

The Insurance Industry

With the enactment of the Sarbanes-Oxley (SOX) Act in 2002, the National Association of Insurance Commissioners (NAIC) recognized the need to incorporate a risk assessment component within the financial solvency oversight function and the financial examination process performed by U.S. insurance regulators. Likewise, NAIC's Model Audit Rule was created in recognition of the need for insurers to incorporate risk assessment best practices into their internal controls and financial reporting.

Just as important to the insurance industry are the standard best business practices established in SOX and COSO II and endorsed and promoted by the U.S. Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), and The Institute of Internal Auditors (IIA). To gain an understanding of the auditor's role, the best place to start is with the Institute for Internal Auditors' (IIA) document: Sarbanes-Oxley Section 404: A Guide for Management by Internal Control Practitioners. The IIA is the recognized authority for internal auditing in the United States and throughout the world. This document is written for management by experienced internal auditors who have worked on internal controls hand-in-hand with the board of directors and management.

To more fully understand the complexities of risk management and compliance in the insurance industry, one needs to consider the interaction between the insurer's internal auditors/CPAs, and the state insurance department's financial examiners. NAIC's Financial Examiners Handbook and the Model Audit Rule define and describe the same or similar requirements for the financial examiner as they do for the insurer. Both the examiners and the insurers' auditors and CPAs perform the same or similar tasks and are responsible for the same types of risk assessment and control testing activities. Also, one can find commonality between examiner accreditation, auditor (CPA) attestation, and insurer compliance. The established workflow relationships and the need for secured file sharing between the examiner, the auditor, and the insurer clearly indicate the need for a common automated solution that can increase the overall efficiency and productivity of the entire risk surveillance process.

I have performed extensive research in the area of risk management and compliance in the insurance industry and have found several companies who have a variety of solutions to meet the business need for governance, risk management and compliance. Particularly exciting are the recent developments in web-based, dashboard-driven solutions that offer a full complement of risk assessment, compliance, and document management features for the financial examiners and for insurers' self-assessment and audit activities.

These solutions are designed to allow insurers, auditors, and examiners to organize their entire risk and control testing environment, which can make the examination process significantly more efficient. This is why insurance companies and regulators need to take a close look at these products. The auditors and examiners will find increased efficiencies and productivity in performing their duties and meeting the responsibilities of their jobs through the use of these products which offer key performance features centered around risk assessment and verifiable risk mitigation through control testing.