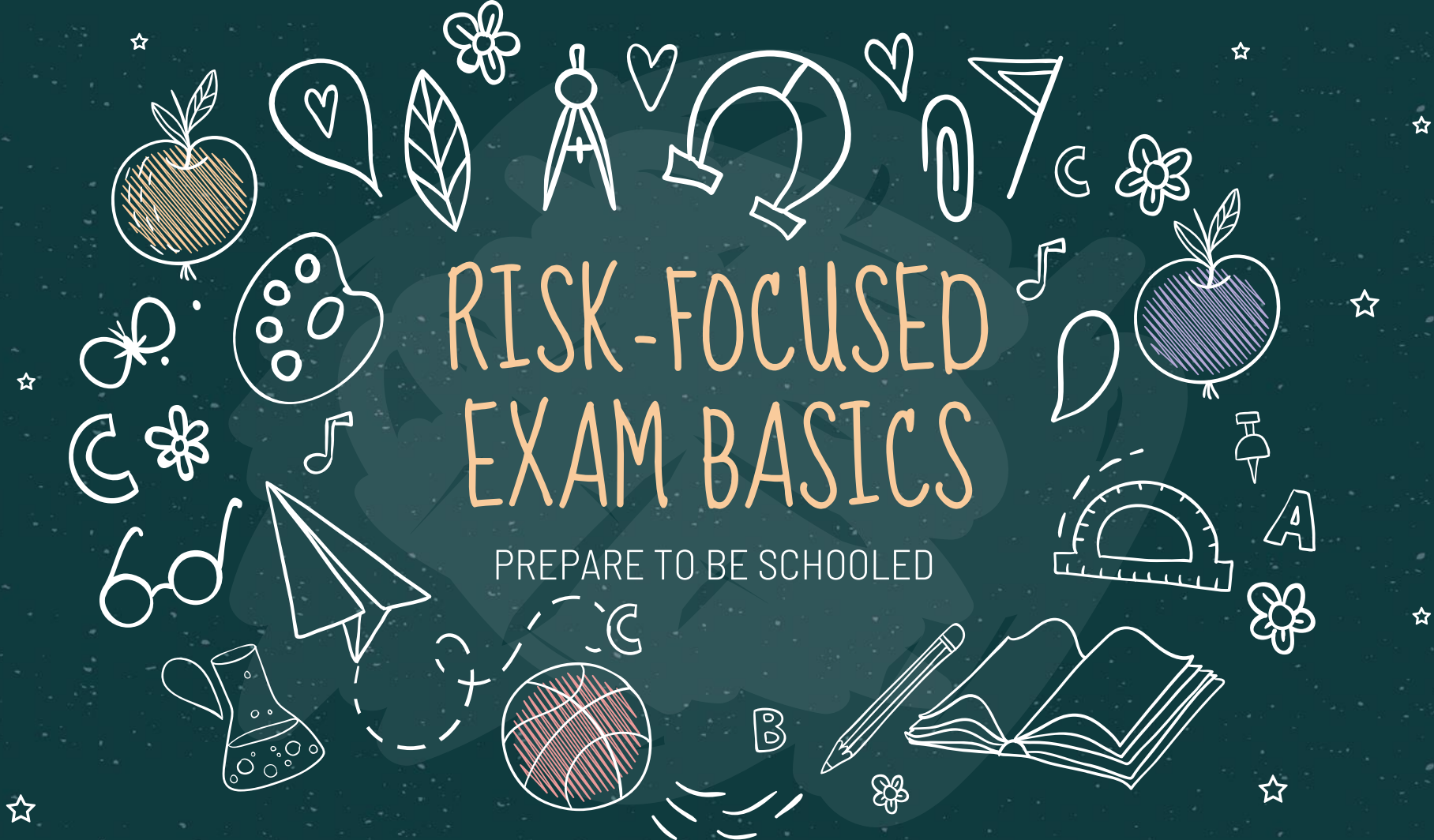


# RISK-FOCUSED EXAM BASICS

PREPARE TO BE SCHOOLED



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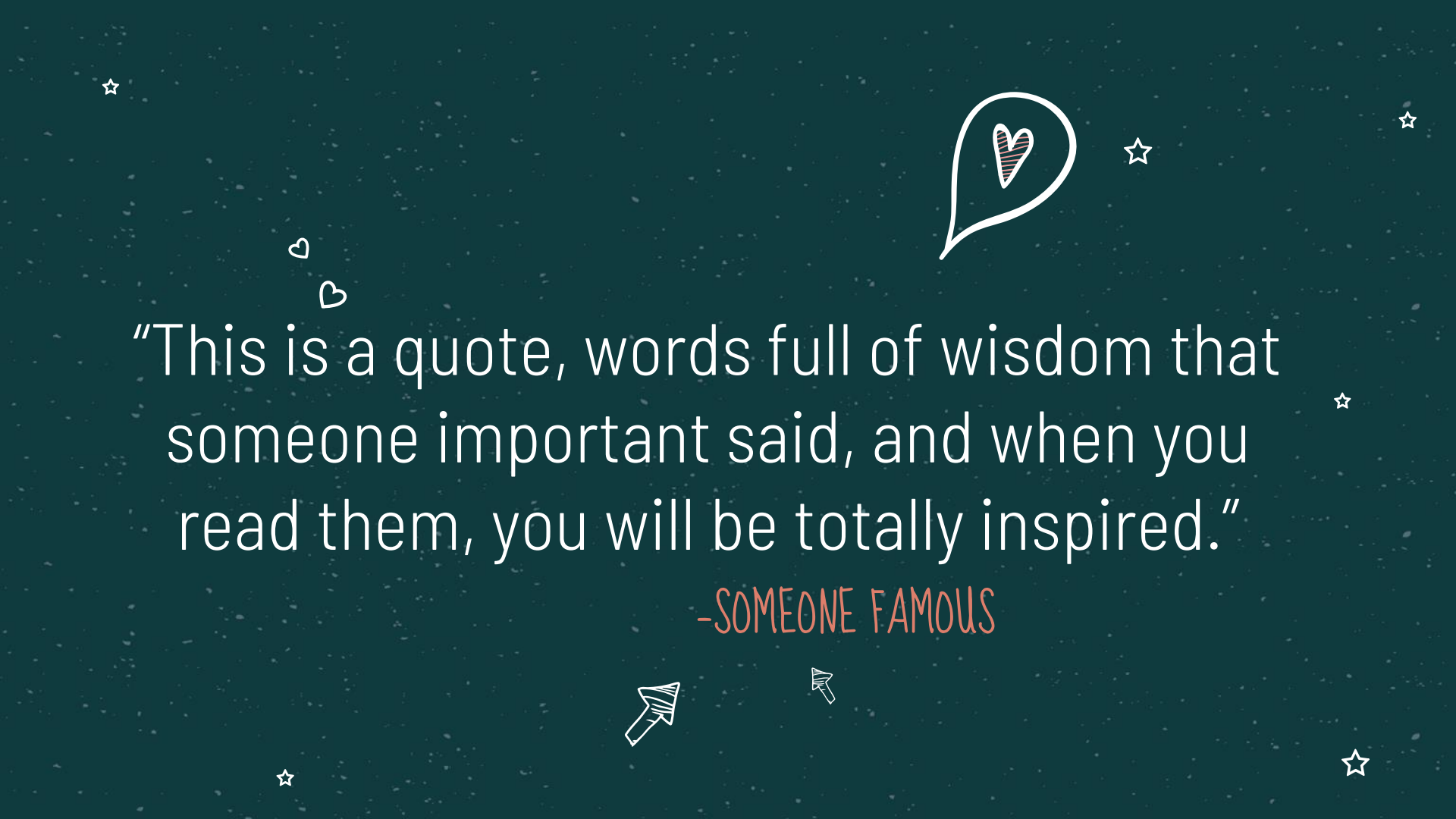


☆  
Meet  
Your Instructor

Cambria Shore  
Deputy Director and Chief  
Financial Examiner  
Utah Insurance Department  
cshore@utah.gov

STUDY  
HARD!





"This is a quote, words full of wisdom that someone important said, and when you read them, you will be totally inspired."

