



Department of Consumer and Business Services

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Insurance Carrier Internal Risk/Solvency Assessment

House Bill 2469

Background: Effective regulation of insurance requires statutory authority to ensure an insurer or insurers group has an internal process to assess its current and potential risks as well as its ability to pay claims and remain solvent under different scenarios. Failure by companies to adequately assess these risks could result in insurance company insolvencies and cause great consumer harm.

One of the functions of the National Association of Insurance Commissioners (NAIC) is creating model law regarding insurance carriers' financial regulation. For instance, the 2013 Legislature enacted House Bill 2241, which established the NAIC's Enterprise Risk Management (ERM) filing requirements that address current risks. NAIC recently published the *Own Risk and Solvency Assessment* (ORSA) model law, which addresses prospective risks.

Enacting the ORSA is a NAIC accreditation requirement. If Oregon loses its accreditation, insurers who were formed under Oregon law (domestic insurers) would not be able to compete with non-domestic insurers since Oregon accounting would be more restrictive in risk assessment.

Concept: HB 2469 adopts the ORSA model law. It also adds ORSA reporting to the Oregon Insurance Code's confidentiality of information statute (ORS 732.586(2)), which establishes requirements for and permitted disclosure of materials obtained by or examined by the department in the course of a financial examination or investigation.

ORSA reporting will be in the form of a narrative and outline prospective risks of the entire holding company structure, focusing on capital assessment. An ORSA requires insurers to analyze all reasonably foreseeable and relevant material risks that could have an impact on an insurer's ability to meet its policyholder obligation, such as underwriting, credit, market, operational, and liquidity. The "O" in ORSA represents the insurer's "own" assessment of their current and future risks. Insurers and insurance groups will be required to articulate their own judgment about risk management and the adequacy of their capital position, encouraging management to anticipate potential capital needs and to take preemptive action.

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