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Best Practices in Financial
Examinations

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Best Practices for Financial Examinations

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Financial Exams – ABCs

- Every five years by most states (some 3)
- Conducted by domicile state or led by designated state for multi-states
- Must complete within 18 months of the end of the designated exam period
- Designed to test solvency, competency of management and board, and risks and controls among other things
- Tend to be less punitive than market conduct exams (positioned more as recommendations and directives than violations and fines)
- Company pays the costs of the exam
- Some include market conduct type components (producer licensing, complaint logs, even small exams)
- NAIC Financial Condition Examiners Handbook

Exam Phases

EXAMINATION OVERVIEW

EXAMINATION PHASES

PHASE 1	UNDERSTAND THE COMPANY & IDENTIFY KEY FUNCTIONAL ACTIVITIES TO BE REVIEWED
PHASE 2	IDENTIFY & ASSESS INHERENT RISK IN ACTIVITY
PHASE 3 & 4	[3] IDENTIFY & EVALUATE RISK MITIGATION STRATEGIES & CONTROLS [4] DETERMINE RESIDUAL RISK
PHASE 5	ESTABLISH/CONDUCT DETAIL EXAMINATION PROCEDURES
PHASE 6 & 7	[6] UPDATE PRIORITIZATION & SUPERVISORY PLAN [7] DRAFT EXAMINATION REPORT & MANAGEMENT LETTER

Risk Focused Financial Exam

- Allows examiners to:
 1. Develop an understanding of an insurer's key functional activities and the risks associated with those activities
 2. Evaluate the effectiveness of an insurer's risk mitigation strategies and controls

Risk Focused Exam

- Independently Evaluating Effectiveness of Risk Mitigation Strategy
 - Designed
 - Documented
 - Operating as Intended
- Substantive Testing of the Highest Remaining Balance Sheet Risks

Exam Preparation

- Pre-gather materials to extent possible (board minutes, bylaws, COI statements, etc.).
- Have standing answers to planning questionnaires to update (w/ contact people).
- Email transmittal for requests (1-2 day buffer internal deadline) – Use request number in subject line of all emails for tracking purposes.
- Establish the exam team.
- Assign roles and responsibilities within your team.
- Assign SMEs for exam requests.
- Review Financial Condition Examiners Handbook.
- Set up exam site (*e.g.*, document repository).

Exam Process

- Tools (*e.g.*, SharePoint, SmartSheet)
- Shared Inbox for all requests
- Ensure items from last exam have been addressed
- Logistics
- Scheduling meetings
- C-Suite interviews (prep executives and create dashboards)
- Budgeting
- Invoices
- Managing access on shared exam site

Exam Best Practices

- When and how to push back on examiner requests
 - How to deal with voluminous or burdensome requests
- Escalation procedures (internally and externally)
- Communications and templates for communication
- Managing follow-up requests
- Regular meetings with examiners
- Dealing with sensitive information
- Monitor the tone of the exam
 - Responsiveness
 - Preparedness
 - Trust building

Post-Exam Process

- Reporting and Follow-Up
 - Exam Report
 - Management Letter
 - Supervisory (On-Going Monitoring) Plan
- Company Activity (reviewing draft reports, final reports, board approvals, remediation of findings)

Best Practices for Examiners

- If you must use snail mail for reports, etc., ALSO use scan and email.
- Post-exam procedures are all over the place. Maybe discuss at NAIC and work toward some uniformity?
- Start early for multi-states/large companies.
- Coordinate on requests for similar subject matters.

Conclusion

Questions?