



State of New Jersey

DEPARTMENT OF BANKING AND INSURANCE

DIVISION OF INSURANCE

OFFICE OF SOLVENCY REGULATION

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PHIL MURPHY
Governor

SHEILA OLIVER
Lt. Governor

MARLENE CARIDE
Commissioner

January 16, 2019

Re: 2019 Annual Business Plan (DOBI Risk Management Questionnaire):

The attached questionnaire is being distributed to further the Department's understanding of your company's ongoing operations. The questionnaire has been developed based on NAIC financial tools that were designed with the intent of streamlining the time and cost associated with regulatory examinations. It is being used in conjunction with the analysis of your financial statements and may be utilized in lieu of an annual face to face meeting as deemed appropriate.

It has been determined that the questionnaire should be completed on an individual company basis. **If the parent company is a "NJ domiciled company" and files an ORSA Report "directly with the New Jersey Department of Banking and Insurance", then the company is exempt from filing the Annual Business Plan (DOBI Risk Management Questionnaire). "There are no other exceptions for this requirement".** Failure to file the Annual Business Plan Questionnaire in the format provided or an ORSA Report directly with the New Jersey Department of Banking and Insurance, will necessitate an in-person meeting of the principals of the company in the offices of the New Jersey Department of Banking and Insurance. The company will be required to respond to each item in the Risk Management Question, plus other items the Department may deem necessary.

You are asked to identify, from the list provided below, the areas of risk that have most significantly affected your company over the past year and to provide the Board of Directors and Executive Management's assessment of those risks and to submit a 2019 business plan. Your business plan shall include projections and assumptions as necessary to support your plan to manage risk. All responses to the questionnaire should identify a specific risk category as follows:

1. *Credit Risk*
2. *Market Risk*
3. *Pricing & Underwriting Risk*
4. *Reserving Risk*
5. *Liquidity Risk*
6. *Operational Risk*
7. *Legal Risk*
8. *Strategic Risk*
9. *Reputation Risk*

Note: please refer to the attached sample risk management summary checklist for additional information and guidance.

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All submitted business plans are deemed “Confidential “by the Department. Failure to respond accurately and thoroughly may necessitate the need for a formal meeting.

Contact Richard Kartes at 609-292-5350 ext. 50358 or your assigned Financial Analyst if you have any questions concerning this matter. The company’s response must be received no later than the close of business on Friday, March 29, 2019.

Sincerely,

Richard K Kartes
Supervisor
Health Entities Financial Operations.

Cc: Richard Schlesinger, Chief Insurance Examiner
Mary Pesce, Assistant Chief, Health Entities Financial Operations
Marian Awad, Financial Analyst/Insurance Examiner
Matthew Lakatos, Financial Analyst/Insurance Examiner
Tim Stroud, Financial Analyst/Insurance Examiner

DOBI Risk Management
Questionnaire

1. Using the sample risk management summary checklist as a guide, identify by risk category the major risk(s) that challenged your business operations in 2018.
2. Explain the plan of action management and the Board implemented to minimize the risk(s). Be as specific as possible. i.e. underwriting guidelines, claims policies and procedures, product mix, reinsurance, utilization management, state and federal mandates, reserving, Asset Mix, internal controls, investment strategy, marketing strategy, Stop Loss, Reserve methods, Management oversight, Actuarial guidance, Antifraud initiatives, Disaster Recovery, new or updated systems, acquisition or merger, etc.
3. What were the results of your 2018 risk minimization plan after it was implemented?
4. Using the sample risk management summary checklist as a guide, identify by risk category the major risk(s) that will challenge your business operations in 2019.
5. Provide your 2019 risk minimization business plan which specifically addresses how you will attempt to minimize your business risk(s). Include assumptions and projections as necessary. This plan shall identify risk by the nine categories outlined.

Sample Risk Management Summary Checklist

1. Credit risk (Amounts collected or collectible are less than those contractually due.)

Risk areas to consider but not be limited to:

Materiality and collectibility of assets including agents' balances, reinsurance, intercompany and other receivable balances.

Evaluating Risk Management Controls (Effectiveness of controls in place):

How each asset category is monitored?

Are audits of debtors and outside consultants performed periodically?

What procedures and guidelines are in place to optimize timely identification of overdue receivables and recoverables?

2. Market Risk (Movement in market rates or prices, such as interest rates, foreign exchange rates, or equity prices adversely affect the reported and/or market value of investments.)

Risk areas to consider but not be limited to:

Are investments handled in house or outsourced?

Responsibility for monitoring and recommendation to Global/National/Regional economic conditions.

Responsibility for monitoring and recommendation to regulatory changes/requirements.

Evaluating Risk Management Controls (Effectiveness of controls in place):

Has the Board of Directors Investment committee established and distributed policies setting forth Portfolio performance standards and benchmarks?

How does the company ensure compliance with state statutes and changes in requirements?

What market trending and analysis is performed?

3. Pricing & Underwriting Risk (Pricing and underwriting practices are inadequate to provide for risks assumed)

Risk areas to consider but not be limited to:

What policies and procedures are in place to monitor and respond to competitive products and services?

How is Underwriting Performance of in house and especially independent agents, brokers and sales personnel monitored?

Underwriting and claims collaboration.

