

## **EXAMINATION OVERSIGHT (E) TASK FORCE**

Examination Oversight (E) Task Force Dec. 1, 2025, Minutes

Examination Oversight (E) Task Force Sept. 29, 2025, E-Vote (Attachment One)

Financial Analysis Solvency Tools (E) Working Group Nov. 06, 2025, Minutes (Attachment Two)

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Information Technology (IT) Examination (E) Working Group July. 31, 2025, Minutes (Attachment Five)

Examination Oversight (E) Task Force  
Virtual Meeting  
December 1, 2025

The Examination Oversight (E) Task Force met Dec. 1, 2025. The following Task Force members participated: Judith L. French, Chair, represented by Zachary Wheatley (OH); Karima M. Woods, Vice Chair, represented by N. Kevin Brown (DC); Mark Fowler represented by Sheila Travis and Blase Abreo (AL); Heather Carpenter represented by David Phifer (AK); Ricardo Lara represented by Ber Vang (CA); Michael Conway represented by Rolf Kaumann (CO); Jared Kosky represented by William Arfanis (CT); Michael Yaworsky represented by Carolyn Morgan (FL); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Levi Nwasoria (KS); Sharon P. Clark represented by Jeff Gaither (KY); Timothy J. Temple represented by Tom Travis (LA); Michael T. Caljouw represented by John Turchi (MA); Anita G. Fox represented by Kristin Hynes (MI); Grace Arnold represented by Kathleen Orth (MN); Mike Chaney represented by Mark Cooley (MS); Angela L. Nelson represented by John Rehagen (MO); Eric Dunning represented by Tadd Wegner (NE); Ned Gaines (NV); Justin Zimmerman represented by David Wolf (NJ); Jon Godfread represented by Matt Fischer (ND); Glen Mulready represented by Eli Snowbarger (OK); TK Keen represented by Teresa Borrowman (OR); Michael Humphreys represented by Diana Sherman (PA); Elizabeth Kelleher Dwyer represented by John Tudino (RI); Larry D. Deiter represented by Johanna Nickelson (SD); Cassie Brown represented by Shawn Frederick (TX); Scott A. White represented by Jennifer Blizzard (VA); Patty Kuderer represented by Tarik Subbagh (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its Sept. 29 and Summer National Meeting Minutes

Wheatley stated that the Task Force conducted an e-vote that concluded Sept. 29 to adopt its 2026 proposed charges. The Electronic Workpaper (E) Working Group revised its existing charges by removing the requirement for ongoing oversight of the transition to the TeamMate+ application.

The Task Force also met Dec. 1 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss open exams that are past the 22-month deadline.

Eft made a motion, seconded by Malm, to adopt the Task Force's Sept. 29 (Attachment One) and July 31 (see *NAIC Proceedings – Summer 2025, Examination Oversight (E) Task Force*) minutes. The motion passed unanimously.

2. Adopted the Reports of its Working Groups

A. Financial Examiners Coordination (E) Working Group

Wheatley provided the report of the Financial Examiners Coordination (E) Working Group. He stated that the Working Group met Aug. 10 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss reports on group coordination.

B. Financial Analysis Solvency Tools (E) Working Group

Chew stated that the Working Group met Aug. 21 in regulator-to-regulator session to adopt enhancements to the property/casualty (P/C) scoring system. These enhancements are the result of a two-year project that used artificial intelligence (AI) and machine learning (ML) to refine the system's ability to identify insurers at risk of

solvency issues earlier and more accurately. Key changes included removing ratios with no significant predictive value, modifying certain existing ratios, and adding two new predictive ratios identified by the model.

The Working Group also met Nov. 6 and Sept. 23 to adopt revisions to the *Financial Analysis Handbook* (Handbook) on the following topics: 1) updates to reflect the principle-based bond definition; 2) guidance on contractor oversight; 3) enhancements to the Insurer Profile Summary (IPS) and Group Profile Summary (GPS) examples.

The Working Group also adopted changes to P/C Insurance Regulatory Information System (IRIS) Ratio 9 – Adjusted Liabilities to Liquid Asset Ratio and formed a drafting group to develop guidance and related calculations for determining whether an insurer is in hazardous financial condition.

