

ERM Enterprise Risk Management Symposium
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Presented by:

Canadian Institute of Actuaries Institut canadien des actuaires CAS SOCIETY OF ACTUARIES

Using the ORSA Framework to Communicate to your Organization about Enterprise Risk Management

Speaker:

- Bill Mech, RIMS-CRMP, FCAS, VP Enterprise Risk, Connexus Credit Union
 - Four decades in Property/Casualty Insurance; - 50/50 actuarial and operational roles
 - In mid-2010s, managed Reinsurance Buying and Economic Capital Modeling (ECM)
 - Also served as Chief Risk Officer for same employer, wrote their initial ORSA document
 - Transitioned to Banking in 2018, member of Actuaries in Banking SIG
 - Now managing ERM function for large national credit union (\$2.6 Billion in assets, 330,000+ members countrywide)

Learning Objectives

At the end of this session, you will be able to:

- Recall the structure of the NAIC's ORSA framework
- Reference a working example of ORSA's use in a non-insurance (banking) industry
 - ORSA is an example of how your unique ERM Framework can come together
- Adapt the ORSA format to your institution, regardless of industry

Risk Oversight

- **ORSA came out of regulatory oversight**
 - Global banking regulations (Basel Accords)
 - Rare events (September 11th)
 - Corporate accounting scandals
 - Natural catastrophes (Katrina, et al)
 - **2008 financial crisis**
 - Rating agency expectations (AM Best, S&P)
 - Competitive pressure
 - Regulatory requirements (NAIC)
- **Value in documenting your risk management framework**
 - Applicable foundation across industries
 - Document ability to:
 - Describe your ERM framework and discuss risks you face
 - Provide insights and assurance to stakeholders on how you apply ERM
 - Sufficiently withstand financial and economic stress

A Quick Overview of ORSA

ORSA
Own Risk and Solvency Assessment

The ORSA report is a forward-looking, ongoing summary document describing the ERM process and results. Three topics are required to be discussed:

- Description of the company's ERM Framework
- Evaluation of the risks faced by the company
- The company's own assessment of the adequacy of its capitalization

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Value of an ORSA Report to ERM

Documents ERM Activities	Requires the company to document and explain its own internal ERM processes.
Supports Decision-Making	Brings the ERM framework to life as leverage to gain confidence in strategic outcomes.
Applies Risk Appetite	Documents the risk appetite statement and associated approvals by senior leadership and the board of directors.
Models Risk	Process includes assessments of material risks in both normal and stressed environments.
Single Source of Truth	Ties together all of the risk management practices of the organization in one document.

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A Worthwhile Effort



- **Process reveals**
 - ERM capabilities and gaps in understanding
 - Risks that can occur at catastrophic levels relative to chosen strategy
 - Adequate consideration of such risks and development of risk response plans
- **Report provides**
 - Insightful means for communicating the company's risk profile
 - Deeper insight about the risk profile and potential effects on financial performance and strategy

Further Maturing the ERM Effort



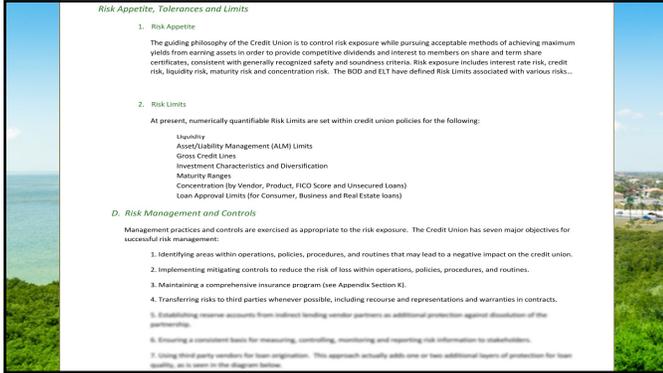
- **A vehicle to assist in:**
 - Initiating or refining company's risk governance
 - Strengthening interface between ERM and corporate strategy
 - Providing insights about how risk information can be used to raise general employee awareness and their role in managing risk

Process for Creating An ERM Summary Report

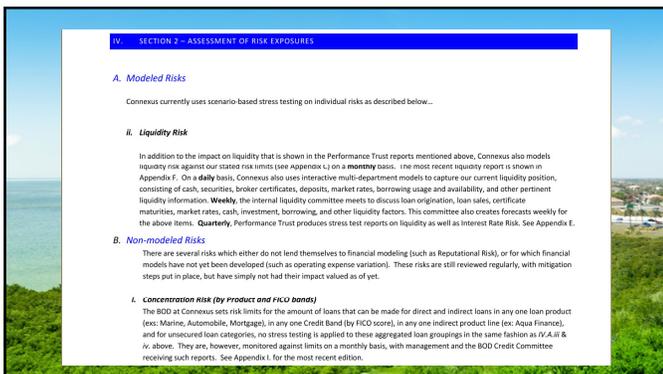
- **Forward-looking, ongoing summary of ERM process and results**
 - Company's ERM framework
 - Including corporate governance, enterprise risk management, internal controls, risk appetite and limits, policies and procedures to manage material risks facing the organization.
 - Evaluation of risks faced by company
 - Methodology to assess all key risks (whether quantitative or not) across a range of outcomes, on both an individual and aggregate basis, under normal and stressed conditions.
 - Company's own assessment of the adequacy of capitalization
 - Calculation based over the current and strategic planning horizon

Beginning here, we will see redacted excerpts from the actual ERM Summary Document in use at Connexus Credit Union.









