

# Returning Idle Equipment to Service

## After an Extended Shutdown Due to the COVID-19 Pandemic (USA)

PSRT STD  
U.S. POSTAGE  
**PAID**  
HARRISBURG PA  
PERMIT NO. 533

Agency Agreements —  
Three Lessons Learned

▲ How a Small Insurer  
Can Put Insurtech to Work —  
● Five Practical Steps

# Consolidated Approach to Insurance Regulatory Solutions

## ORSA, Model Audit Rule, CGAD and Internal Audit (JUST TO NAME A FEW)

By: Lisa Cosentino, Wouch, Maloney & Co., LLP

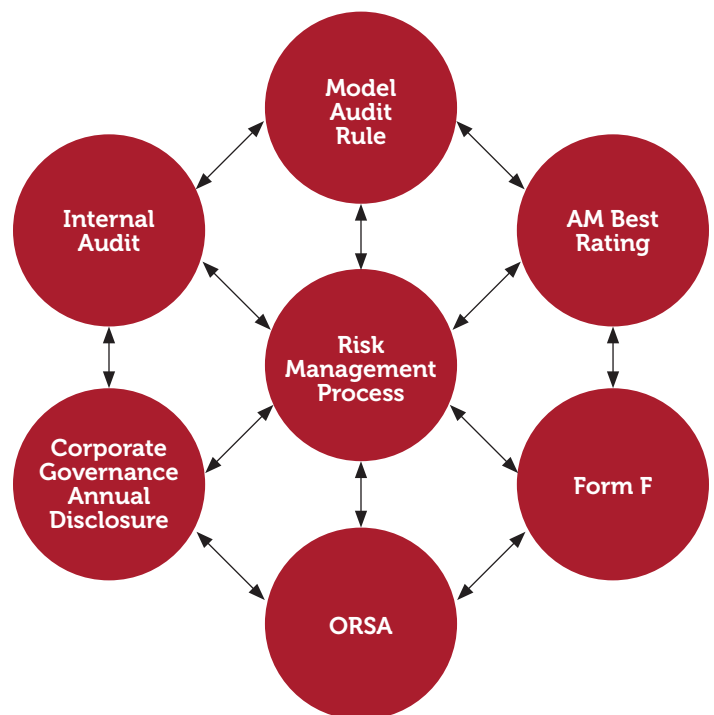
Insurance companies focused on implementing a harmonious approach to meeting regulatory requirements not only improve how the board of directors and management identifies, measures, monitors and manages risks, but also reduce the costs of the regulatory requirements through a reduction in the administrative burden and decreased internal and external audit costs.

Insurance regulators, AM Best and other regulators and rating agencies expect management to identify, assess and develop insurance regulatory solutions in a prudent fashion. In addition, each of these constituents expect the board of directors to share in management's burden of risk assessment and risk management. Identifying and assessing risks on an enterprise scale has been a considerable challenge for those who have begun to develop a formal risk management process. Regulatory requirements encompassed by the Annual Financial Reporting Model Regulation (Model Audit Rule or "MAR"), the Own Risk and Solvency Assessment (ORSA), the AM Best rating process, the NAIC Insurance Holding Company System Regulation Act Form F, Enterprise Risk Report (Form F), and the Corporate Governance Annual Disclosure (CGAD) have all increased the time commitment and costs incurred by insurance companies in their effort to comply with each of these separate requirements. Additionally, costs are continuing to increase with the new framework required by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the Federal Insurance Office and the Dodd-Frank Wall Street Reform and Consumer Protection Act and their focus on corporate governance and risk management. A silo approach to meeting these reporting requirements only increases the costs and administrative burdens on the insurance organization.

### Core to a Consolidated Approach

The most efficient approach to these risk management related regulatory requirements is first and foremost based upon a sound risk management process. When structured correctly, the

risk management process will provide the data and information that can be utilized again for ERM, AM Best, MAR, ORSA, the Form F, the internal audit plan, CGAD and risk-focused regulatory examinations to name a few.



*Continued on next page*

The risk management process is the core to the consolidated approach to meeting the regulatory and rating agency requirements and developing streamlined insurance regulatory solutions.

The key components of the risk management process are:

- Defining the risk management philosophy, risk appetite and risk tolerances;

- Identifying strategic, operational, reporting and compliance objectives of the entity;
- Identification, assessment and ranking of risks identified to meet the entity's objectives;
- Identification of risk responses and control activities to ensure risk responses are carried out; and
- Monitoring and reporting of the risk management process.

## The Risk Management Efficiencies

Once the core is established, the risk management framework developed can be utilized for the following current and future regulatory requirements.

Regulatory Requirement	Risk Management Efficiency
<b>AM Best Risk Framework</b>	The risk framework categories (credit, underwriting, market, strategic, and operational) are included in the event identification of the risk management process.
<b>Form F Enterprise Risk Report</b>	The components of the Form F are addressed in each of the components of risk management.
<b>Model Audit Rule</b>	The risk management process aligns with COSO, a framework that can be used for MAR and the risk management framework which also dovetails with the COSO internal control framework and facilitates management's report of internal controls over financial reporting.
<b>ORSA</b>	The goals of ORSA are to: <ol style="list-style-type: none"> <li>1. Ensure all insurers have an effective level of enterprise risk management through which material and relevant risks are identified in a manner adequate to support risk and capital decisions; and</li> <li>2. Provide support to existing legal entity view of group-level perspective on risk and capital. The requirements of Section 1 of the ORSA report, map to the risk management framework.</li> </ol>
<b>Internal Audit</b>	A risk-based internal audit plan can be developed based upon the control activities identified to ensure the risk responses are carried out.
<b>Risk-Focused Regulatory Examinations (RFRE)</b>	The ten critical risk categories (valuation, liquidity, investment strategy, reinsurance adequacy and collectability, underwriting, reserve data and adequacy, related parties, and capital management) of a RFRE are included in the event identification of the risk management process.
<b>Corporate Governance Annual Disclosure</b>	The risk management approach encompasses the sections required by the CGAD which includes significant changes from the prior year, governance framework, board of director committee policies and procedures, management policies and procedures, management oversight of critical risk areas, and risk summary reports to the board from management.

## Benefits

Developing a harmonious approach based upon a well-structured risk management foundation will not only improve how the board of directors and management identifies, measures, monitors and manages risks, but will reduce the costs of the regulatory requirements through a reduction in the administrative burden, decreased internal and external audit costs.

Lisa Cosentino, CPA, CIA, CFE, FLMI, is the Practice Leader of the Business Advisory Group at Wouch, Maloney & Co., LLP. Lisa has over 35 years serving as a consultant, auditor, and officer to the insurance and other industries. She is a seasoned executive with extensive experience in assisting companies implement insurance regulatory solutions and in designing and executing external and internal audits and applying a holistic approach to assessing its impact on the organization for a variety of companies. To learn more, please contact Lisa directly by email at [lcosentino@wm-cpa.com](mailto:lcosentino@wm-cpa.com) or call 215-675-8364 (office) or 215-300-7361 (mobile).

