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This is the fourth of a series of articles, the objectives of which are to share experiences from some of the early implementation efforts by state insurance departments with the NAIC's risk-focused examination approach; to consider emerging issues and their implications going forward; and to shed some light on future challenges as an increasing number of examiners from more states take the plunge with the new approach.

Risk-Focused Examinations: Lessons Learned, Part 4 – Interviewing Senior Executives

The NAIC's risk-focused examination approach places a new-found emphasis on meetings with senior executives of companies under examination. In the past, such meetings might have been few and far between, with answers to examiners' questions largely coming from the company's exam liaison, lower-level staff and review of documents.

Now, however, the emphasis is on a top-down approach and a more comprehensive understanding of the company. For that, the NAIC's risk-focused examination guidance suggests starting with interviews of executives, including those at the very pinnacle of the corporate hierarchy. In turn, that has presented some new challenges to examiners, especially with regard to examinations of larger, more complex insurers.

Interviews Receive Mixed Reviews

Examiners who have been involved in early efforts to adopt the new risk-focused examination approach have been gaining experience with executive interviews. Some states are seeking additional training for their staff to focus on interviewing skills in particular, utilizing alternative learning methods such as case studies, role play, individual and group exercises, and on-the-job training. SOFE meetings, both at the local and national levels, often feature presentations on interview techniques. And the NAIC continues to assist with training and providing new tools to examiners such as interview

templates. With all this activity, the field should be ripe with positive experiences and “lessons learned.”

But anecdotal feedback suggests that the results of such interviews to date have been mixed. On the one hand, examiners are learning more about the company, the people who are at its helm, and the course that they are navigating.

On the other hand, much of what was ostensibly gained through interviews is old news to the examiners, simply a rehash of information that they had already gleaned from pre-interview preparations such as reviews of state and SEC filings and other documents. Statements made in interviews by some executives seem to examiners as little more than the corporate “party line.” Interviews sometimes take weeks to get scheduled, particularly those involving the highest-level executives of the largest companies. And while some executives may seem to have sacrificed their token hour to the examination cause, when it is all over it is sometimes difficult to pinpoint any significant benefit to either party from the exercise.

Most frustrating to examiners is that the concepts that work well in one interview don’t necessarily work so well in the next. One exam might progress smoothly with interviews being quickly scheduled and much information shared candidly by executives, while for other exams the process gets bogged down in bureaucracy and involving more form than substance. Examiners often sense concern on the part of the company about what might become of information that is shared orally, especially by those at the top of the corporate ladder who presumably know the most about the company – the good, the bad, and the ugly.

The Challenges Involve More Than Simply Asking Questions

The notion of interviewing executives on the front end of an examination may seem quite different than the way examinations were performed in days of yore. Back then, an exam team arrived on site and much time was spent primarily with the financial staff and poring over documents. Less experienced examiners could quickly begin on work in any number of areas.

For example, in the investments area, examiners could start work on many standardized procedures, such as reconciling details from custodial confirmations, recalculating accruals and amortization, validating NAIC valuations, and other procedures the likes of which have been the bedrock of on-the-job training for so many entry-level examiners and auditors alike over the years. Work was thus assigned fairly quickly to the team with everyone diving in to their assigned areas.

However, under the new approach things aren’t so simple. The team must first “understand the company” through interviews and other means, assess risk, and develop customized procedures that are responsive to that assessment, a process that can devour over half of the total exam time. Moreover, some of those on the team may lack the skills

and experience to most effectively handle an interview with a senior member of a company's management. Even the more senior members on the field examination team may not feel totally comfortable about going into interviews with executives who are at the top ranks of the organization or who are responsible for specialty areas outside of the examiners' traditional financial/accounting background and training.

As a result, the problem is more complex than simply learning how to ask questions. Changes in the exam process itself have the potential to turn the traditional staff development model for examiners on end. A different strategy may be needed to best utilize the available staff on a risk-focused examination in ways that will most efficiently get the examination underway and rolling while also making the best and most productive use of everyone on the team over the entire exam period. And there is more that can and should be done to gain the company's support and buy-in so that their executives will more proactively contribute to the process.