#### C. Financial Examiners Handbook (E) Technical Group

Snowbarger stated that the Technical Group met Nov. 20 and Oct. 14 to adopt revisions to the Handbook on the following topics:

- Revisions to Exhibit A simplify and consolidate examination planning steps by merging steps one, six, and seven into one concurrent meeting step, combining information technology (IT) risk assessment (step four) into a single step, and deleting step five. Corresponding narrative guidance in Section 2-1 for updating the IPS was also deleted.
- Revisions to the reinsurance ceding repository add the new catastrophe reinsurance interrogatory as an information source and include other potential procedures when reviewing catastrophic reinsurance coverage for reasonableness.
- Revisions to Exhibit Q clarify that there should be a meeting at the end of the examination to communicate exam results with the analyst.
- Revisions to the introduction and Section 1-4 provide guidance on the responsible use of artificial intelligence (AI), including considerations regarding user review of AI output and confidentiality.
- Revisions to the capital and surplus repository and reinsurance ceding repository include updates related to modified coinsurance (modco) reinsurance and related collateral held. Revisions were also made to the investments repository that update an existing risk identifier and add sample procedures to help ensure the appropriate reporting treatment of securities under the principle-based bond definition.
- Revisions to the reserves/claims handling (life) repository add sample procedures for asset adequacy testing (AAT) for certain asset-intensive reinsurance transactions in accordance with *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55).
- Revisions throughout the Handbook reflect changes to the risk matrix verbiage, as standalone risk matrices will be phased out with the transition to TeamMate+. Updates were also made to Exhibits V, CC, and DD to replace outdated Automatic Reference Counting (ARC) reference examples with hyperlinks, reflecting how references appear in TeamMate+.

#### D. IT Examination (E) Working Group

Vang stated that the Information Technology (IT) Working Group met July 31 to discuss the decision framework document to separate information technology general control (ITGC) work from cyber risk assessment work following last year's gap analysis work. Vang stated that the framework document lays out a new seven-step process for IT examination and will create a new Exhibit C, Part 3 for the cyber risk assessment. This framework document was exposed for a 30-day public comment period and received only non-substantive comments. A new

drafting group was formed to start updating the IT examination guidance in the Handbook in alignment with the decision framework. This work is ongoing and will continue into next year.

Eft made a motion, seconded by Kaumann, to adopt the reports of the Financial Examiners Coordination (E) Working Group; Financial Analysis Solvency Tools (E) Working Group, including its Nov. 6 (Attachment Two) and Sept. 23 minutes (Attachment Two-A); the Financial Examiners Handbook (E) Technical Group, including its Nov. 20 (Attachment Three) and Oct. 14 (Attachment Four) minutes; and the IT Examination (E) Working Group, including its July 31 minutes (Attachment Five). The motion passed unanimously.

Having no further business, the Examination Oversight (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E Committee/2025\_3Fall/EOTF/EOTF – Meeting Minutes 12.1.2025

Draft: 10/7/25

Examination Oversight (E) Task Force  
E-Vote  
September 29, 2025

The Examination Oversight (E) Task Force conducted an e-vote that concluded Sept. 29, 2025. The following Task Force members participated: Judith L. French, Chair, represented by Zachary Wheatley (OH); Karima M. Woods, Vice Chair, represented by N. Kevin Brown (DC); Ricardo Lara represented by Laura Clements (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by William Arfanis (CT); Trinidad Navarro represented by Rylonn Brown (DE); Doug Ommen represented by Daniel Mathis (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Levi Nwasoria (KS); Sharon P. Clark represented by Jeff Gaither (KY); Timothy J. Temple represented by Tom Travis (LA); Michael T. Caljouw represented by John Turchi (MA); Anita G. Fox represented by Kirstin Hynes (MI); Grace Arnold represented by Kathleen Orth (MN); Angela L. Nelson represented by John Rehagen (MO); Mike Chaney represented by Mark Cooley (MS); Eric Dunning represented by Tadd Wegner (NE); John Godfread represented by Matt Fischer (ND); Glen Mulready represented by Eli Snowbarger (OK); Elizabeth Kelleher Dwyer represented by John Tudino (RI); Larry D. Deiter represented by Johanna Nickelson (SD); Cassie Brown represented by Shawn Frederick (TX); Scott A. White represented by Jennifer Blizzard (VA); Patty Kuderer represented by Tarik Subbagh (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its 2026 Revised Charges

The Task Force conducted an e-vote to consider adoption of its 2026 revised charges (*See NAIC Proceedings – Fall 2025, Financial Condition (E) Committee*). The Electronic Workpaper (E) Working Group revised its existing charges by removing the requirement for ongoing oversight of the transition to the TeamMate+ application. The motion passed unanimously.

Having no further business, the Examination Oversight (E) Task Force Adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E Cmte/EOTF/EOTF E-Vote Minutes 9-29-25

Draft: 11/10/25

Financial Analysis Solvency Tools (E) Working Group  
Virtual Meeting  
November 6, 2025

The Financial Analysis Solvency Tools (E) Working Group of the Examination Oversight (E) Task Force met Nov. 6, 2025. The following Working Group members participated: Greg Chew, Chair (VA); Amy Garcia, Vice Chair (TX); Richard Russell (AL); Dave Lathrop (AZ); Jack Broccoli (CT); N. Kevin Brown (DC); Carolyn Morgan and Shalice Rivers (FL); Amanda Denton (IN); Greg Ricci (MD); Kristin Hynes (MI); Danielle Smith (MO); Paul Lupo (NJ); Victor Agbu (NY); Mark Boston and Tracy Snow (OH); Liz Ammerman (RI); and Kristin Forsberg (WI).

