

# 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.pa.gov](http://www.insurance.pa.gov)



Insurance Department - Microsoft Internet Explorer

File Edit View Favorites Tools Help

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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**About**

Types of Coverage

Services for Consumers

Services for Producers & Other Licensees

Services for Insurance Companies

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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**

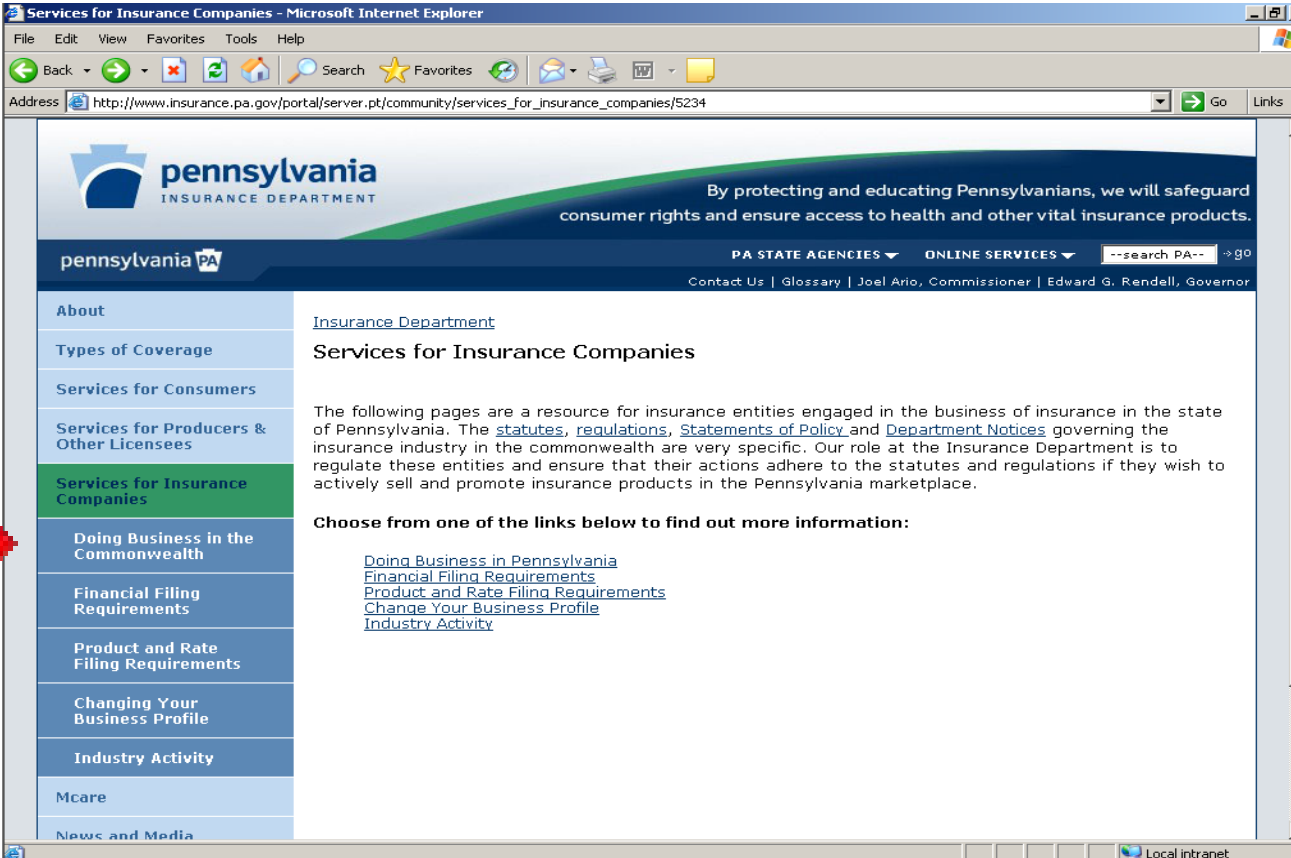
Insurance can be a complicated topic at times, so be sure to make this Web site your resource. As a [consumer](#), use this site to learn about the different [types of coverage](#). As a [licensed insurance professional](#), keep up to date on your licensing requirements. And as an [insurance company](#), 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