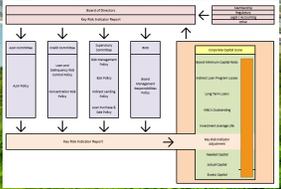
Bringing the ERM Framework to Life

- **Meaningful and cost-effective benefits**
 - Deep understanding of organization's risks
 - Estimation of risk likelihood and impact
 - Resource optimization
 - Evaluation of mitigation strategies
 - **Consistent methodology for assessing potential impacts to strategy**



Ties Together All Risk Management Practices

- **One document – Consistent, complete information to stakeholders**
- **Illustrates the connections between:**
 - Risk identification and risk management
 - Strategy development and risk appetite and tolerance
- **Alignment of:**
 - ERM framework
 - ERM governance
 - Business unit risk management activities
 - Results of risk assessments
 - Stress and scenario testing



An Effective Communication Tool

- **Risk appetite**
 - Degree of risk organization is willing to accept in pursuit of objectives
 - Considered by management when evaluating strategic options
 - Used to establish risk tolerances and risk limits
 - Optimization of objectives within established parameters
- **How risk analysis informs decision-making for strategically improving results**
 - Improves credibility and confidence in the organization
- **Reconciling exposures and risk management capabilities reveals gaps between where the organization is and strategic vision**

I. Summary of changes made since last edition of this report (May 2019)

- a. Section IV.A.ii. – expanded description of Liquidity Management process, including Contingency Funding Plan development.*
- b. Section IV.B.vi.a. – expanded description of Phishing Attempt training and testing.*
- c. Section IV.B.iii.a. – made reference to Share Sensitivity study.*
- d. Section IV.A.iii – discussion of new risk limits as a ratio to assets for real estate loans.*

Collaborative Communication Across Functional Disciplines

- Open two-way communication on risk topics by diverse audiences is enhanced
- Provides consumers, employees, boards, investors and regulators assurance that the enterprise has systematically contemplated its operational risks under various scenarios
- Continuous information about alignment and monitoring of known enterprise risk
- Where potential changes in operations, new acquisitions or divestment may occur, the ORSA (or ERM Framework) process can frame the related decisions
- Feedback can generate a list of enhancements to the document and to processes

For Internal Use Only

Areas targeted for improvement (in order of implementation)

- a. Develop an more specific statement of Risk Appetite, with appropriate score/metric for each BOD policy *awaiting approval*
- b. ~~Enhance Risk Culture at lower levels of the organization — completed~~
- c. ~~Communicate Risk Reports more broadly below EIT level — completed~~
- d. **Create training module for managers & up on Vendor Management, including best practices for Vendor Selection — under way**

A Valuable Tool Used to Inform Decision-making

- Aid in assessing the impact of potential decisions on expected profit or loss and the variability surrounding that expectation
- Consistent basis for comparing and quantifying risks over time and across business units
- Allocating risk-adjusted capital
- Means to calculate risk-adjusted returns

V. SECTION 3 — ASSESSMENT OF RISK CAPITAL AND PROSPECTIVE SOLVENCY

A. Assessment of Risk Capital

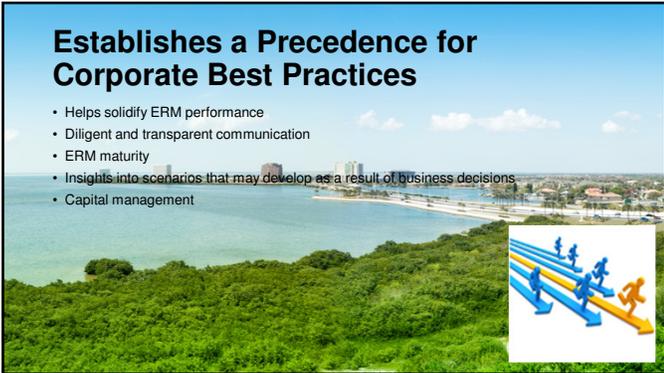
In the reports discussed in section IV.A, Modeled Risks, Connexus consistently stays within our Board-established risk limits and well exceeds our long-term goals. We are currently rated as "Well Capitalized" by the National Credit Union Administration (NCUA).
 Based on this analysis, **we believe our Risk Capital to be well above what is needed to preserve solvency in the next year.** We regularly monitor this and report it to the BOD and senior management, as can be seen in Appendix G.

B. Prospective Solvency Assessment

The issue of how to best assess the adequacy of capital at some point in the future is far from settled in the literature. This topic is truly at the frontier of actuarial science and economic theory. Connexus has a plan for the year ahead...

Establishes a Precedence for Corporate Best Practices

- Helps solidify ERM performance
- Diligent and transparent communication
- ERM maturity
- Insights into scenarios that may develop as a result of business decisions
- Capital management



Questions to Consider

ERM Documentation

- How do you document ERM activities?
- How frequently? Annually? Bi-annual? Quarterly? In line with the Strategic Plan?

Decision-Making

- How do you include all risk types in some kind of assessment if they don't lend themselves to a quantitative model?

Risk Appetite

- How is Risk Appetite actively applied?

Modeling Risk

- What types of risk models are utilized? How are risk models applied?
- Is an Economic Capital Model necessary to properly use this format?

Single Source of Truth

- How do you communicate ERM to stakeholders?
- Who is your target audience?

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Speakers and Acknowledgements

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Bill Mech
Connexus Credit Union



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- Bill Wilkins, Safety National Casualty Corporation
- Kyle Van Hoeven, Westfield



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