State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE
OFFICE OF SOLVENCY REGULATION
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Annual Risk Assessment Discussion

The purpose of the annual Risk Assessment Discussion is to further the Department's understanding of the Company's ongoing operations and risks thereto. It is reviewed in conjunction with the analysis of the Company's financial statements and may be utilized in lieu of an annual face-to-face meeting with the Company as deemed appropriate. The annual Risk Assessment Discussion should be completed on an individual Company basis. The Company may complete the annual Risk Assessment Discussion in its format of choice, provided all requirements are thoroughly addressed. Please note that all annual Risk Assessment Discussions must be postmarked, or electronically filed with confirmed receipt, no later than April 1st.

The annual Risk Assessment Discussion should start with a header section containing the Company's name and NAIC number, the date of completion, and the title "Annual Risk Assessment Discussion." Following such header should be a brief (one/two-paragraph), high-level summary of the Company.

Per the NAIC, the nine (9) categories of Branded Risks are as follows (attached to this correspondence are practical examples of the nine Branded Risks):

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

- **For the Year Preceding:** From the listing of branded risk categories above, please identify the three (3) areas of risk that have most significantly affected the Company over the year preceding and provide the Board of Directors' and Executive Management's commentary and overall assessment of such risks. Additionally, please discuss the results of any risk-mitigation plans that were implemented by the Company during the year preceding in response to such risks.

- **For the Current Year:** Please provide a detailed description of what the Company believes to be its greatest risks related to each of the nine branded risk categories above, and discuss any initiatives implemented by the Board of Directors and Executive Management to mitigate such risks. Please 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.)

All submitted annual Risk Assessment Discussions shall be deemed "Confidential" by the Department.

Should the Company wish to submit the annual Risk Assessment Discussion via mail, please submit one hardcopy to the following address:

Tim Stroud
Insurance Examiner
New Jersey Department of Banking and Insurance
Office of Solvency Regulation, 8th Floor

BY US MAIL	BY OVERNIGHT MAIL
PO Box 325	20 West State Street
Trenton, NJ 08625-0325	Trenton, NJ 08608-1206

Should the Company wish to submit the annual Risk Assessment Discussion electronically, please submit to DomesticAnnual@dobi.nj.gov or ForeignAnnual@dobi.nj.gov (depending on the Company's domiciliary location) with a copy to Tim Stroud at Tim.Stroud@dobi.nj.gov and Shail Mankad at Shail.Mankad@dobi.nj.gov.

For questions concerning this correspondence, please contact Mr. Stroud or Mr. Mankad at the e-mail addresses listed above or at (609) 940-7452 or (609) 940-7432, respectively.

Example of the Nine Branded Risks

1. ***Credit Risk (Amounts collected, or collectible are less than those contractually due.)***

   Risk areas to consider but not be limited to:

   - Materiality and collectability 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?
   - Any new investment strategies?
   - 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?
   - Does the Board of Directors review and approve the investments?

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):

   - Do 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, if so, how often?

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?
- Are there secession plans in affect?

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?