

The NAIC Risk-Focused Examination Approach

Government In Insurance Seminar
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Panelists: Alan Hines, FCAS
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Today

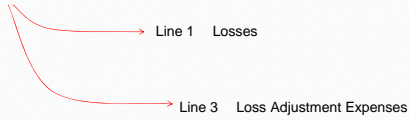
- Background
- What is changing?
- How will you be affected?

Purposes

- Detect financial trouble
- ID noncompliance
- Regulatory action

Fair Presentation of Surplus

- Assets Overstated?
- Liabilities Understated?

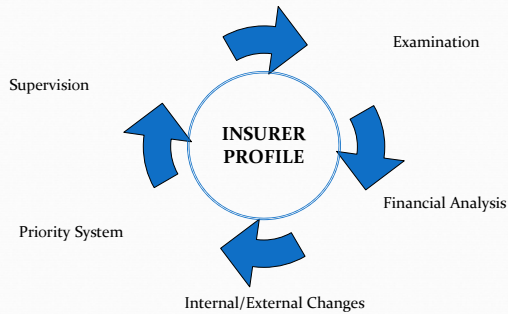



ENTER THE ACTUARY

Jan 1, 2010

- Risk Focus Approach becomes an accreditation standard for the statutory examination.


RISK FOCUS SURVEILLANCE CYCLE






Purposes

- Detect financial trouble
- ID noncompliance
- Regulatory action



Purposes

- Detect financial trouble
- ID noncompliance
- Regulatory action
- Assess residual risk
- Assess risk management processes
- Establish, verify, or revise company priority score



7 Phases

- Understand the Company
- Identify and assess inherent Risk in Activities
- Identify and evaluate Risk Mitigation Strategies and Controls
- Determine Residual Risk
- Establish/conduct examination procedures
- Update prioritization and supervisory plan
- Draft examination report and management letter based upon findings

Principles of Risk Mitigation Strategies

- Active board and senior management oversight;
- Adequate risk management, monitoring and management information systems;
- Adequate and clear policies, authorization limits and procedures;
- Comprehensive internal controls; and
- Processes to assure compliance with laws and regulations

NAIC Branded Risks

- Credit
- Market
- Pricing/Underwriting
- Reserving
- Liquidity
- Operational
- Legal
- Strategic
- Reputational

The Actuarial Risks

- Credit
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Pricing/Underwriting Risk

Pricing and underwriting practices are inadequate to provide for the risks assumed

Reserving Risk

Actual losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.

Liquidity Risk

Inability to meet contractual obligations as they become due because of an inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.

Company Actuary vs Consulting Actuary

- Is your work the basis for business decisions?
Or
- Is it a distant 2nd opinion?
 - Carried Reserves
 - Filed Rates, Underwriting Guidelines, Rating Plans

Interviews


- Evidence of ongoing communication and understanding of the need for a consistent approach to identification and management of risk.
 - Board of Directors
 - Senior Management
- Evidence of actuarial input.
- *How do things work?*

Communication

Reserving ←————→ Pricing
CFO ←————→ Reserve Actuary


Horizontal

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Documentation

- Actuarial Work Product
 - ✓ Reconciliation
 - ✓ Justification of methods and assumptions
 - ✓ Factor Selections
 - ✓ Benchmarks or other external sources
- Meeting minutes; participants; decisions made
- Internal memos and recommendations
 - ✓ From subordinates
 - ✓ To superiors



Key Concepts for Regulators

- Flexibility
- Impact to scheduling
- Report on Insurers Financial Condition
- Responsibility to consider the insurers corporate governance and risk management processes
- "Other Than Financial" Risks
- Audit Documentation
- Confidentiality
- Materiality
- Determine Insurer's Priority



Questions