-SOMEONE FAMOUS



## BEFORE WE TALK ABOUT EXAM TIPS, LET'S TALK ABOUT RISKS



The primary purpose of a risk-focused examination is to review and evaluate an insurer's business processes and controls, including the quality and reliability of corporate governance. Examiners assist the Department Analysts in assessing and monitoring the insurer's financial condition and prospective solvency.



To accomplish this, Examiners identify and evaluate **RISKS** that could cause an insurer's surplus to be materially misstated, both currently and prospectively.



# The 7 Phases of the NAIC Risk-Focused Exam



1

Corporate Governance  
IT General Controls  
Financial Performance  
Fraud Procedures  
Audit Adequacy

Understand the Company

2

Current Risks  
Critical Risks  
Prospective Risks  
Impact  
Likelihood

Assess Inherent Risks



# The 7 Phases of the NAIC Risk-Focused Exam



3

Risk Oversight  
Performance Quality  
Accuracy  
Completeness  
Compliance

Control Testing

4

Inherent Risk vs.  
Control Strength  
Examiner Judgment

Assess Residual Risk

5

Sample Testing  
Analysis  
Stress Testing  
Reperformance  
Recalculation

Substantive Testing



# The 7 Phases of the NAIC Risk-Focused Exam



6

Prioritization  
Communication to  
Department Analyst

Update Supervisory Plan

7

Exam Report  
Management Letter  
Closed Issues  
Subsequent Events

Exam Reports





# Here are the Key Functional Areas we focus on:



## Capital & Surplus

- Future capital needs
- Access to funds
- Leverage ratios
- Capital quality

## Investments

- Portfolio vs business plan
- Policy compliance
- Performance
- Liquidity needs

## Reinsurance

- Tracking loss exposures
- Appropriateness
- Counterparty risk
- Agreement compliance

## Related Party

- Over-reliance
- Affiliate insolvency
- Statutory disclosures
- Arm's length transactions



## Reserves/Claims

- BOD oversight
- Claims processing
- Accuracy & completeness
- Assumptions & methodologies

## Underwriting

- Strategy compliance
- Exposure limits
- Pricing practices
- Guidelines & processes







# 01

## SHOW YOUR WORK

Documenting internal controls is not as hard as you think!



# 03

## DOUBLECHECK FOR ACCURACY

Break out the red pencils and calculators before submission!



# 02

## MAKE THINGS MATCH

A rose by any other name could result in an exam finding!



# 04

## BE ON TIME

Saving us time saves you money!



SHOW YOUR  
WORK



☆ If you can't prove it, we can't test it.



01.

# SHOW YOUR WORK!

As part of the NAIC risk-focused examination procedures, we test risk-mitigating control activities performed by directors, executives, managers, reviewers, internal auditors, IT systems, and others.

Examples of controls include:

- Internal audits
- Quality Audits
- Reconciliations
- Board/Management review of financial and operational performance
- Automated IT system controls

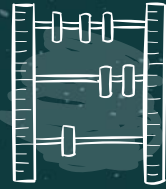


# CONTROLS ARE GIVEN ONE OF THREE ASSESSMENTS



## WEAK

- No mitigating control exists
- The control would not mitigate the risk
- Control documentation/evidence could not be provided
- The control is not performed with enough frequency to be effective



## MODERATE

- The control is manual and does not include evidence of review/sign-off
- The control does not fully mitigate the risk.
- The control is not performed with enough frequency to be a strong control



## STRONG

- The control is an IT system control with restricted change access.
- The control is manual but includes evidence of review, notes, discussion, corrections, and/or sign-off.
- The control is effective at mitigating the entire risk.



## WHY DO YOU WANT STRONG CONTROL ASSESSMENT?

If the control is assessed as strong, the examiner will often be able to pass on further testing. This means less time, requests, and money for you!



A large percentage of our Management Letter comments specifically address the lack of control activities. We see that many companies have consistent control activities but are unable to provide documentation.





"BUT WE DON'T HAVE  
TIME  
TO FORMALIZE  
CONTROLS!"

We often hear from companies that they do not have the time, resources, capacity, systems, etc. to document their controls. But it is easier than you think!



Here are some ideas...



