They help manage potential losses from financial, underwriting, regulatory, or claims activities. Historically, companies have catalogued compliance standards and behavioral guidelines into policy manuals or handbooks. For each policy setting forth general and goals guidelines for behavior, there is usually a corresponding written procedure which documents the actual day-to-day, nitty-gritty steps of how to comply with such policies. Frequently, this is the responsibility of the Compliance team to manage.

In theory, policies and procedures should be an integral part of a company’s ERM efforts. In practice, however, the some insurers have lists or libraries of policies and procedures, and a separate database of ERM risks and controls, with no integration or cross-checking of the two. On one side, there is day-to-day departmental compliance. On the other side, there is the ERM program. This dichotomy can arise for several reasons:

- The ERM program may have been started up as a side-project of another department such as Finance or Internal Audit, not fully attuned to the integration of policies and procedures from a Compliance perspective.
- Companies getting up to speed on ERM may quickly develop a library of generic industry-standard risks and controls, just to get their framework started, without first thoroughly reviewing all of their own historical policies and procedures.
- Certain historical policies and procedures themselves may be outdated, without ownership or roles assigned, may be housed in multiple places, and may no longer serve as effective or appropriate risk mitigators—never making it into the ERM control library.

As a result, separate compliance and ERM workflows may be established to address the same or similar risks. Two completely different sets of attestation and sign-off protocols may exist for routine compliance versus ERM control purposes. Managers and staff responsible for complying with and/or attesting to the operation of controls and success of procedures may be confused as to what to follow, how to attest to each, and may be frustrated by duplication of review efforts. Costs may double. Audit efforts may multiply. Compliance procedures may not clearly map to loss events, issues or incidents tracked in the ERM process, and specific policy or workflow failures can be hard to identify. Laws, rules and regulations may not be adequately or consistently followed, and changes in laws may not be properly assessed or implemented.

All of the above can affect the Compliance team, who may get complaints from staff first, being “on the front line.” On the ERM side of the equation, risk may not be sufficiently evaluated and overall risk mitigation efforts can collapse.

Ideally, the goal should be to create one integrated, cohesive set of risks, controls, policies and procedures. ERM controls, and day-to-day policies and procedures, should be synergetic. The Compliance function

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should, instead, be a main pillar of an ERM program, and solid compliance risk management should be a starting point, and lead the way to, broader enterprise-wide risk management. There are software tools being developed today that can help structure and streamline this process, designed to easily map or cross-reference ERM-library risks and controls with other compliance “policies and procedures.” But even a manual process for cross-checking both is helpful. The expense and effort to complete a matching process early in the development of an ERM program will be well repaid over time, making the Compliance job easier as well

Integrating Compliance into ERM Efforts—Recommendations

To meet these challenges, everyone involved in ERM and Compliance efforts should work together, aligning themselves in a common framework, with common goals, and a coordinated approach. To this end, recommendations for increased coordination include:

- The Compliance team should be given more advance notice of, and more information about, new product lines, business partners, vendors, and other strategic issues faced by other departments. The more information Compliance has, and the earlier they have it, the better Compliance staff can assess related compliance or regulatory risks and controls, to offer meaningful input into any decision-making process. Managing the compliance risk of any new business initiative is usually a key first step on the road to success.
- All departments should coordinate efforts on identifying and sharing “emerging risks” and trends in their area of responsibility, and create a communication loop to understand risks seen by other areas (legal, finance, etc.)
- Use Compliance team members, as leaders or participants, in ERM projects such as reviewing or auditing certain cross-departmental controls, developing key performance indicators, or improving management ERM reports.

- Better integrate ERM and compliance “policies and procedures,” making sure where there is an ERM “risk” there is a matching “control,” that such control is documented in more detail in a policy and day-to-day procedure (typically owned by the Compliance team). If there is a daily policy or procedure, what “risk” is it trying to control? See if there are any gaps or areas of duplication.
- Widen the audience who receives news of compliance breaches, and increase focus on the “group-wide” impact of compliance violations. This will help the ERM team and management see compliance problems from multiple angles, in terms of the potential harm to the company’s reputation, loss of business, and strained agent, broker or reinsurance relationships. Communication of how compliance risks actually develop, and how they are managed or dealt with in practice, helps educate other departments about losses inherent in the business, and potential solutions for mitigating future losses.