So what are the lessons learned so far from the early experience with senior executive interviews? No single suggestion will cure all ills. But there are some suggestions that exam teams should consider that may increase the benefits from time spent in these "close encounters" with senior management.

Start by Asking Yourself Some Tough Questions

If examiners desire to have a successful meeting with a senior executive, a good place for them to start is with the definition of "success." What are the desired outcomes? *What is it that the examiners don't fully understand and for which only the person to be interviewed can singularly provide the best insights?* In other words, *why bother with this specific interview?*

These are very difficult questions that examiners should consider as they prepare for meetings with the most senior executives at the largest of companies. Absent a plausible need for information from an executive, there very well may be no need for the interview at all. And in looking back on past interviews, if all that was gained was confirmation of what the examiners had already learned, such is likely the result of one of the following scenarios:

- The examiners did a great job of preparing, learned a tremendous amount about the company, and little else could possibly have been learned from one incremental interview – a possible scenario, but not likely in most situations.
- More likely, the examiners' questions were posed with more "whats" about the company than "whys" and "hows" to probe the executive's personal views. An executive can answer what the company's strategy is in a short sentence (e.g., "Conglomerated Insurance Inc. has an acquisition strategy.") But it would be more insightful to ask *why they believe it is the best strategy, why they believe it is working, how they view measures of the strategy's success, and so forth.*

Assume that the examiner determines a need to better understand the nature of financial monitoring at the highest level of the company. Rather than asking a large company CEO *what the company does to monitor financial performance at the business unit level*, the examiner might instead ask the CEO *how they evaluate performance*. The CEO might not be the best person to answer the former question, but he or she is the only person who can answer the latter.

In one recent interview, the CEO indicated that when he wanted to feel the pulse of his organization, he skipped past the financial reports and went directly to weekly narratives of telephone contact reports between his marketing executives and their key accounts. That was not the answer the examiner expected, but it provided new insight about the CEO's willingness to delve into details, to look for predictive rather than reactive data sources, and to obtain qualitative context and knowledge with which he could then challenge more quantitative financial forecasts and results.

Another company's CEO responded to a similar question, indicating that their "dashboard" to view the company's direction, speed and progress was a report that summarized various financial and non-financial metrics that were the foundation for senior management's performance goals. The CEO highlighted the alignment that existed between the board-approved corporate strategy, those performance goals, and the CEO's own efforts to effectuate change in the organization so as to attain those goals.

Despite quite similar roles and responsibilities, these two CEOs each had quite different ways of herding the managerial cats in their respective organizations. Both responses provided unique insights about top management and how they operate. And while it can be debated as to what a CEO should use to feel the corporate pulse, these two individuals clearly knew what worked for them and were able to articulate both how and why.

A Different Approach is Needed for Interviews of Senior Executives

As examiners move up the corporate ladder in targeting individuals for interviews, the objectives will change from obtaining hard facts and data, to gaining perspectives, insight, and context. The facts are what they are, but perspectives are many and varied. The key is to get the executives to open up and share their views as candidly as possible. But in some recent experiences, examiners seem to be having some difficulty in achieving that goal. Following are some thoughts for examiners to consider that may make this important part of a risk-focused examination more effective:

- Remember that senior executives are used to fielding difficult questions from a much tougher crowd, i.e., rating agencies and shareholders.
- If some of senior management's responses sound scripted, it may simply be because they are; senior executives often prepare for meetings with rating agencies and shareholders by identifying the range of questions that may be asked and even rehearsing their responses before a mock audience of other executives and counsel.

- The fact that their responses may be scripted, or at least seem that way, is not necessarily a bad thing for the examination; in fact, it is a benefit for a company to have thought through its risks and opportunities and to have developed a coherent point of view about them that is shared widely in a transparent manner.
- Having said that, the challenge rests with the examiner to determine just how coherent that view is, and whether it comprehensively addresses the significant risks and activities of the company.