## EXECUTIVE MANAGEMENT MEETING AGENDA

Date: November 14, 2019

Note Taker: Natasha Robinson

### Michael

- Staffing Vacancies  
*IT has one open position and Claims has two. Toby is reviewing a number of submitted resumes and interviews will be scheduled for the first week in December. Volunteers to help participate in interviews? Angela and Dwight will participate.*
- Upcoming UID Audit  
*Michael was notified that the UID will be conducting an audit for the year ending 12/31/2019 in late spring. Reminder to review and update procedures, guidelines, etc. so that we can give the examiners the most current info. The examiners are really awesome, so let's be extra helpful!*
- Business Strategy Update  
*The license in Idaho was approved and Michael is now working with the Utah and Idaho insurance departments to figure out what is needed for the statutory deposit. Jan met with a rep at the Prince Healthcare Group in Idaho to see if Dunder Mifflin would be a good fit for its provider network in Cassia, Oneida, Bannock, and Bonneville counties. Those contract terms are still being negotiated, but the expansion plan is on track.*

### Angela

- October Financials and Budget report  
*October DPW saw an increase in October and that is expect to continue through the end of the year. There were no budget variances over 10% of estimates. Cash flow remains steady and is sufficient to sustain operations through YE and beyond.*

- 2020 Operating Budget  
*Angela sent the 2020 operating budget to David Wallace for approval and presentation to the board. Thank you to all for getting your department numbers to her on time.*

### Dwight

- Update on Agent Incentive program  
*The 2019 Q3 sales contest was successful in driving more large group submissions (18% increase in 2019 Q3 over 2019 Q2). Dwight will be reaching out to the agents who qualified for the Las Vegas trip with details.*

### Kelly

- Claims department update  
*Claims processed in October increased by 27.8% but productivity is still outstanding at 138%. Angela asked what the current production metric is; Kelly responded that it is 15 claims per hour. Is that 15 resolved per hour? Kelly said that sometimes additional information is needed from the provider or there could be questions for the nurse. Those claims are put in a certain status and that does count as worked because they have started it. Are production number artificially high because of that? Kelly will meet with her team to see if there is a better way to quantify. Quality audits performed show an overall quality of 98.8%, just slightly lower than the 99% goal.*

*Michael asked about the increase in claims submissions. Kelly said that they are seeing more claims related to slip and fall in parking lots and sidewalks due to the early snow storms. Most of these are one-time clinic visits, so the overall costs are low. They will continue to monitor. In the meantime, Kelly is going to send out an e-mail blast about keeping parking lots and walkways plowed and salted.*

### Meredith

- Underwriting department update  
*Underwriting submissions processed in October were 86. Underwriting quality audits showed 99.3% overall.*

### Creed

- Internal Audit update  
*Audits in check processing and IT were conducted in October. A recommendation was made to IT to update service request logs more frequently. They are getting lots of requests, but not following back up to show the resolution on those. DM received the SOC 1 report from Hugo Software and that was then presented by Creed and reviewed by the team. No one had any questions or concerns on that.*





# Super Important Management Meeting

Created by: cshore@dmic.com · Your response: ✓ Yes, I'm going

## Time

10am - 11am (Mountain Time - Denver)

## Date

Thu Feb 11, 2021

## Where

Microsoft Teams Meeting

## Description

Monthly Management Meeting to discuss super important stuff.

## My Notes

### Michael

- **Staffing Vacancies**  
*IT has one open position and Claims has two. Toby is reviewing a number of submitted resumes and interviews will be scheduled for the first week in December. Volunteers to help participate in interviews? Angela and Dwight will participate.*
- **Upcoming UID Audit**  
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## Guests

Michael Scott  
Natasha Robinson  
Cambria Shore  
Angela Martin  
Dwight Schrute  
Meredith Palmer  
Kelly Kapoor  
Creed Bratton

## Angela

- **October Financials and Budget report**  
*October DPW saw an increase in October and that is expect to continue through the end of the year. There were no budget variances over 10% of estimates. Cash flow remains steady and is sufficient to sustain operations through YE and beyond.*
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*Angela sent the 2020 operating budget to David Wallace for approval and presentation to the board. Thank you to all for getting your department numbers to her on time.*