Despite the challenges that the Compliance department may face while implementing an ERM program, they can also provide crucial skills, wide perspective and valuable insight to help a company assess legal and regulatory risk. Solid compliance risk management is crucial to enterprise risk management, and can provide a strong foundation for broader evaluation of risks and controls across the company. Compliance professionals should be star performers on every ERM team. ■

The Own Risk And Solvency Assessment (ORSA) Is On Its Way

by Shanique (Nikki) Hall and Kris DeFrain, CPCU, FCAS, MAAA



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Introduction

Aligning insurance supervision with insurance business practice, insurance regulators across the globe have been working toward a common goal of improving the processes for understanding and measuring risks inherent in the business of insurance. The International Association of Insurance Supervisors (IAIS) is promoting a concept called Own Risk and Solvency Assessment (ORSA) as a key component of regulatory reform. An ORSA will require insurance companies to issue their own assessment of their current and future risk through an internal risk self-assessment process and it will allow regulators to form an enhanced view of an insurer's ability to withstand financial stress.

The ORSA concept is now embedded in the IAIS standards and is in various stages of implementation in the United States, Europe and other jurisdictions. Resulting from the NAIC Solvency Modernization Initiative (SMI), large- and medium-size U.S. insurance groups and/or insurers will be required to regularly conduct an ORSA starting in 2015. Solvency II, the regulatory regime that is being implemented in Europe, will require nearly all European Union-domiciled insurers to be subject to Solvency II requirements once it becomes effective in the next few years. An ORSA is a key part of Solvency II. Other jurisdictions—including Australia, Japan, Canada, Bermuda and Switzerland—are implementing similar changes.¹

While the overall concept of ORSA is similar among jurisdictions, specific definitions and requirements differ by country. This article will discuss the purpose and general characteristics of an ORSA and summarize some of the major policy developments in the United States.

What is an ORSA?

- A continuous process
- Determined by firm (i.e., "own")
- Short- and long-term risk
- Qualitative and quantitative
- Overall solvency needs
- Adequacy of regulatory capital

ORSA: What Is It?

In essence, an ORSA is an internal process undertaken by an insurer or insurance group to assess the adequacy of its risk management and current and prospective solvency positions under normal and severe stress scenarios. An ORSA will require insurers to analyze all reasonably foreseeable and relevant material risks (i.e., underwriting, credit, market, operational, liquidity risks, etc.) that could have an impact on an insurer's ability to meet its policyholder obligations.

The "O" in ORSA represents the insurer's "own" assessment of their current and future risks. Insurers and/or insurance groups will be required to articulate their own judgment about risk management and the adequacy of their capital position. This is meant to encourage management to anticipate potential capital needs, and to take action before it's too late. ORSA is not a one-off exercise; it is a continuous process and should be a fundamental part of the risk-management system for an insurer. Moreover, there is no mechanical way of conducting an ORSA; how to conduct the ORSA is left to each insurer to decide, and actual results and contents of an ORSA report will vary from company to company. The output will be a set of documents that demonstrate the results of management's self-assessment.

Origin of ORSA

The origin of the term ORSA can be traced to insurance sector reforms introduced by

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the Financial Services Authority (FSA), the United Kingdom's financial regulatory agency. In response to a rash of insolvencies, the FSA developed a new solvency framework in the early 2000s, and implemented it in approximately 2004. Many of the FSA reforms were designed to ensure that insurers have enough capital to cover potential risks. According to the FSA, the overall aim of the reforms were to reduce "the probability of prudential failure, in a cost-efficient way that creates greater transparency in the arrangements for setting regulatory capital levels, while at the same time promoting a strong culture of risk management."²

One of the FSA reforms required firms to develop internal models to analyze their overall risk position. In 2005, the FSA implemented the Individual Capital Adequacy Standards (ICAS). ICAS required insurers to undertake a risk-based capital assessment to better understand their risk profile and to improve policyholder protection. ICAS is essentially a firm's assessment of its own risk profile in order to determine the level of capital required to mitigate the specific risks inherent in their business. To integrate the ICAS into the operations of the business and broaden it from more of a compliance exercise to an internal assessment process "owned" by the insurer, the FSA developed the concept of an Own Risk and Capital Assessment that was based on the ICAS concept.