1. Adopted its Sept. 23 Minutes

The Working Group met Sept. 23. During that meeting, the Working Group took the following action: 1) adopted revisions to the *Financial Analysis Handbook* (Handbook) related to contractor oversight guidance; 2) exposed draft Handbook guidance on the recommended interpretation of conditions in the *Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition* (#385), draft guidance made in response to statutory accounting and financial statement blanks reporting revisions, and updates to the Insurer Profile Summary (IPS) and Group Profile Summary (GPS) examples for a 30-day public comment period ending Oct. 23; and 3) exposed proposed changes to property/casualty (P/C) Insurance Regulatory Information System (IRIS) Ratio 9—Adjusted Liabilities to Liquid Assets for a 30-day comment period ending Oct. 23.

Hynes made a motion, seconded by Forsberg, to adopt the Working Group's Sept. 23 minutes (Attachment Two-A). The motion passed unanimously.

2. Discussed Exposure Draft Comments Related to Handbook Guidance on Model #385 and Formed a Drafting Group

Chew said the next item of business was to discuss the comments received on the exposed revisions to the Handbook regarding the recommended interpretation of conditions in Model #385.

Chew noted that the comment letters suggested different variations of calculations to determine whether an insurer is in hazardous financial condition. Because of this, Chew recommended that the Working Group form a drafting group to continue working on the guidance and reach a consensus on the calculations, requesting volunteers from Working Group members. Chew, Forsberg, and Smith volunteered. Debbie Doggett (Doggett Consulting Services) also offered to participate in the drafting group. Chew directed committee support to send communication to Working Group members to request any additional volunteers.

Ralph Villegas (NAIC) said committee support will schedule a kick-off meeting with drafting group members in early 2026.

3. Adopted Revisions to the Handbook

Chew said the next item of business was to discuss comments and consider adoption of the exposed draft Handbook guidance related to: 1) branded risk assessment user guidance (Attachment Two-C); 2) guidance for the principle-based bond definition (PBBB) (Attachment Two-D); 3) guidance for separate accounts general

interrogatories disclosures on guarantees (Attachment Two-E); 4) guidance for notes to the financial statements (Attachment Two-F); and 5) IPS and GPS examples (Attachment Two-G).

Jane Koenigsman (NAIC) said the proposed guidance was revised to address Forsberg's comments (Attachment Two-B). This included adding a definition for "risk component" within the branded risk assessment user guidance, adding a holding company summary to the IPS example, and making other minor edits to the guidance to address the comments.

Forsberg indicated agreement with the proposed additional revisions.

Russell made a motion, seconded by Hynes, to adopt the revisions to the Handbook. The motion passed unanimously.

#### 4. Adopted Changes to P/C IRIS Ratio 9—Adjusted Liabilities to Liquid Assets Ratio

Chew said the next item of business was to consider adoption of the proposed changes to the calculation of the P/C IRIS Ratio 9. Chew noted that no formal comments were received on the exposure draft. However, the Working Group did receive a question about whether a similar adjustment should also be made for affiliated bonds, given that a similar adjustment was applied to affiliated stocks.

Rodney Good (NAIC) stated the proposed changes to the ratio are intended to correct the calculation for liquid assets, specifically the deduction of affiliated stocks, as companies with non-admitted affiliated stocks were being double-penalized. Good said, unlike affiliated stocks, there does not appear to be a way to isolate the non-admitted amount of affiliated bonds from the available data tables. Even if such an adjustment were possible, Good said it would have a negligible effect on the IRIS ratio results. As an alternative, Good suggested that committee support could draft additional ratio guidance in the IRIS manual for the Working Group to consider for next year to recommend that the analyst investigate whether any non-admitted bonds are affiliated and whether adding those amounts back would prevent the company from triggering the unusual value.

Chew asked committee support to draft the additional guidance for the Working Group to consider during an upcoming meeting next year.

Hynes made a motion, seconded by Forsberg, to adopt the changes to P/C IRIS Ratio 9 (Attachment Two-H). The motion passed unanimously.