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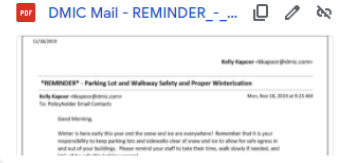
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# Super Important Management Meeting - Notes and Action Items

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A	B	C	D	E	F	G	H	
1	Date	Attendees	Note Taker	Notes	Risks Identified	Related Controls	Action Items	Follow Up
2	11/14/2019	Michael Scott, Cambria Shore, Natasha Robinson, Angela Martin, Dwight Schrute, Kelly Kapoor, Meredith Palmer, Creed Bratton	Natasha Robinson	<ul style="list-style-type: none"> <li>- Interviews scheduled for the first week in December to fill the three open positions. Angela and Dwight volunteered to participate in those.</li> <li>- Next UID audit will be in late spring 2020. Michael asked all to review and update procedures, guidelines, and audits.</li> <li>- Idaho license was approved; Michael is getting info for statutory deposits. Jan is in current contract negotiations with Prince Network.</li> <li>- Review of Oct 2019 financials and budget. Direct premiums increased. No budget variances over 10%. Cash flow is good for immediate and future needs.</li> <li>- 2020 Operating Budget is with David Wallace for approval and presentation to the board.</li> <li>- 2019 Q3 sales incentives drove sales up 18% over 2019 Q2. Dwight to work with agents on Las Vegas trip.</li> <li>- October claims increased but productivity is still up over 100%. Discussed possible production metric adjustment needed as touch points could be counted twice. Claims management will review. Overall quality score for Oct is 98.8%.</li> <li>- Discussion on the increase in claims and possible reasons. Kelly noted more slip and falls; she will send an email blast regarding proper parking lots/sidewalk winterizing.</li> <li>- October underwriting submissions were 86 and overall quality was 99.3%. No concerns.</li> <li>- Creed audited accounting's check processes; no concerns noted. Creed presented SOC 1 report from Hugo Software and it was reviewed and discussed by the team. No concerns were noted.</li> </ul>	No enterprise risks were noted.	N/A	<p>Kelly - Meet with claims team before 2020 2nd quarter to review possible adjustments to claims production metrics and how resolutions are counted.</p> <p>Kelly - Send email blast to companies regarding slip/fall hazards. Continue to monitor and report to MT through March 2020.</p>	<p><a href="https://drive.google.com/file/d/1vo_HLGSpfAuaKtMpey-Y6oT5WRQLf0xA/View?usp=sharing">https://drive.google.com/file/d/1vo_HLGSpfAuaKtMpey-Y6oT5WRQLf0xA/View?usp=sharing</a></p>
3	12/12/2019	Michael Scott, Cambria Shore, Natasha Robinson, Angela Martin, Dwight Schrute, Kelly Kapoor, Meredith Palmer, Creed Bratton, Toby Flenderson	Angela Martin	<ul style="list-style-type: none"> <li>- Toby Flenderson attended meeting to discuss offers for new hires and training start dates. Michael has put in the request for three new computers and IT is working on sign-on access.</li> <li>- Prince Network negotiations were put on hold until after the new year. Please remember to keep this information confidential.</li> <li>- Review of Nov 2019 financials and budget. Direct premiums increased slightly; not quite as much as forecasted, but within tolerance levels. Equipment budget variance due to new computer purchases.</li> <li>- 2020 Operating Budget was reviewed and approved by the board during the 12/6/2019 board meeting.</li> <li>- Nov 2019 claims decreased from Oct 2019 but are up over last year, Nov 2019. Productivity is still high. Kelly has not met with her team, but will do so before March 2020. Overall quality is 99.1%</li> <li>- Discussion on claims increase over last year. Several ideas were brought up, including the slip and fall increase discussed last month, but more research is needed. Meredith and Kelly will research and FIU with team next month.</li> <li>- November underwriting submissions were 78 and overall quality was 99.45%. No concerns.</li> <li>- Angela will be auditing underwriting dept data processes in 2020 Q1.</li> </ul>	No enterprise risks were noted.	N/A	<p>Kelly - Meet with claims team before 2020 2nd quarter to review possible adjustments to claims production metrics and how resolutions are counted.</p> <p>Meredith &amp; Kelly - Perform research on October and November claims to find possible reasons for increase over 2018.</p>	
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5	<b>Intercompany Account Reconciliation</b>					
6	<b>Reconciliation Report</b>					
7	Prepared by:	Oscar Nunez				
8	Prepared on:	1/10/2020				
9	Data as of:	12/31/2019				
11						
12	<b>Sum of Net Rounded</b>					

