

# Risk-Focused Financial Examinations

- Risk-Focused Process for Financial Examinations
  - What it is
  - What it is not
  - Why the New Approach
  - How to Prepare
  - What to Expect

- **Risk-Focused Process: What it is**

- Identifying Key Functional Activities

- What is your DNA?
- Applies to Any Size Company

- **Risk-Focused Process: What it is**
  - Identifying Risk
    - Current (Financial Statement)
    - Prospective (Non-Financial Statement)
      - What keeps you up at night?

- **Risk-Focused Process: What it is**
  - Documenting Examiners' Understanding of Risk Mitigation Strategies and Corporate Governance
    - Accept Risk
    - Reduce Risk
    - Eliminate Risk

- **Risk-Focused Process: What it is**
  - Independently Evaluating Effectiveness of Risk Mitigation Strategy
    - Designed
    - Documented
    - Operating as Intended
  - Substantive Testing of Highest Remaining Balance Sheet Risks

- **Risk-Focused Process: What it is**
  - Reporting and Follow-Up
    - Exam Report
    - Management Letter
    - Supervisory (On-Going Monitoring) Plan

- **Risk-Focused Process: What it is not**
  - Strictly Financial Statement Driven
  - Absolute “Reliance” on Work of Others
  - Started Only after the Annual Statement is Filed

- **Risk-Focused Process: What it is not**

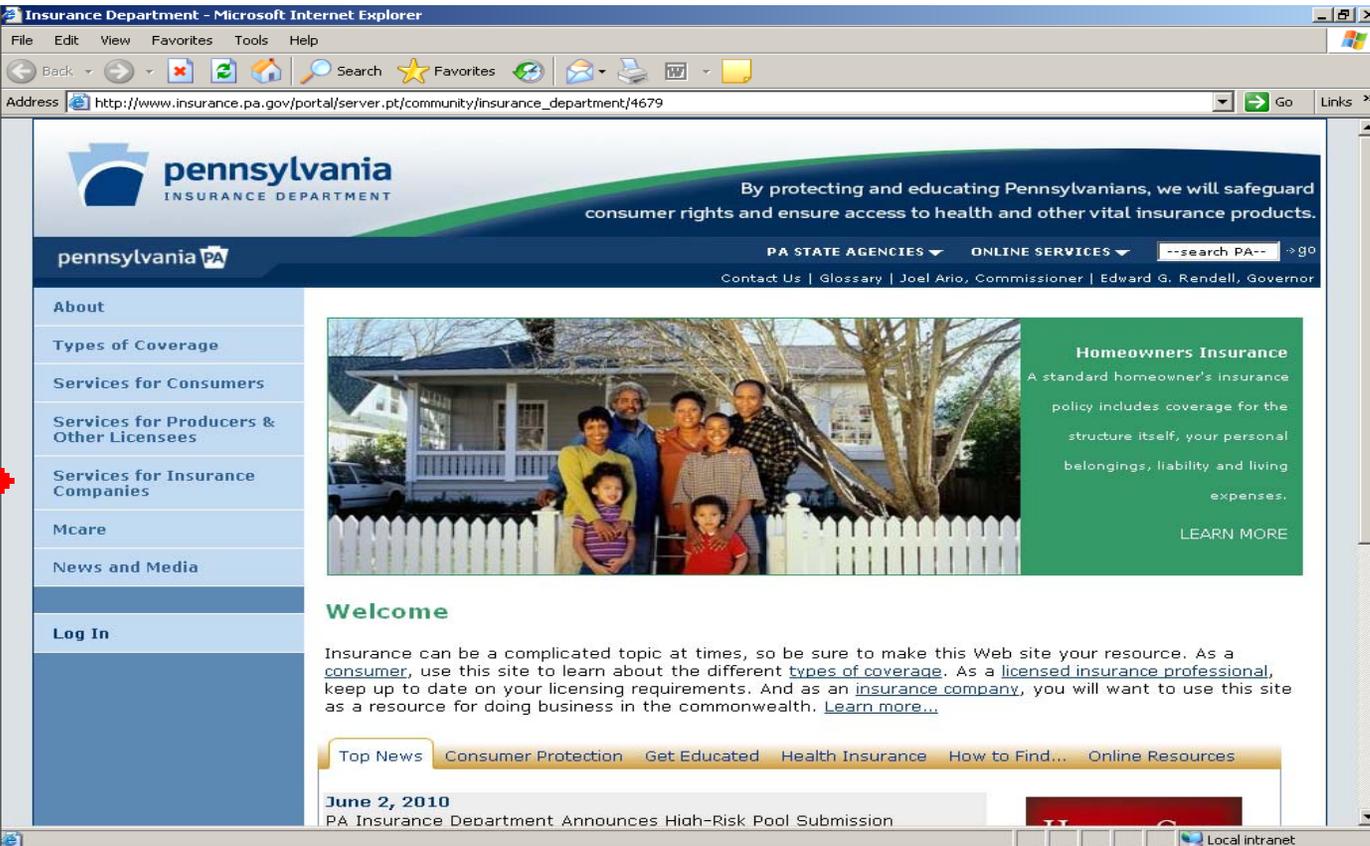
- Examiners Requesting and Waiting for Documents
- Limited to “Tick” and “Tie” Balance Sheet Line Items
- See you in 5 Years

