**Best Practices suggestions**

*Prepared by: Risk Retention Group Task Force – Risk Focused Examinations Subgroup*

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**GENERAL BEST PRACTICES SUGGESTIONS:**

- When possible, group examinations by captive manager. Conducting simultaneous examinations of RRGs that are managed by the same captive manager can lead to efficiencies. Some captive managers have more than one office location and the greatest efficiency is attained when the RRGs are managed from the same office and by the same personnel of the captive manager. Efficiencies can be gained in Phases 1 through 5 when policies and procedures, personnel, accounting and reporting controls, IT systems and controls, and certain aspects of governance are common for the companies. In some instances, interviews with captive management personnel may be conducted simultaneously for more than one company.

- When possible, use the same EIC and the same examiner team for the RRGs managed by the same captive manager. The EIC and the examiners will become familiar with the captive management personnel serving the companies, and will become more familiar with the policies, procedures, and controls in place for the companies.

- Maximize the use of CPA workpapers for small and medium-sized RRGs. Refer to “Sound Practices in Documenting Reliance on Audit Workpapers” in situations where CPA workpapers are not immediately available. Handbook guidance allows examiners to reduce review of financial reporting risks if the external auditor is determined to be effective.

- Customize TM TeamStores and procedures for use in RRG exams, especially small and medium-sized RRGs based on unique characteristics and operations of RRGs. Be careful to include all required elements of the risk-focused process. Tailoring should never be an avenue for examiners to work around the risk-focused process/risk matrices just to perform certain test procedures.

- Additional training for RRG examiners through the peer review process or some other avenue may be appropriate.

- If personnel are properly cross-trained, consider using the same person for the analysis and examination functions to improve the surveillance process.

**BEST PRACTICES SUGGESTIONS SPECIFIC TO PHASES:**

**PHASE 1:**

- To the extent possible, utilize questionnaires (Exhibit B, Exhibit C Part 1 - ITPQ), and conduct interviews with captive management personnel to cover more than one company at a time. If policies and procedures, personnel, accounting and reporting controls, IT systems and controls, and certain aspects of governance are common for the companies, using parts of one questionnaire, and conducting 1 interview for more than one exam will lead to efficiencies.

- Conducting interviews – there is no specific requirement as to how many persons need to be interviewed and generally for RRGs, a more limited number of persons may be selected for interview compared to a larger traditional company. Captive manager, president, a board
member, primary accounting individual, actuary, program manager, and claims person may suffice. Some of these functions may be performed by the same person in smaller companies.

- Consider when conducting interviews via conference call may be appropriate. Many RRGs do not have offices, but are operated by the Captive Manager, Program Manager, Claims TPA, etc., all located in different locations. If a field visit is required during the examination, it would generally be done after Phase 1. Rather than make a field visit(s) for Phase 1 interviews, the interviews may be held via conference call to save time and expense.

- When possible, include questions related to control and monitoring procedures during Phase 1 interviews to prepare for Phase 3. Questions may cover corporate governance and understanding of internal control processes and procedures for key activities. Since most small RRG management personnel play multiple roles in their operations, we can design the interview questions and document the interviews for use in Phase 1 and Phase 3 for efficiency.

- When utilizing Exhibit C Part 1 – ITPQ, ensure that all inquiries necessary for completing the work program are included. When completing Exhibit C Part 2 – IT Work Program, consider guidance included in the Handbook regarding alternatives to completing the full work program.

- Consider that premiums, claims, or other areas that ordinarily would be considered key functional areas in examinations of traditional companies may not be key areas for certain RRGs. Some RRGs have only one policy, and some have no claims.

- Some RRGs, such as those set up by hospitals, may have advanced risk management and risk assessment functions compared to traditional companies. The RRG exam should leverage this work where possible.

- Many RRGs do not have their own employees and are operated by third-party service providers. RRG examiners should utilize SSAE 16 reports where possible. In addition, RRG regulators should encourage service providers (Captive Managers, Claims TPAs, etc.), especially those that provide services to multiple RRGs, to obtain SSAE 16 reports annually.

**PHASE 2:**

For small and medium-sized RRGs, take care not to include unnecessary risks on the risk matrix. Ensure that risks are identified related to each Critical Risk Category (Exhibit DD). The Handbook requires at least one risk be identified for each Critical Risk Category, but there are no requirements beyond that for how many risks are required to be identified in each area. Focus on significant risks. Customize each key activity risk matrix to use in RRG exams based on RRGs’ unique operations and inherent risks. The NAIC repositories include many risks that may fit better for large insurance companies. For the small to medium size insurance company, especially for RRGs, it is important to only include significant key risks in the matrix for efficiency.

**PHASES 1 to 5:**

Maximize the use of CPA workpapers for small and medium-sized RRGs by waiting until the CPA workpapers are available to begin the exam. Smaller sizes of RRGs and the lack of involvement of RRGs in coordinated exams generally allows for a later start. In particular, maximize the use of CPA workpapers in Phase 1 to reduce financial reporting risks and in Phases 3 and 5 for maximum reliance and efficiency.
All of the exhibits in the Handbook are useful, but some are not required and some may not be applicable to small and medium RRGs. Consider alternatives to completing certain exhibits in their entirety if they are not required and would not add value to the examination. Examples are:

- **Exhibit G** – Consideration of Fraud (a brief memo may suffice to document the consideration of fraud)
- **Exhibit M** – Understanding the Corporate Governance Structure (a brief memo may suffice to document and assess the corporate governance structure)
- **Exhibit Z** – Examination Coordination (this is typically not applicable to RRGs)