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581	<b>984 Total</b>			-	-	-	
582	<b>Dec Balance</b>			<b>18,086,950.02</b>	<b>(18,086,949.59)</b>	<b>0.43</b>	
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Reviewed by: *Angela Martin*  
 Reviewed on: 1/12/2020  
 Reviewer Notes



Cambria Shore &lt;cshore@utah.gov&gt;

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**August 2021 - Month-end Reconciliation**

2 messages

---

**Cambria Shore** <cshore@utah.gov>  
To: Natasha Robinson <nrobinson@utah.gov>

Mon, Aug 23, 2021 at 1:02 PM

Hi Natasha,

The month-end reconciliation for Aug 2021 is ready, please review and let me know if there are any corrections/revisions needed

Please find recon file at the following link:

<M:\Accounting\Monthly Recon Reports\2021 Recons\August 2021 Recon>

Thanks!

--  
**Cambria Shore, Financial Examiner, MSA, APIR**  
Utah Insurance Department  
4315 S. 2700 West, Ste. 2300 | Taylorsville, UT 84129  
C: 801-792-3246 | O: 801-957-9265 | [cshore@utah.gov](mailto:cshore@utah.gov)

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---

**Natasha Robinson** <nrobinson@utah.gov>  
To: Cambria Shore <cshore@utah.gov>

Mon, Aug 23, 2021 at 1:20 PM

I have signed off on the August 2021 recon and marked it as final. It's now locked and no changes can be made.

Thanks,  
[Quoted text hidden]

--  
**Natasha Robinson, CFE, Financial Regulation Supervisor**  
Utah Insurance Department  
4315 S. 2700 West, Ste. 2300 | Taylorsville, UT 84129  
P: 801-898-9438 | [nrobinson@utah.gov](mailto:nrobinson@utah.gov)

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FTI



Other comments, suggestions, best practices, or questions?





# MAKE THINGS MATCH



02.



Contracts and By-Laws and Charters, oh my!





# MAKE THINGS MATCH!



Another common exam finding is that company, management, and director information do not match company documents or annual statements, or directors or executives are not operating within the terms of the articles of incorporations, by-laws, or charters.

Examples of documents that should be updated if company information changes include:



- Service, custodial, and reinsurance agreements
- Financial Statement Jurat Page
- Certificates of Authority
- Articles of Incorporation and By-Laws





# OTHER COMMON MISMATCHES THAT RESULT IN EXAM FINDINGS

The Articles of Incorporation and Bylaws stipulate that there should be at least five directors on the board.

The current number of directors on the board is four.

The Articles of Incorporation and Bylaws stipulate that the company requires a minimum of a Treasurer and Secretary.

The Audit Committee charter reflects that the committee should meet at least once a year.

No secretary is listed on the Jurat Page or organizational chart.

The Audit Committee has only met once for the past two years.

$$\begin{array}{r} + 2 \\ 4 \\ \hline 6 \end{array}$$



# OTHER COMMON MISMATCHES THAT RESULT IN EXAM FINDINGS

Settlement  
occurs  
bi-annually.

Reserves credit  
reported for  
insurance with  
unauthorized  
counterparty.

Language of  
agreement  
in reference  
to prior  
Company  
name.

Call letter is  
inconsistent  
with mission.

Service  
agreement  
features  
priority  
shipment.

The Company  
recently  
changed its  
name.

+ 2  
4  
6





# COMPLIANCE

Make Things Match also means that the company should be compliant with its own policies and procedures. Are you doing what you say you are doing?

- Investment Policy
- Claims and Underwriting Guidelines
- Approval Authority and Access Levels





# DOUBLECHECK FOR ACCURACY



03.

☆ Two heads are bet<sup>t</sup>er than <sup>a</sup>one!