The ICAS regime will be replaced by Solvency II, which was initiated in 2000 by the European Commission to implement a fundamental change to European insurance regulation. Solvency II builds on the Own Risk and Capital Assessment framework; changing the "C" (capital) to "S" (solvency) to make it more consistent with the named reforms (Solvency II).³ Solvency II aims to create a more harmonized, risk-orientated solvency regime, resulting in capital requirements that are more reflective of current and future business risks. A key feature is the requirement that all firms undertake an ORSA to demonstrate "sound and prudent management of the business" and assess overall solvency needs.

In 2010, the ORSA concept was adopted as part of the IAIS Insurance Core Principles (ICPs). The IAIS adopted 26 revised ICPs in October 2010 to accommodate new approaches to insurance supervision, including the adoption of ICP 16—Enterprise Risk Management for Solvency Purposes. ICP 16 says an insurer should perform an ORSA to regularly assess the adequacy of its risk management in supporting the current, and the expected future, solvency positions. ICP 16 applies to "insurance legal entities and insurance groups with regard to the risks posed to them by non-insurance entities."⁴

As a result, an ORSA is now a worldwide standard. In order to comply with the ICPs, all IAIS members are asked to apply ICP 16 in their legal frameworks and supervisory practices. Moreover, the ICPs are used by the International Monetary Fund (IMF) and World Bank in the Financial Sector Assessment Program (FSAP) review. Conducted worldwide, the FSAP is designed to address financial sector stability issues through an evaluation of the regulatory rules and practices measured against the internationally recognized standards and codes. For insurance, the ICPs form the basis for the assessment of regulators' observance of international standards. The ORSA requirement was not included in the 2009 FSAP as it was adopted subsequent. However, ORSA will be included in the 2014 FSAP review.

A key difference between ORSA and the ICAS predecessor is that ORSA includes qualitative assessments of the insurer's governance, whereas the ICAS focused mainly on the firm's quantitative capital requirements.⁵ Under ICAS, firms were required to undertake regular assessments of the amount and quality of capital adequate for its size and nature of business (its ICA). In contrast, an ORSA includes quantitative requirements for measuring financial position, as well as a review of risk-management practices. In addition, ORSA results lead to actual company action plans. According to ICP 16.11.1, "Every insurer should undertake its ORSA and document the rationale, calculations and **action plans** arising from this assessment."

Moreover, to address concerns arising from the global financial crisis and American International Group intervention, ORSA reaches beyond the regulated insurance entity and includes risk affecting the insurance group, even where the affiliates are not insurance entities. According to ICP 16.13, the insurer's ORSA should encompass all reasonably foreseeable and relevant material risks, as well as risks arising due to membership of a group.

NAIC U.S. ORSA

In light of the recent financial crisis, U.S. insurance regulators began to modify their supervisory framework. In 2008, the NAIC launched the Solvency Modernization Initiative—a critical self-examination to update the U.S. insurance solvency framework. SMI focuses on key issues such as capital requirements, governance and risk management, group supervision, statutory accounting and financial reporting, and reinsurance. As part of the SMI, the NAIC re-evaluated risk-based capital (RBC) in the United States and determined that RBC will continue to form the backstop function for insurer solvency to: (1) guarantee regulator action; and (2) provide the legal authority to intervene without extensive litigation.

Regulators decided that additional capital assessments evaluating prospective solvency should be added to the system. Additional capital assessments will be included in ORSA to complement RBC as a financial regulatory safeguard. The NAIC ORSA Guidance Manual (hereafter referred to as Guidance Manual) was adopted by the NAIC Executive (EX) Committee and Plenary in March 2012, while the Risk Management and Own Risk and Solvency Assessment Model Act (#505) was adopted on Sept. 12, 2012. The Guidance Manual and NAIC Model #505 provide the purpose, guidance and requirements for an insurer and/or insurance group with regards to reporting on its ORSA.