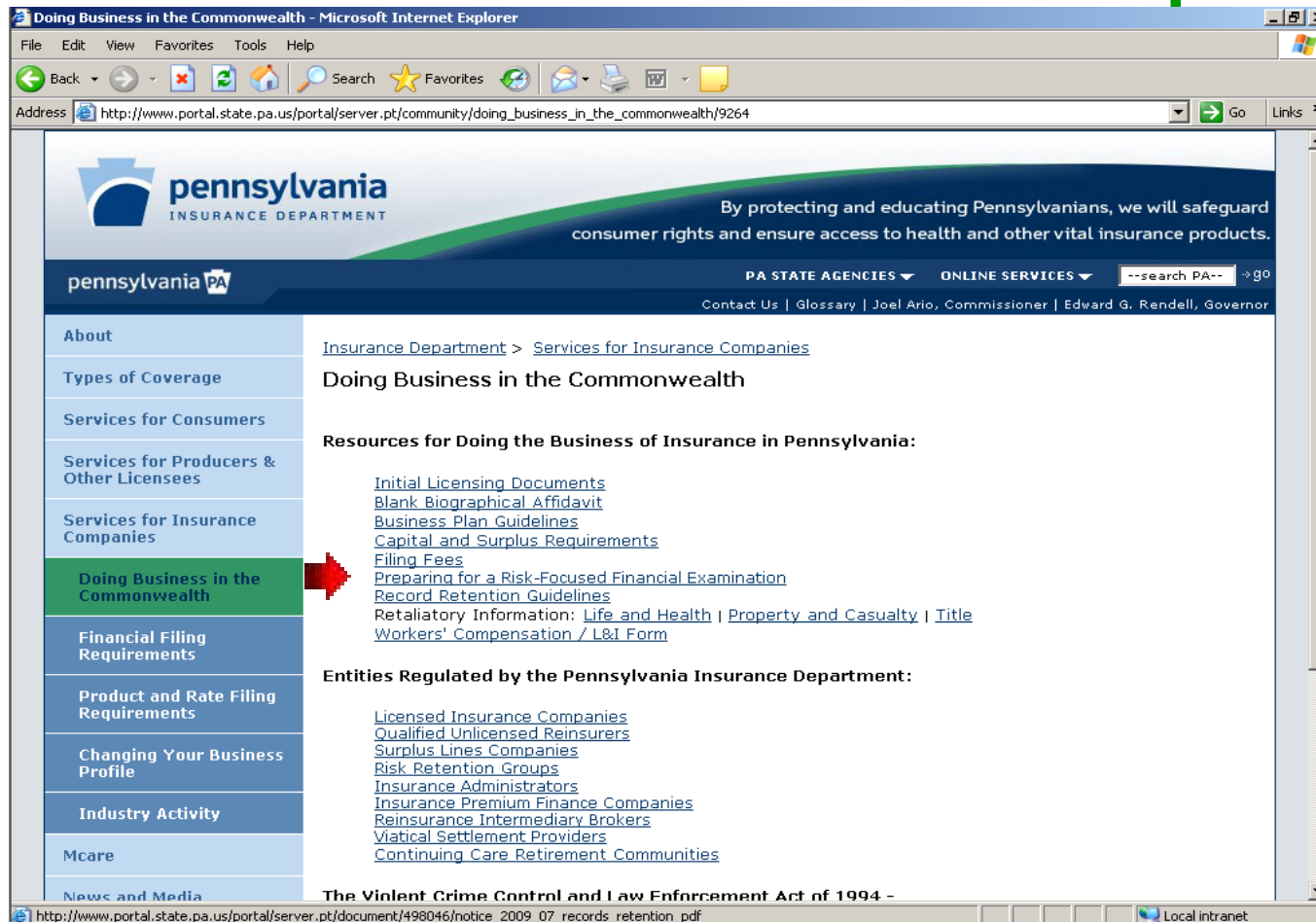
Local intranet

## • Risk-Focused Process: How to Prepare



The screenshot shows a Microsoft Internet Explorer browser window displaying the Pennsylvania Insurance Department website. The address bar shows the URL: [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). The page features the Pennsylvania Insurance Department logo and a navigation menu with options like 'PA STATE AGENCIES' and 'ONLINE SERVICES'. A search bar is also present. The main content area is titled 'Services for Insurance Companies' and includes a paragraph explaining the department's role in regulating insurance entities. Below this, there is a section titled 'Choose from one of the links below to find out more information:' with several hyperlinks: [Doing Business in Pennsylvania](#), [Financial Filing Requirements](#), [Product and Rate Filing Requirements](#), [Change Your Business Profile](#), and [Industry Activity](#). A red arrow points to the 'Services for Insurance Companies' link in the left sidebar.

## • 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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**About** | [Insurance Department > Services for Insurance Companies](#)

**Types of Coverage** | **Doing Business in the Commonwealth**

**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**

**Industry Activity**

**Mcare**

**News and Media**

**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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