# DOUBLECHECK FOR ACCURACY!



Statutory financial reporting errors are also a common finding not only during full-scope exams, but during annual analyses. Using the annual filing instructions is crucial and having a reviewer to ensure annual and quarterly filings are accurate and compliant saves you time in the long run.

Examples of common financial statement errors noted by examiners and analysts include:

- ☆ ● Compliance with Filing Instructions
- Failure to update Notes to Financial Statements
- Data Consistency Errors
- Incomplete General Interrogatories



# MAKE YOUR NEXT FILING ERROR FREE!

1

## INTERNAL

Comprehensive  
checklists can identify  
most filing errors

2

## SOFTWARE

Specialized  
accounting software  
can detect data  
inconsistencies

3

## THIRD PARTY

Hire a SAP expert to  
give filings a  
thorough going over

Company: [ ]  
 Document: Disclosure Requirement  
 Balance Sheet Date: December 31, 2020

- b. Concentrations of credit risk in accordance SSAP 27? (See Off-Balance Sheet and Crs Risk Disclosures)
- c. Basis at which bonds, mandatory convertible securities, and SVO-identified investments stated?
- d. Amortization method for bonds and mandat convertible securities, and if elected by the reporting entity, the approach for determinin the systematic value for SVO-identified securities per par 24.

If utilizing systematic value measurement method approach for SVO-identified investments, the reporting entity must inclu the following information:

- 1) Whether the reporting entity consistently utilizes the same measurement method for all SVO-identified investments (e.g., fair val systematic value). If different measurement methods are used, information on why the reporting er has elected to use fair value for soe SVO-identified investments and systematic value for others.

Company: [ ]  
 Document: Disclosure Requirements for Insurance  
 Balance Sheet Date: December 31, 2020

- 2) Whether SVO-identified investments are being reported at a different measurement method from what was used in an earlier current-year interim and/or in a prior annual statement. (For example, if reported at systematic value prior to the sale, and then reacquired and reported at fair value.) This disclosure is required in all interim reporting periods and in the year-end financial statements for the year in which an SVO-identified investment has been reacquired and reported using a different measurement method from what was previously used for the investment. (This disclosure is required regardless of the length of time between the sale/reacquisition of the investments, but is only required in the year in which the investment is reacquired.)
- 3) Identification of securities still held that no longer qualify for the systematic value method. This should separately identify those securities that are still within the scope of SSAP No. 26R and those that are being reported under a different SSAP.
- e. For each balance sheet presented, the book / adjusted carrying values, fair values, excess of book / carrying value over fair value or fair value over book / adjusted carrying values for each pertinent bond or assets receiving bond treatment, category reported in the Annual Statement Schedule D issued by: Note: SSAP 26R adopts SOP 90-11, which requires the presentation of fair value, gross unrealized gains, gross unrealized losses and amortized cost by major security type.
  - 1) U.S. Governments?
  - 2) All Other Governments?
  - 3) States, Territories, and Possessions (Direct and Guaranteed)?

Company: [ ]  
 Document: Disclosure Requirements for Insurance Entities – STATUTORY  
 Balance Sheet Date: December 31, 2020

	Yes	No	N/A	Comments
4) U.S. Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)?				
5) U.S. Special Revenue & Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions?				
6) Industrial and Miscellaneous (Unaffiliated)?				
7) Hybrid Securities?				
8) Parent, Subsidiaries and Affiliates?				
f. For the most recent balance sheet, the book / adjusted carrying values and the fair values of bonds and assets receiving bond treatment, reported in statutory Annual Statement Schedule D – Part 1A due: Note: Securities not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; if allocated, disclose the basis for allocation.				
1) In one year or less (including items without maturity date which are either not payable on demand or not in good standing)?				
2) After one year through five years?				
3) After five years through ten years?				
4) After ten years (including items without a maturity date which are either not payable on demand or not in good standing)?				
g. For each period for which results of operations are presented, the proceeds from sales of bonds and assets received bond treatment, reported in Annual Statement Schedule D – Bonds and gross realized gains and gross realized losses on such sales?				



# EXAM EFFICIENCIES

☆ Help us help you!



04.