Per NAIC Model #505, an ORSA is "an internal assessment appropriate to the nature, scale and complexity of an insurer conducted by that insurer of the material and relevant risks associated with an insurer's current business

plan and the sufficiency of capital resources to support those risks.” The ORSA will apply to any individual U.S. insurer that writes more than \$500 million of annual direct written and assumed premium, and/or insurance groups that collectively write more than \$1 billion of annual direct written and assumed premium.

An insurer/group that is subject to the ORSA requirements will be expected to: regularly perform an ORSA; internally document the process and results; and annually file an ORSA Summary Report to the commissioner upon request and not withstanding such a request, if the insurer is part of a group it will file the report to the lead state insurance regulator.

The Guidance Manual provides guidance for completing the ORSA Summary Report. The Guidance Manual is deliberately non-prescriptive, as each ORSA will be unique and will vary depending on risks that are unique to that insurer/group. The depth and detail of information included in the Summary Report is likely to be influenced by the complexity of the insurer. The commissioner will utilize the ORSA Summary Report to gain a high-level understanding of the process. As the process and results are likely to include proprietary and forward-looking information, any report received by the commissioner will be held confidential as provided by state law.

The ORSA Summary Report should discuss three major areas:

1. **Section 1**—Description of the Insurer’s Risk Management Framework, should be a high-level summary of its own risk-management framework, including risk appetite, tolerance and limits and internal controls.
2. **Section 2**—Insurer’s Assessment of Risk Exposure, should include detail showing the insurers’ process for assessing risks (both qualitative and quantitative assessments should be performed) in both normal and stressed environments.
3. **Section 3**—Group Risk Capital and Prospective Solvency Assessment, should demonstrate that current and

future capital is sufficient to support the identified risks.

To avoid duplicative international regulatory requirements, an internationally active insurer may be able to satisfy the ORSA filing requirements, or sections, by providing the most recent and substantially similar report provided by the insurer or another member of an insurance group, of which the insurer is a member, to a supervisor or regulator of a non-U.S. jurisdiction. NAIC Model #505 includes additional provisions for exemptions, confidentiality, and outlines other filing requirements.

Companies must keep the ORSA up-to-date through an annual update and review. All foreseeable and materials risks should be included in the assessment. Insurers will need to develop processes to perform a self-assessment in the stressed environment using either a stress test methodology or stochastic model.

Results of the ORSA Summary Report should demonstrate that each entity’s capital—both regulatory and economic—is sufficient to cover the risks inherent in the entity’s business plan. If the insurer does not have the necessary capital to meet its current or projected risk capital requirement, then it should describe the management actions it has taken (or will take) to remediate any capital adequacy concerns.

As NAIC Model #505 was adopted in September 2012, some states are in the process of preparing legislative proposals but no states have adopted the Model to-date. It is expected that each jurisdiction will adopt risk-management and ORSA requirements into state law prior to 2015.

The NAIC ORSA (E) Subgroup (“Subgroup”) has been charged with creating an ORSA Feedback Pilot Project; developing an ERM education program where regulators will benefit from additional guidance and/or training; developing a glossary to include in the Guidance Manual to provide clarification of terminology; and studying the need for the NAIC to hire an ERM expert to provide staff support and future

maintenance of the NAIC guidance on ERM and ORSA, and to provide assistance and training to states as they implement examination and analysis of ORSA.

The ORSA Feedback Pilot Project was completed in July 2012. The project was a review of confidential ORSA Summary Reports from 14 volunteer insurance groups. The goal of the project was to provide feedback to the industry, identify revisions to the Guidance Manual, and identify areas to develop guidance for regulators. The project also served to help guide the development of enterprise risk management education materials for state insurance regulators. The Subgroup will finalize a pilot project report with key observations that will be made available to the public. The pilot program is expected to be repeated in 2013.

Based on the results of Feedback Pilot, a revised Guidance Manual was approved and released for public comment on November 5, 2012. The substantive revisions include: added language to identify the basis of accounting for the report (i.e. GAAP, Statutory Accounting Principles or IFRS); added language to specifically identify which insurance entities are included in the scope of the ORSA, possibly accompanied by an organizational chart; added language that the insurers should summarize any material changes to the ORSA from the prior year; added language that the insurer should provide a comparative view of group risk capital from the prior year; and added a glossary of terms in the Appendix. Comments are due to the Subgroup by January 4, 2013.