- **Risk-Focused Process: Why the New Approach**
  - Industry asked for it
    - “It’s how we manage our business”
  - Has anyone not heard of ERM, SARBOX, MAR?
  - SRA only looked through Rear-View Mirror
  - What should we look for out of the Front Window?

- **Risk-Focused Process: Why the New Approach**
  - Part of Coordinated Solvency Monitoring Process
    - Financial Analysis
    - State Insurance Regulators
    - National Financial Services Regulators
    - International Operations
  - Where is the Off Balance Sheet Risk?

## Risk-Focused Process: How to Prepare Check the Department's Web Site

**WWW**



Insurance Department - Microsoft Internet Explorer

Address [http://www.insurance.pa.gov/portal/server.pt/community/insurance\\_department/4679](http://www.insurance.pa.gov/portal/server.pt/community/insurance_department/4679)

**pennsylvania** INSURANCE DEPARTMENT

By protecting and educating Pennsylvanians, we will safeguard consumer rights and ensure access to health and other vital insurance products.

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**Homeowners Insurance**  
A standard homeowner's insurance policy includes coverage for the structure itself, your personal belongings, liability and living expenses.  
LEARN MORE

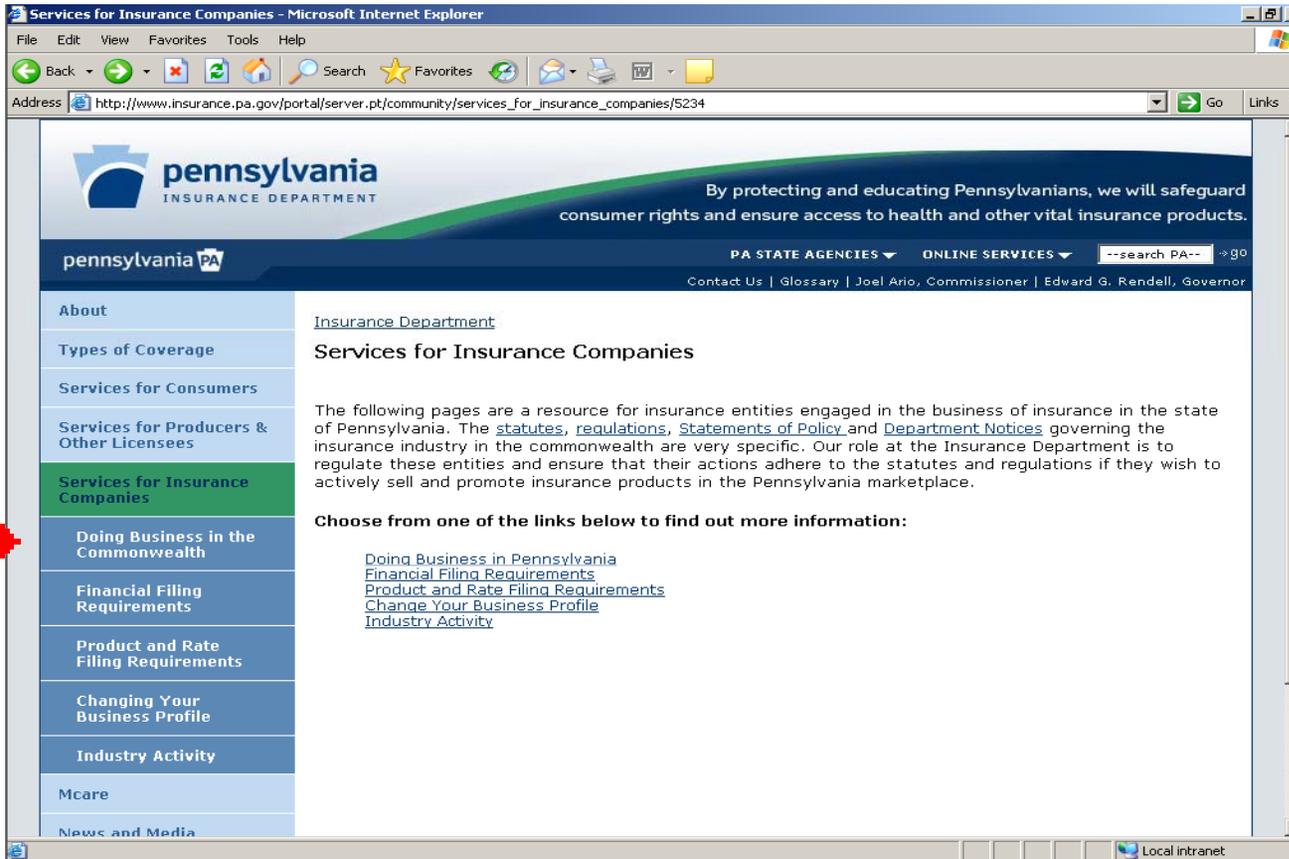
**Welcome**  
Insurance can be a complicated topic at times, so be sure to make this Web site your resource. As a consumer, use this site to learn about the different types of coverage. As a licensed insurance professional, keep up to date on your licensing requirements. And as an insurance company, you will want to use this site as a resource for doing business in the commonwealth. [Learn more...](#)