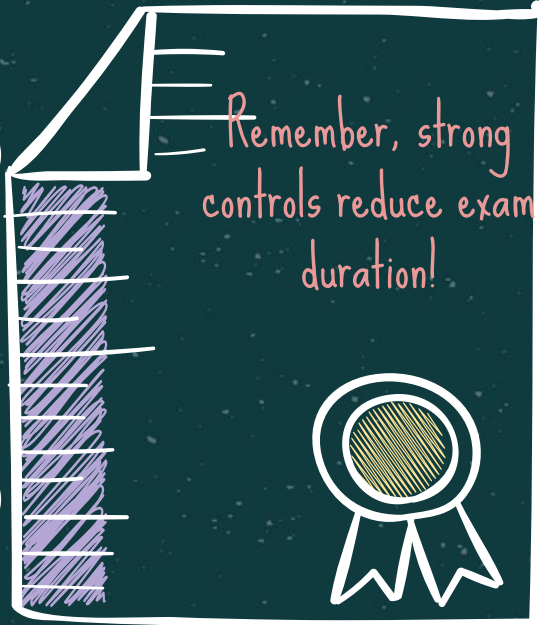




# EXAM EFFICIENCIES!

Standard 5-day turnaround for requests, but delays do happen.

01



03

Make company IT and human resources available for the exam.

02

Communication with examiners is key; we want to work WITH you.

04

Resolve or address exam findings ASAP.



Let's shed some  
LIGHT  
on the situation...





**Company had little formal controls, but turned around requests in 3 business days.**

Estimated budget = 690 hours total, Actual budget = 604 hours total, Saved \$7,000!



**Company had little formal controls, and turned around requests in 10 business days.**

Estimated budget = 1,005 hours total, Actual budget = 1,075 hours total, Cost an additional \$12,500!



**Company had a many strong controls, and turned around requests in 5 business days.**

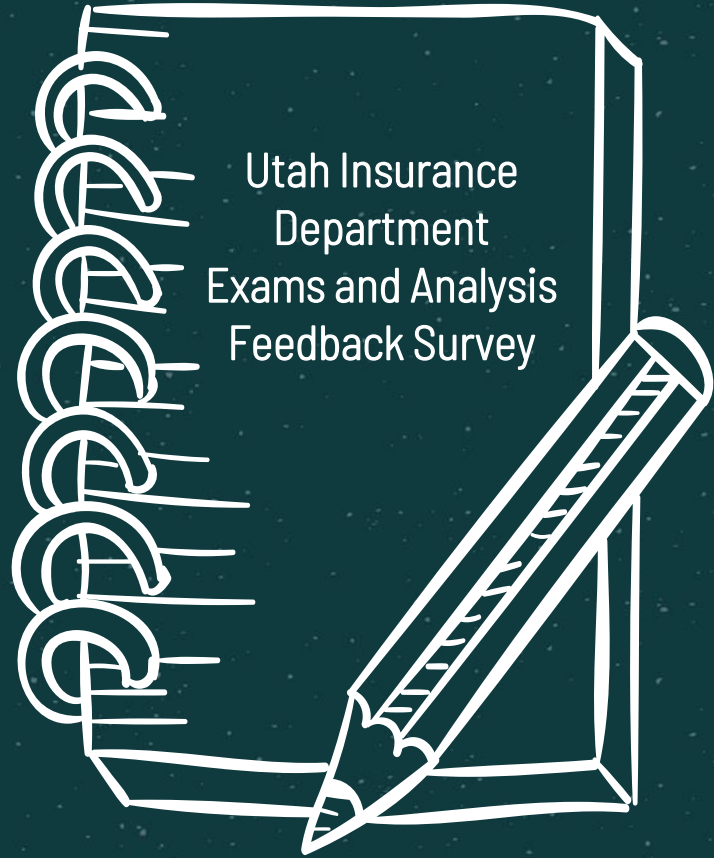
Estimated budget = 1,050 hours total, Actual budget = 945 hours total, Saved \$8,000!





# HOW CAN WE DO **BETTER** FOR YOU?

We realize that things work better  
when we partner together.  
Now that we've given you some  
feedback, we'd like yours as well.





THANKS!

Do you have any questions?

[cshore@utah.gov](mailto:cshore@utah.gov)

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