How ORSA Fits Into The U.S. Solvency System

A cornerstone of the U.S. solvency system is the risk-focused surveillance process. In this process, the regulator studies and reports on an insurer’s financial condition, focusing on residual risks (not sufficiently mitigated through controls) in the insurer’s overall operations. The residual risks are determined after regulators obtain an understanding of the insurer’s overall operations, inherent risks and risk-mitigation strategies/controls.

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Regulators recently enhanced the risk-focused surveillance to better incorporate prospective risk assessment in identifying insurers that have, or will encounter, solvency issues and bring focus to the broader issues of the ability of management to identify, assess and manage the business risks of the insurer. An ORSA will fit readily into this process.

The information an ORSA contains will supplement the risk-focused examination process and provide regulators with a more dynamic view of each company's risk profile. It will provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view. The NAIC ORSA Guidance Manual notes that the depth and breadth of the insurer's risk-focused examination will hinge on the contents and discussions surrounding the ORSA Summary Report. As noted earlier, the ORSA Summary Report should include three major sections. Section 1 documents the company's risk-management framework, while Section 2 documents the insurer assessment of risk exposures. In the risk-focused surveillance process, regulators currently perform certain elements of risk-management evaluation, which includes an assessment of risk and the insurer's ability to manage or mitigate risks. As part of the enhanced risk-focused surveillance process, U.S. insurers are required to detail the risks they face and how they mitigate those risks. Section 1 and Section 2 of the ORSA Summary Report create a formalized risk-management reporting and quantification requirement in the enhanced risk-focused surveillance process.

Section 3 of the ORSA Summary Report documents 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 its longer-term business. For U.S. regulators, RBC models are among multiple tools available to evaluate an insurer's ability to fulfill its obligations to policyholders. The NAIC RBC system was adopted by most of the states in the 1990s in order to "provide a capital adequacy standard that is related to risk, raises a safety net for insurers, is uniform among the states,

and provides regulatory authority for timely action." A separate RBC formula exists for each of the primary insurance types: life, property/casualty, health and fraternal.

RBC provides a legal-entity view of required capital and a group capital view in some situations (e.g., for parent insurance companies), whereas the ORSA will more often provide a group view of capital. An ORSA will also enhance regulators' ability to determine an insurer's prospective solvency position and understand actual, projected and target levels of risk capital in excess of the required regulatory minimum levels. This will allow regulators to key in on each insurer's top risks more efficiently and allocate resources to the most critical areas for regulatory review. It is important to note that, while the ORSA forms part of the supervisory process, it does not create an additional capital requirement; rather, it allows for extensive regulatory assessment of the group capital position.

Summary

An ORSA will help regulators better understand the prospective risks to each insurer's plan and judge the adequacy of capital for the risks identified. An effective ORSA can provide useful insights into the capital and efficiency of the business and management actions needed in the future. It will enable companies to evaluate the long-term capital efficiency of particular products and assist in the design of new policies. Regulators will use the results of the ORSA to form an opinion of an insurer's risk management and prospective solvency. This allows regulators to use the ORSA as an "early warning" device and to work with the insurance group to strengthen the insurer's risk-management, solvency-assessment and capital-management processes where necessary. ■

Endnotes

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The Impact of the Impending Expiration of the Terrorism Risk Insurance Act

by Martin H. Alpert, CPCU, JD, ARM; Kim Hollaender, Esquire; and Sarah B. Silver, Esquire



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With the Terrorism Risk Insurance Act, 107 P. L. 297 (TRIA) set to expire in two years on December 31, 2014, insurers must be aware of the potential impact on the availability of terrorism insurance in the United States. TRIA was a temporary, three-year, response by the federal government to disruption in the terrorism insurance market post-September 11, 2001. By early 2002, forty-five states had approved insurance policy language prepared by the International Organization for Standardization (ISO) excluding terrorism damage in standard commercial policies.