A nuance of interviewing senior executives is that the examiners may have even more questions after than before the interview. The perspectives shared may provide a new context for transactions and business operations that examiners may not have previously considered. Alternatively, they may simply provoke further thoughts by examiners as to the company, its operations, and risks.

Multiple and varied perspectives will add to the overload of information that examiners must consider. But those perspectives also engender a better appreciation for the tone at the top that drives the corporate train, which is an important outcome of a risk-focused examination.

Manage the Tone of the Meeting

Another aspect to consider is the very tone of the dialogue with the executive. Usually, the interviews of senior management are performed at the outset of the examination. Unless there are pressing examination concerns, the tone should be upbeat and positive. It is always good for an examiner to say what a pleasure it is to meet, but then don't forget to act that way – smile, and avoid sitting with arms crossed or with a scowling face as if there is considerable doubt about the veracity of the interviewee's responses.

In most cases, the interview is simply an opportunity to obtain the executive's point of view, which "is what it is." Give them the opportunity to express their view as completely as possible. The exam team can dissect those comments later and consider them in light of other examination evidence – other interviews, responses to questions, and review of documents – and schedule follow-up meetings which can then probe more deeply and in a more challenging manner if such is necessary.

The executive may want to digress into other areas that are not necessarily on the examiner's agenda. Within reason, examiners should allow some latitude to accommodate discussion of those unanticipated areas. In doing so, the examiners may obtain a better sense of what is truly important to the interviewee or their particular "hot buttons," which is an important part of understanding the tone at the top. But if those digressions aren't particularly relevant or insightful, examiners should tactfully steer the discussion back toward the agenda topics.

The initial meeting should be an easy discussion to share perspectives, but can nonetheless appear to those on the hot seat as an interrogation – particularly if there are

many examiners participating. But everybody is different, including executives. Some sweat under pressure, while others glow. Many top executives are used to meeting with large and diverse audiences and telling their perspective about the company. But not all executives are rock stars; they may be good managers and technically proficient, but nonetheless prefer to eschew the limelight. Some are unabashedly candid, while others are much more careful about what they say and how they say it. Even when the interviewee is one who is eager to talk, examiners should try to avoid being the recipients of a one-sided speech by the executive; it is good to intervene occasionally to break up the interviewee's momentum with follow-up questions to seek clarification or to re-focus the discussion in order to illicit the information needed for the examination.

Examiners will thus see a wide spectrum of behavior. Where one interviewee appears on that spectrum may likely be of no real significance. In fact, how they act in the interview may be more in response to the number of examiners present, the questions asked and the tone of their delivery, rather than an indication of the executive's managerial performance away from the glare of the examiners' spotlights. What is most critical is whether examiners are able to obtain clear and coherent responses to reasonable questions posed to the executive about topics of significance to the examination. If so, and if other examination evidence is consistent therewith, then there is more assurance that the company is being managed effectively.

An Interview Post-Mortem – Did it Go Well or Not, and Why?

Despite what seems like a well-reasoned process to conduct interviews, examiners sometimes conclude that little or nothing new was learned from an interview. Indeed, they may have done a good job of preparing for the interview, may have already spoken to other executives, and the subject current interviewee simply corroborated those prior learning experiences. The fact that nothing new was learned does not necessarily equal a failed interview; corroboration is also an important part of the examination process. Even when corroboration seems to be the only benefit, each party contributes his or her own context and, therefore, adds to the broader picture.

On the other hand, the examiners may not have done a good job of preparing for the meeting. Their questions may have been too tactical, overly-scripted or asked in such a way so as to invite short answers as opposed to a more open dialogue. Examiners can't expect an interviewee to read their mind or to charitably provide insight about questions that aren't asked or topics that aren't raised.

It is important to realize that the interview itself is not the end game of an exam; it is just one step along the way. The fact that one interview was not so enlightening to an examiner is not, in and of itself, a bad thing. In fact, the opposite can be true. For example, the very best companies are striving for a high degree of excellence in governance, management, and financial reporting and with an equally high degree of transparency so that actions and results are clearly understood by many within the organization as well as by a wide range of external stakeholders. In that context, many in

the organization are knowledgeable and equally well-informed about the company's strategy, its progress in attaining its strategic goals and objectives, the risks along the way and how they are evaluated.