Top News Consumer Protection Get Educated Health Insurance How to Find... Online Resources

**June 2, 2010**  
PA Insurance Department Announces High-Risk Pool Submission

Local Intranet

- Risk-Focused Process: How to Prepare



Services for Insurance Companies - Microsoft Internet Explorer

Address: [http://www.insurance.pa.gov/portal/server.pt/community/services\\_for\\_insurance\\_companies/5234](http://www.insurance.pa.gov/portal/server.pt/community/services_for_insurance_companies/5234)

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**Services for Consumers**

**Services for Producers & Other Licensees**

**Services for Insurance Companies**

**Doing Business in the Commonwealth**

**Financial Filing Requirements**

**Product and Rate Filing Requirements**

**Changing Your Business Profile**

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### Services for Insurance Companies

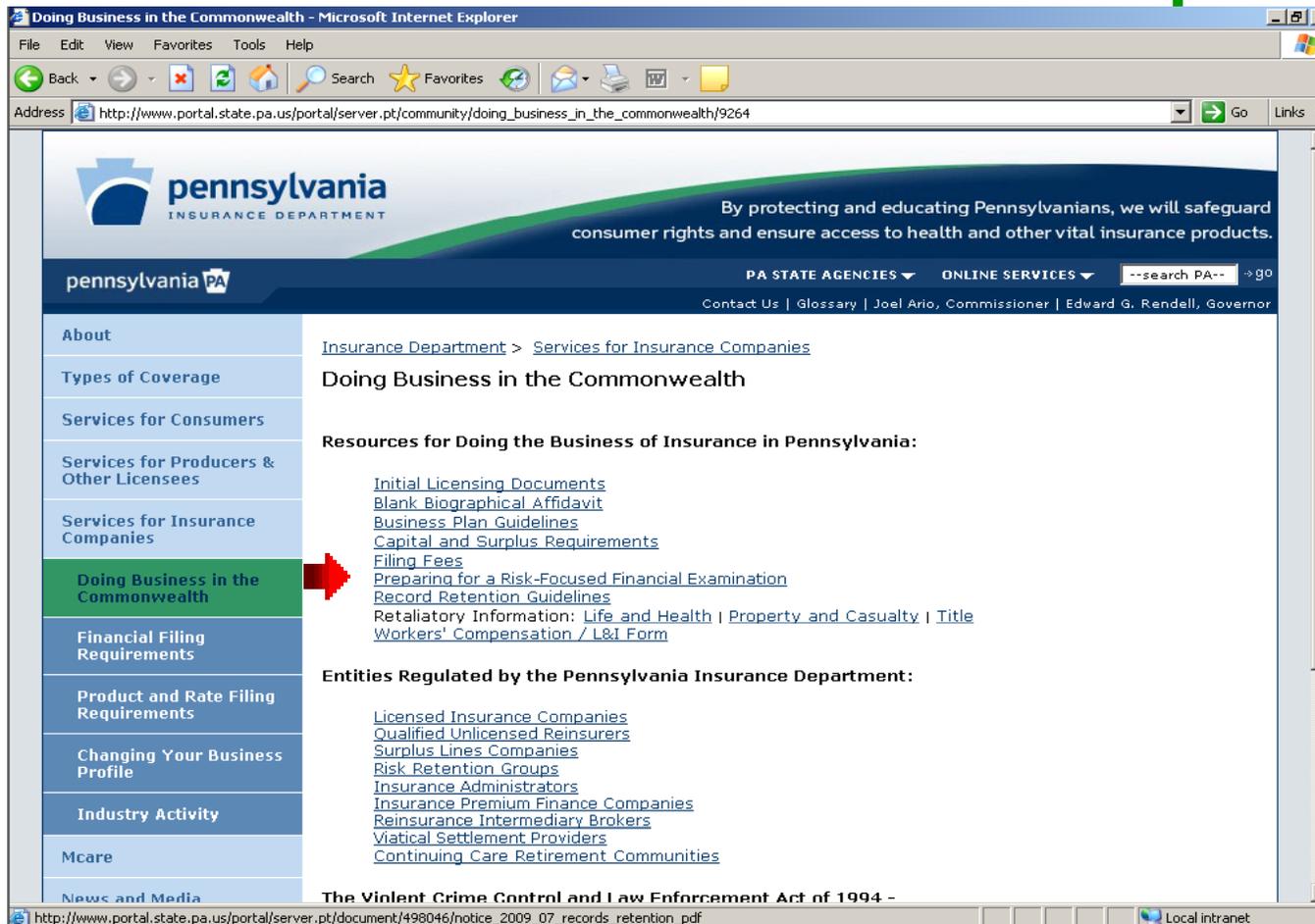
The following pages are a resource for insurance entities engaged in the business of insurance in the state of Pennsylvania. The [statutes](#), [regulations](#), [Statements of Policy](#) and [Department Notices](#) governing the insurance industry in the commonwealth are very specific. Our role at the Insurance Department is to regulate these entities and ensure that their actions adhere to the statutes and regulations if they wish to actively sell and promote insurance products in the Pennsylvania marketplace.