TRIA's purpose was to allow time for the insurance industry to develop its own solutions and products to insure against acts of terrorism; specifically, acts dangerous to human life, property, or infrastructure and that have resulted in damage within the United States. TRIA insures against acts of terrorism outside of the United States in the case of a United States-flagged vessel, or on the premises of a United States mission. TRIA was amended and extended in 2005 and 2007, and was broadened to include acts of terrorism by persons with no foreign affiliation.

The impending expiration of TRIA raises controversial issues involving the responsibilities of the public and private sectors in reducing the risk of loss due to terrorist attacks. It is likely that the insurance industry will react to the expiration of TRIA in 2014 by reducing the availability and affordability of terrorism insurance in seemingly high-risk zones such as major metropolitan areas since federal backing will no longer be available. To date, it appears that there has been little movement and coordination between insurers and reinsurers toward developing a privatized program that could provide sufficient capacity without government participation, likely because of the unpredictability of terrorism losses.

What Is TRIA?

TRIA requires insurers to offer terrorism insurance to commercial holders in exchange for government backing of excess losses above certain thresholds. The federal government shares in an insurer's losses only if the insurance industry's aggregate insured losses from certified acts of terrorism exceeds \$100 million, spreading the loss over time and over the entire insurance industry. For government coverage to begin, an individual insurer must pay a deductible; 20 percent of its annual direct earned premiums for TRIA-covered lines of insurance, both commercial property and casualty, for the preceding year. As defined by TRIA, the federal government will pay 85 percent of each insurer's losses, and the insurer will pay 15 percent of its losses in excess of the deductible resulting from an act of terrorism until the amount of losses totals \$100 billion per year. To put the \$100 billion federal backstop into perspective, the terrorist attacks of September 11, 2001, inflicted insured losses of close to \$40 billion that was shared by nearly 150 insurers and reinsurers worldwide.

As stated by the Congressional Research Service (CRS), the industry as a whole must cover \$27.5 billion of the losses before federal assistance is available. If aggregate insured losses due to terrorism do not exceed \$27.5 billion, the Secretary of Treasury is required to recoup 133 percent of the government coverage by the end of 2017 through surcharges on commercial property and casualty insurance policies; whether or not same include the terrorism endorsement.

TRIA requires that insurers offer coverage for acts of terrorism on the same terms and conditions as other types of coverage offered as part of the insurers' commercial property and casualty insurance policies, including excess insurance and workers' compensation insurance. TRIA specifically excludes other lines of insurance such as crop insurance, mortgage insurance, homeowners insurance,

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The Impact of the Impending Expiration of the Terrorism Risk Insurance Act

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automobile insurance, life insurance, and title insurance. Policyholders are not mandated to purchase terrorism risk insurance, except in the case of workers' compensation insurance where state law may require such purchase.

Effectiveness of TRIA Thus Far?

While TRIA has not been triggered, according to the President's Working Group (PWG) and CRS, private industry's willingness and ability to cover terrorism risk has increased. Since 2006, the policyholder take-up rate for terrorism insurance has held steady; roughly 60 percent. Prices for terrorism coverage have trended downward; however, it is unclear how the insurance industry would react to the expiration of the federal program.

Should the federal government withdraw its financial support, private insurers likely will offer terrorism insurance only if they can protect themselves against catastrophic losses by purchasing reinsurance or through securitization of risks via innovative mechanisms like catastrophe bonds which transfer the risk of a large loss from the insurance/reinsurance industry to the financial markets. It would behoove the insurance industry to proactively develop innovative, risk-pooling alternatives to TRIA in order to maintain the roughly 60 percent market share for terrorism insurance the industry has currently. ■

CPCU Society Student Program for 2012—A Look Into the Future!

by Lamont D. Boyd, CPCU, AIM



Lamont D. Boyd, CPCU, AIM, director, insurance market, with FICO® (Fair Isaac Corporation), is responsible for client and partnership opportunities that make use of FICO's predictive analytics technology, scoring products, and consulting services. Speaking regularly to industry, regulatory, and consumer groups on behalf of FICO for the past eighteen years, he is recognized as a leading expert in predictive scoring technology. In addition to managing the CPCU Society Student Program, he is a member of the Underwriting Interest Group Committee and the Annual Meeting Task Force.