In that situation, the fact that examiners continue to hear the same story from multiple sources is an indication of the company's success in implementing an open management style. So it should be no surprise in such companies that little new is learned by examiners as they climb their way up successive rungs on the corporate ladder through their interview process. Everyone is fully informed. On the other hand, a much more disturbing scenario may occur if successive interviews continue to discern additional and conflicting pieces of an informational puzzle that, when laid out on the table, just don't seem to fit together. What examiners won't want to encounter is a company like that depicted in the infamous cartoon strip, *Dilbert*, which has a strategy that it keeps secret even from its own employees.

The Examiners Handbook suggests that interviews can be a useful technique throughout an examination, but that they are most critical in the first two phases of an examination: in developing an understanding of the company and in identifying key functional activities, and in identifying and assessing inherent risk. Nonetheless, interviews alone won't be the only way that those goals will be accomplished. Multiple interviews with different executives and reviews of key documents will cover much of the same territory.

That redundancy is an important but subtle benefit of the exam process. The key is to glean information from a variety of sources – interviews, company documents, and industry data – and then use that input to assess the big picture: does the collective information learned form a coherent and comprehensive view of the company? In that perspective, a single interview should not be viewed as a stand-alone outcome of its own, but just one textured hue of many painted on a much larger canvas.

The Ever-Important Follow-Up Questions

What qualities distinguish a truly great interviewer? Who have you admired for their ability to engage others in an insightful dialogue? Wolf Blitzer? Oprah Winfrey? Barbara Walters? The late Tim Russert? The list of possibilities is endless, and there are as many individualistic interviewing styles as there are candidates. But there are some common traits, including the ability to:

- Converse with sufficient (but not necessarily complete) fluency about the topic
- Receive a response without being judgmental about it (for exams, analysis is a necessary step, but it should occur later – not in the informational interview)
- Elicit more depth to the response, e.g., to ask for examples, comparisons, past experience, etc.

- Put the interviewee at ease; to interject humor if and when appropriate and create an opportunity for a comfortable, non-confrontational exchange of thoughts and information

Perhaps most important is the ability to listen, to process information learned immediately, and to quickly pose follow-up questions to probe more deeply into agenda topics or into other areas that arise real-time in the course of the interview.

Many of the interview scripts and agendas available to examiners, whether from the NAIC, consultants, or elsewhere, appear quite similar with a list of areas and related questions. What all lack is what only experience can provide, i.e., follow-up questions to ask in response to the interviewees initial responses and which probe further, seek clarification, confirm the examiners' understanding, and surface related implications of what is learned. Such follow-up questions can only be crafted "on the fly" in the meeting.

Some suggestions for follow-up questions include:

- "Let me make sure I understand that..." Ask for clarification; succinctly restate in your own words a key point made by the interviewer. It shows that the examiner listened and is interested, and it subtly invites a response from the interviewee to either confirm their understanding or to correct it.
- "So a good example of that would be...?" If the interviewee says the company has seen great results from its risk management efforts, ask for some examples. In what areas specifically? What benefits were realized?
- "Let's compare that across some of your key business units..." Take broad comments made by the interviewee and ask how they might apply to different areas in the company to compare and contrast, and to better understand the causes and extent of similarities and differences.
- "How do you measure that...?" In many ways, risk is in the eye of the beholder; ask the interviewee what gauge they look to – qualitative, quantitative, or both – to help them assess the key risks being discussed.

If handled adeptly by the interviewer, follow-up questions can turn a perfunctory Q&A session into a much more enlightening discussion. They also demonstrate the examiner's interest in the topics covered and the information learned.