**Choose from one of the links below to find out more information:**

- [Doing Business in Pennsylvania](#)
- [Financial Filing Requirements](#)
- [Product and Rate Filing Requirements](#)
- [Change Your Business Profile](#)
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## • Risk-Focused Process: How to Prepare



Doing Business in the Commonwealth - Microsoft Internet Explorer

Address: [http://www.portal.state.pa.us/portal/server.pt/community/doing\\_business\\_in\\_the\\_commonwealth/9264](http://www.portal.state.pa.us/portal/server.pt/community/doing_business_in_the_commonwealth/9264)

**By protecting and educating Pennsylvanians, we will safeguard consumer rights and ensure access to health and other vital insurance products.**

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**Resources for Doing the Business of Insurance in Pennsylvania:**

- [Initial Licensing Documents](#)
- [Blank Biographical Affidavit](#)
- [Business Plan Guidelines](#)
- [Capital and Surplus Requirements](#)
- [Filing Fees](#)
- [Preparing for a Risk-Focused Financial Examination](#)
- [Record Retention Guidelines](#)
- [Retaliatory Information: Life and Health | Property and Casualty | Title Workers' Compensation / L&I Form](#)

**Entities Regulated by the Pennsylvania Insurance Department:**

- [Licensed Insurance Companies](#)
- [Qualified Unlicensed Reinsurers](#)
- [Surplus Lines Companies](#)
- [Risk Retention Groups](#)
- [Insurance Administrators](#)
- [Insurance Premium Finance Companies](#)
- [Reinsurance Intermediary Brokers](#)
- [Viatical Settlement Providers](#)
- [Continuing Care Retirement Communities](#)

**The Violent Crime Control and Law Enforcement Act of 1994 -**

Address: [http://www.portal.state.pa.us/portal/server.pt/document/498046/notice\\_2009\\_07\\_records\\_retention\\_pdf](http://www.portal.state.pa.us/portal/server.pt/document/498046/notice_2009_07_records_retention_pdf)

Local intranet

- **Risk-Focused Process: How to Prepare**
  - Web Page Includes:
    - Links to:
      - NAIC Publications
      - Department's Pre-Planning Questionnaire
      - Sample Agenda for Exam Kick-off Meeting

- **Risk-Focused Process: How to Prepare**
  - Read the Play Book
  - Prepare a Comprehensive and Accurate Pre-Planning Questionnaire Response
  - Engage your CPA's, Senior Management and Legal Counsel early

- **Risk-Focused Process: How to Prepare**
  - Assign a Decision-Maker as Exam Contact Person
  - Be Ready to Explain the Work you have Already Completed
  - Understand the Information Request
  - Schedule Routine Status Meetings

- **Risk-Focused Process: What to Expect**

- Earlier Contact to begin the Process
- Interviews of C-Level Management and Board Members
- Holding Company Impacts on Legal Entities
- More Frequent Interaction with Internal/External Audit

- **Risk-Focused Process: What to Expect**
  - Use of Contract Examiners
  - Use of Specialists in Non-traditional Exam Areas
  - Analyst/Examiner Follow-up
  - Limited Scope Exams

## Contact:

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