Washington, D.C., was a great experience for over two dozen risk management/insurance and actuarial studies students from universities and colleges across the nation. As director of the CPCU Society Student Program, I thank the professors and advisers who nominated our DC students, the many volunteer mentors who guided our students throughout the Annual Meeting and Seminars, the Interest Groups who opened their breakfasts and lunches to our students, and the many CPCU Society chapters who either directly sponsored a student or two or who contributed money to our general fund to assure the Student Program's ongoing success.

These twenty-nine chapters of the CPCU Society stepped up once again this year for our 2012 Student Program:

Arizona	Hawaii
Atlanta	Kentucky
Bayou	Minnesota
Boston	New Hampshire
Brandywine Valley	New Jersey
Central Illinois	Northeastern
Central Missouri	Pennsylvania

Central Texas	Pacific Northwest
Charlotte	Philadelphia
Cincinnati	Quad City
Colorado	Rhode Island
Columbus	San Diego
Connecticut	Santa Clara
Dayton Miami Valley	Spokane
Europe	Westchester

Our sincere hope is that all chapters of the CPCU Society see the value of the Student Program in assuring that the best and brightest will find their place in the industry, throughout the world, and within CPCU Society chapters. We cannot offer this program without the significant support of chapter leaders and the contributions of our Society chapters.

Our 2012 Student Program enjoyed two very nice, new experiences while in D.C.—a dinner hosted by Diana L. Van Horn, CPCU, of QBE North America and a breakfast hosted by Cheryl R. Constantine, CPCU, of Travelers. These events gave our students opportunities to engage with industry leaders.

Through chapter and industry contributions, this year's students met industry leaders from around the world, learned, and networked. Here are just a few of the comments we've received from our 2012 students:

Taylor Mohr, State University of New York—Oswego:

I had an amazing time and thought the opportunity was once in a lifetime. I made a lot of connections and met some influential people. The program was well planned and extremely organized from the moment we arrived in Washington, D.C. I instantly befriended the other students nominated to participate and hope to keep those friendships, even though most of us live across the United States from each other. I loved the CPCU experience and cannot wait to become a new designee!

Grant Craigmiles, Missouri State University:

The CPCU Society Student Program has been one of the greatest experiences of my entire risk management and insurance education. The networking opportunities offered through this program were phenomenal. Beyond gaining

valuable connections within the industry, I learned about the intricacies of so many different areas within the industry. I feel like I am a much more informed student of insurance and that I have an advantage in career possibilities thanks to the CPCU Society Student Program.

The CPCU Society Student Program is great in that it allows students to network on multiple levels: Students make connections with a wide variety of insurance professionals, a personal mentor, and bright students from insurance schools across the nation. When all these levels of networking opportunities are concentrated into one conference, the sky is the limit for the knowledge and connections that can be attained. I am now energized to enter such a dynamic industry!

Amy Johnson, Katie School, Illinois State University:

I would like to sincerely thank the CPCU Society and you for everything. You did a wonderful job putting everything together for the students, and I know we all very much enjoyed the experience.

I was also lucky to have Daniel L. Blodgett, CPCU, AIM, AIS, PMP, as a mentor. As I'm sure you're well aware, he does a great job! He helped us with choosing sessions, introduced us to many people, brought us to the Personal Lines Interest Group Committee meeting, and was always available when we needed him.

Throughout the conference, there were several people who came up to me to ask about my being a student. It was obvious that people were aware students were there and were interested in conversing with us, which was obviously very beneficial for us!

Anna Berry, University of Houston Downtown: What a wonderful event! I thank you from the bottom of my heart for allowing me (and all of the students) to participate in this amazing CPCU Society Annual Meeting and Seminars. I networked with so many professionals and I will be following up with each and every one of them. As for my mentor, I'm not sure how you matched us all up, but I had the *BEST ONE*, Alicja Lukaszewicz-Southall, CPCU.