Other Tips

- In advance of the meeting, provide a listing of topical areas to cover rather than a detailed interview script. Scripted questions will only encourage scripted responses. Examiners may prefer a shorter list of broader topics as opposed to a longer list of very specific or narrow topics; the former provides the examiner with more latitude and flexibility in the interview. It may also be beneficial to have two agendas: a formal agenda to share with the company, as

well as a more detailed agenda to include potential follow-up questions and which can be reviewed in advance by the EIC or exam supervisor.

- As to topics, the NAIC's risk-focused guidance suggests the experience and background of the executive, their duties and responsibilities, the reporting structure of the company, ethical business practices and policies, risk areas and risk mitigation strategies, corporate strategy, political/regulatory changes, prospective risks, etc. But some of those are much more perfunctory in nature than others. Pick those that you really need to better understand, and work the dialogue to have the executive explain those to you in their own words – not just respond to questions.
- Encourage executives to bring any materials that they feel may be helpful to cover the topics. If examiners leave it to each interviewee to decide what might be most useful for that purpose, they might then learn about additional insightful sources of information.
- Keep initial interviews with senior executives at an hour in length, two at most. Many executives are used to scheduling meetings of such duration, but going beyond that may stretch their patience or attention span, if not that of the examiners as well. Sufficient preparation should occur so as to make the best and most productive use of the available time.
- To the extent possible, fully cover a topic before moving on to the next. Bouncing around back and forth across topics can make it difficult to fully understand any of them. If a further question about Topic #1 is sparked in the midst of discussion of Topic #2, it may be best to hold that question to the wrap-up phase of the interview rather than to digress mid-stream.
- Face-to-face interviews are unquestionably better than those handled by phone. Nonetheless, and for multi-location exams, timing, travel costs and other circumstances may make some interviews by phone a necessity.
- Ideally, the number of interviewers from the examination team should be limited to just 2-3 individuals, including an examiner to take notes. While states are learning the new approach, some have chosen to include more for training and monitoring purposes. But the sooner they can scale back to smaller groups, the better; the examination will become more efficient, and the discussions in interviews should become more engaging and informative.
- Whether the interviewee should be accompanied by one or more other company personnel is a matter of continued debate among state examiners. Most examiners would likely prefer to have unfettered access to the interviewee without the possibility that his or her responses might somehow be influenced by other company representatives present. Alternatively, allowing the interviewee to participate in whatever manner they prefer allows

the examiners to see how knowledgeable and comfortable they themselves are – or are not – in addressing key topics on their own, which is all a part of understanding the company.

- With regard to notes from the interviews, it may be useful to share them not just with the other members of the examination team, but also with the interviewee in order to confirm what was learned and to create an opportunity for further follow-up and discussion.
- Where feasible, meet in or near the interviewee’s office or work area. A picture is worth a thousand words, and examiners may gain a much different perspective by seeing an office or an area of the company that is tidy or at least “purposefully disorganized” than one that looks like the site of a recent explosion.
- To provide the examiner with a better understanding of the effectiveness of risk management, ask the interviewee to bring to the meeting and to describe the key informational reports that comprise their managerial “dashboard” to identify and manage risk.
- Conclude by thanking the interviewee for their time, as their insights will be helpful in better accomplishing the overall examination mission. Yes, top executives do get paid the big bucks and responding to examiners is just part of their job. But in today’s business environment, they are very busy people with great responsibilities and knowledge; having an hour or two to tap their thoughts is a unique privilege for which examiners should be appreciative.

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Examiners will likely debate issues related to senior executive interviews for many years to come, a result that should not be taken as a sign that somehow the NAIC and the states failed to get the examination approach right. Rather, a robust, open and continuing debate should be the sign of a vibrant learning atmosphere from which benefits will emerge and be realized at the state level, the exam team level, and the individual examiner level, and in many different and oft-subtle ways.

In the end, an examination-based interview is not about getting an executive to spill his or her guts about the company. It’s simply a new opportunity for examiners to gain key insights to help them better understand the company, and in a way that leads to a better/faster risk-focused examination. And while examiners might worry about asking seemingly stupid questions in an interview, they should remember, first and foremost, that the only truly stupid questions are the ones that aren’t asked.