Ongoing identification of new and emerging risks related to underwriting activities.

Evaluating Risk Management Controls (Effectiveness of controls in place):

Executive Management and Board of Director's established current year growth and earnings goals and objectives that include early warning benchmarks.

4. Reserving Risk (Actual Losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated)

Risk areas to consider but not be limited to:

Responsibility for establishing and distributing claims policies and procedures.

Responsibility for reinsurance reporting and collection.

Ongoing identification of new and emerging risks related to claims and reserving activities.

Evaluating Risk Management Controls (Effectiveness of controls in place):

Where does responsibility for monitoring cost and performance of outsourced reserve and claims related functions reside? What and how are early warning benchmarks determined and communicated?

How are Reserve policies and best practices set by Executive Management and Board of Directors communicated to line staff and outside consultants?

What processes exist to monitor the timeliness and accuracy of reserve levels at least quarterly or more frequently?

5. *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.)*

Risk areas to consider but not be limited to:

Volume and growth of earnings assets that are not publicly traded or do not lend themselves to securitization.

Sources of liquidity that are external to the insurer (particularly those available for emergencies).

Extent of illiquid investment in affiliates (to include in working capital).

Results of actuarial cash flow testing.

Evaluating Risk Management Controls (Effectiveness of controls in place):

Does the policies (to include investment policy) established by management and the board reflect an understanding of managing this risk?

Is the asset liability matching (ALM) analysis (i.e., scenario testing) performed regularly for trends and reported upon to senior management and the board?

Is access to outside sources of liquidity (including affiliates) adequate and available, particularly in emergencies?

Are Liquidity considerations factored into product design?

Are all levels of management (i.e., short term cash, product actuaries, and product and portfolio managers) aware of the business activities that can trigger an adverse liquidity condition?

6. *Operational Risk (Operational problems such as inadequate information systems, breaches in internal controls, fraud, or unforeseen catastrophes will result in a disruption in business and financial loss.)*

Risk areas to consider but not be limited to:

Incorporation of the internal audit function and program.

Monitoring and evaluation of both financial and administrative internal controls as well as operational risks.

Volume and complexity of transactions in relation to systems and hardware capacity and development.

Internal controls to safeguard human, facility, and financial assets.

Status of disaster recovery and business continuity programs.

Management compensation is appropriately tied to performance.

Evaluating Risk Management Controls (Effectiveness of controls in place):

Does the policy established by the board and/or senior management reflect an understanding of this risk?

Are there programs in place to identify, monitor and evaluate operational risk?

Is the audit function qualified and does it possess the resources to accomplish its charter and implement the audit plan?

Are the internal financial and administrative controls monitored for effectiveness and completeness?

Has the disaster recovery plan been tested?

7. ***Legal Risk (Non-conformance with laws, rules regulations, prescribed practices or ethical standards in any jurisdiction in which the entity operations will result in a disruption in business and financial loss.)***

Risk areas to consider but not be limited to:

A process with assigned responsibilities in place at the direction of senior management and the Board of Directors.

Current litigation and or investigation.

Sanctions or fines ongoing or over the past three years regarding compliance with either state or federal laws and/or regulations (including holding company considerations).

Evaluating Risk Management Controls (Effectiveness of controls in place):

Are exceptions of compliance reported to management and the board?

Are compliance expectations of (e.g., Code of conduct, Conflicts of Interest) communicated throughout the organization and distribution channels?

Is legal counsel involved with the changes to products and new product development?

Is there a process of reporting of changes of regulatory requirements, litigation not in the normal course of claims-paying activities (includes disputes and reinsurers)?

8. ***Strategic Risk (Inability to implement appropriate business plan to make decisions, to allocate resources or to adapt to changes in the business environment will adversely affect competitive position and financial condition.)***

Risk areas to consider but not be limited to:

Marketplace.

Competition.

Growth and mix of business.

Experience level of management and the Board of Directors.

New and or discontinued products/territories/distribution channels.
Use of technology.
Regulatory climate.
Insurance holding company considerations.

Evaluating Risk Management Controls (Effectiveness of controls in place):

Are there any historical and/or current success/failure in accomplishing stated strategic goals and operating/financial plans?

Are strategic goals (and the plans to implement them) and corporate culture effectively communicated and applied throughout the organization?

Are initiatives and plans well conceived, are the risks involved well understood, and deliberated upon by management and the board?

Are there risk management systems/processes in place to evaluate results in relation to plan expectations?

Is there access to capital, particularly in emergency situations?

Are assignments of responsibilities clear and is compensation tied to achievement?

9. *Reputation Risk (Negative publicity, whether true or not, causes a decline in the customer base, costly litigation, and/or revenue reductions.)*

Risk areas to consider but not be limited to:

Current negative publicity.
Stability of financial strength ratings.
Highly visible litigation and occurrence of same over the past three years.
Marketing approach toward creating a positive brand relationship with the public and distribution force.

Evaluating Risk Management Controls (Effectiveness of controls in place):

Are there policies/procedures established by management and the board to respond to adverse publicity (include history of performance)?

How is the relationship with the community (include distribution force)?

Are there contingency plans to mitigate risk in the event of a crisis?

Is there a process for disclosing financial performance to the public and distribution force?