(Left to right) Hannah Dimmick, Appalachian State University; Grant Craigmiles, Missouri State University; Liz Pitts, Appalachian State University; Chase Conover, Missouri State University; Glenn Morgan, The University of Georgia; [unknown local student]; Kathryn Foege, Georgia State University; Genevieve Parks, University of North Texas; Harvey Powers, University of Texas–Austin (Research Award winner: Gold); Elizabeth Saxe, St. John's University; Ali Nematpour, University of Houston Downtown; Taylor Mohr, State University of New York–Oswego; Allison Crosby, University of Colorado–Denver; Anna Heliotis, St. John's University; James Heuker, Olivet College; Jay Willer, State University of New York–Oswego; Chase T. Russell, University of North Texas; Luna (Weiyue) Gu, University of Illinois at Urbana–Champaign; Christopher Watkins, Olivet College; Amy Johnson, Katie School, Illinois State University; Dan Pettie, Katie School, Illinois State University; Jill Feeney, Saint Joseph's University; LaKenya Patrice Young, Georgia State University; Kyle Gustin, Utica College (Research Award winner: Bronze); Sarah Nichols, The University of Georgia; Joe Hemminger, University of Colorado–Denver; Joe Drobný, Katie School, Illinois State University (Research Award winner: Silver). [Missing from the photo: Anna Berry, University of Houston Downtown]

Steve McElhiney, CPCU, MBA, ARe, AIAF, 2011–2012 CPCU Society president and chairman, shared his thoughts about the Student Program:

During the Washington, D.C., Annual Meeting and Seminars, I had a chance to meet virtually all of the attending students, who had varied academic backgrounds and experiences and represented various regions of the country. They were highly engaged in both the student program and in the various interactions I was able to be part of, and each of them was truly a pleasure to get to know. They asked insightful questions, and have proven they are very motivated to succeed in insurance careers in various facets of the property-casualty industry—at the carrier and broker level and as underwriters, claims professionals, and actuaries.

We have spoken much about the “pipeline challenge” confronting our industry as the Baby Boomer generation retires, and a new generation of knowledge workers needs to be identified, trained, and developed. The CPCU

Society Student Program (now in its third year) is one of the tangible solutions we are embarking upon to meet this industry need. I am confident these students will be future leaders in the organizations they serve, as well as in the Society. A special recognition needs to be extended to Lamont Boyd, who has diligently supported the CPCU Society Student Program since its inception.

“A Look Into the Future—Student Seminar” was a success, once again. This seminar allowed us to highlight the property-casualty insurance industry's need for the “best and brightest” now and in the future, and allowed our students to ask any questions to prepare them for their careers in the industry. The seminar is designed to help risk management/insurance and actuarial students understand more fully the variety of paths available to them in the property-casualty industry. Our students also gained a clear understanding of the value of the CPCU designation in helping them on their chosen path.

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Many thanks to our 2012 student seminar speakers: Noelle Codispoti, ARM, executive director of Gamma Iota Sigma, the international risk management, insurance and actuarial sciences collegiate fraternity; Connor M. Harrison, CPCU, ARe, AU, director of custom products, The Institutes; and James R. Jones, CPCU, ARM, AIC, executive director of the Katie School of Insurance and Financial Services at Illinois State University.

Our hope is that all students and CPCUs in attendance walked away from this seminar with great ideas and a clear understanding of what is needed to grow our industry through the development of talented individuals. The CPCU Society is uniquely positioned—in large part due to the direction and support provided by chapter and interest group leaders—to offer a clear path between those who are seeking a rewarding future in the industry and those who are seeking people to contribute to that successful future.

2013 Student Program

As a direct result of the efforts of so many of you and your colleagues over the past three years, the Society has given our Student Program an enthusiastic “green light.” The 2013 New Orleans program is likely to be a significant component of the collective “Engaging the Next Generation” initiative. You’ll learn more about the initiative and the 2013 Student Program in the months ahead, but please plan now to support this critical program.

A final note of thanks: Once again, my sincere appreciation to all who contributed in so many ways to the success of our 2012 Student Program. As we begin working toward another successful program for 2013, please don’t hesitate to contact me (lamontboyd@fico.com) with any suggestions or thoughts you may have, or assistance you’re willing to offer to help us attract bright, young minds to the insurance industry and the CPCU Society! ■

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