

Sound Practices for Risk-Focused Exams Generated by Industry Feedback

As a result of the recent industry survey regarding risk-focused examinations, the following have been identified as “sound practices” that may be utilized to help facilitate a risk-focused examination. Many of these practices are predicated upon establishing good communication between the insurer and the regulator. Good communication can work both ways and it should be initiated by either the regulator and/or the insurer whenever there is a question, issue or concern. Please note that based on the policies and procedures of the various Departments, not all of these practices may be possible in every examination.

Exam Management

- Schedule a face-to-face meeting with representatives of significant insurers on an annual basis. Consider involving both financial examiners and analysts in an effort to remain up to date on significant issues facing the company between examination years. Depending on the organizational structure of the company, it may be appropriate to have the annual meeting at the holding company level.
- Work with the company from the beginning of the examination to establish communication channels, review the examination’s time budget, set expectations on turnaround times and schedule weekly or biweekly status calls with the company to discuss potential findings, work progress and obstacles that may be impeding progress.
- Provide the planning questionnaire, information technology planning questionnaire and preliminary company request listing as early as practical (up to 3 months prior to the start of field work) to allow adequate time for completion by company personnel.
- When assigning deadlines for each data request made to the company, consider constraints on company personnel and allow adequate lead time to complete the request.

Interviews

- Consider review of the annual statement, prior year reports, AM Best report, news reports, etc. as well as inquiry with the analyst, in order to obtain a basic understanding of the company prior to conducting interviews.
- Provide a topical agenda to company personnel prior to conducting an interview. Clarify that agenda items are only a guide and the examiner maintains the ability to deviate as needed.
- Adequate advance notice should be given when scheduling all interviews. This is typically at least 30 days in advance of the interview date.
- C-Level interviews should be performed in Phase 1 in order to gain a better understanding of the company and help identify significant risks.

- See Handbook Section 1 D Responsibilities of the Coordinating State #6 for guidance on who should participate in an interview of a coordinated exam.
- Consider asking C-level individuals to present requested topics to a large group of regulators that would cover basics of the company. Individual interviews with a limited number of examiners could then be performed as follow-up to the group presentation.

Budgeting

- Budget estimates may be provided to the company at the start of an exam. If significant changes in the original estimates arise, examiners should communicate these to the company in a timely manner.
 - Budgets could include cost estimates and significant adjustments as well as scheduling estimates detailing when different key activities will be tested to allow the company to appropriately schedule personnel.

Using Work of Others

- Issues in obtaining and utilizing the work of others (CPA, IA, etc.) should be promptly communicated to the company to allow the company to participate in resolving any issues as quickly as possible.
- Significant deficiencies identified in the work of others that limit the utilization of that work in the exam should be communicated to the company so that they can correct the deficiencies for future exam periods.

Other

- Personal email addresses should not be used to transmit confidential information. Consider other options that include encrypted email and ftp transfer sites.
- Consult with the company to ensure all controls were identified before documenting weaknesses in the control structure.
- When performing a risk-focused exam for the second time, the examiner should limit interview questions on background and other information that is readily known and spend more time on developing risks.
- Consider discussing identified risks with the company before beginning the actual testing. This will provide an opportunity for the company to provide additional information to ensure proper risk identification by the examiner.