Having no further business, the Financial Analysis Solvency Tools (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2025\_Fall/EOTF/11.6.25 FASTWG Meeting Minutes

Draft: 10/22/25

Financial Analysis Solvency Tools (E) Working Group  
Virtual Meeting  
September 23, 2025

The Financial Analysis Solvency Tools (E) Working Group of the Examination Oversight (E) Task Force met Sept. 23, 2025. The following Working Group members participated: Greg Chew, Chair (VA); Amy Garcia, Vice Chair (TX); Richard Russell and Todrick Burks (AL); Dave Lathrop and Kurt Regner (AZ); Michelle Lo (CA); Jack Broccoli (CT); N. Kevin Brown (DC); Carolyn Morgan and Shalice Rivers (FL); Amanda Denton (IN); Greg Ricci (MD); Kristin Hynes (MI); Danielle Smith (MO); Paul Lupo (NJ); Victor Agbu (NY); Tracy Snow, Mark Boston, David Cook, and Eric Hronek (OH); Ryan Keeling (OR); Liz Ammerman and Ted Hurley (RI); Samantha Watkins (SD); and Kristin Forsberg (WI).

1. Adopted the *Financial Analysis Handbook* Guidance Referred by the Risk-Focused Surveillance (E) Working Group

Chew said the Working Group received a referral from the Risk-Focused Surveillance (E) Working Group to request the adoption of a revision to the *Financial Analysis Handbook* (Handbook) for guidance regarding contractor oversight. The proposed guidance is consistent with guidance proposed for the *Financial Condition Examiners Handbook* that was discussed and exposed by the Risk-Focused Surveillance (E) Working Group.

Garcia made a motion, seconded by Russell, to adopt the Handbook guidance for contractor oversight (Attachment Two-A1). The motion passed unanimously.

2. Exposed Draft *Financial Analysis Handbook* Revisions

Chew said several amendments to the Handbook are proposed, including proposed guidance on the recommended interpretation of conditions in the Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition (Model #385), which had resulted in a referral received from the Chief Financial Regulator Forum (Attachment Two-A2). In addition, committee support are proposing revisions to various other sections of the Handbook in response to statutory financial statement blanks changes and general enhancements to the guidance.

A. Model #385 Financial Hazardous Condition Standards Guideline

Ralph Villegas (NAIC) said regarding Model #385 guidance, committee support drafted recommendations for interpreting Model #385 Subsection 3E and Subsection 3F within the Handbook Section IIIA(4)—Risk Assessment. The proposed guidance indicates regulators should still refer to each respective state's laws regarding hazardous financial condition criteria, as the proposal is intended to be guidance. Villegas asked the Working Group to consider exposing the draft for public comment.

Hronek said Ohio includes unrealized capital gains/losses in its net capital gain/loss calculation. Jane Koenigsman (NAIC) responded that the calculation in the proposal is based on feedback committee support received from a survey of state insurance regulators, where the majority of states provided that they did not include unrealized capital gains/losses. Koenigsman suggested that comments be requested specifically on which capital gains elements would be preferred in the calculation.

Cook said he thinks it is double-counting realized gains or losses included in net income. Villegas said he did not believe the calculation double-counted realized capital gains/losses. Chew agreed and asked Hronek and other commentators to comment on the exposure draft regarding whether to include net gains/losses, either realized, unrealized, or both.

B. Branded Risk Assessment User Guidance

Koenigsman said the revisions in the Handbook chapter IIIA(7) move this guidance to the front of the risk assessment section of the Handbook to eliminate redundancy. Additional edits are intended to encourage customization.

C. Guidance for PBBD

Koenigsman said the credit, liquidity, and market risk assessment chapters include updates made in response to statutory accounting and financial statement blanks reporting. The most significant revisions are for the principle-based bond definition (PBD). Revisions are drafted to be high-level on purpose. Koenigsman said that the guidance on structured notes is proposed to be deleted, and there is added guidance proposed on new modified coinsurance (modco) and funds withheld reinsurance reporting.

D. Guidance for Separate Accounts General Interrogatories Disclosures on Guarantees

Koenigsman said updates to the life reserves risk assessment chapter include guidance and a procedure on the new disclosures under *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55) related to asset adequacy testing (AAT) on reinsurance. Additionally, updates are proposed related to statutory financial statement blanks changes for separate account guarantees.

E. Guidance for Notes to the Financial Statement

Koenigsman said there were a multitude of Statutory Financial Statement Blanks Instruction changes that impacted notes to the financials, tax credit structures withheld, commitments and financing arrangements, reinsurance, and health care receivables.

F. Exposed Risk Assessment IPS and GPS Examples

Koenigsman said committee support proposed updates to the example Insurer Profile Summary (IPS) and Group Profile Summary (GPS) that are in the Handbook, as they believe the examples are out-of-date. Koenigsman stated that committee support recommend deleting the “Other Risk” category.. Koenigsman requested state insurance analysis staff feedback, recommending exposure of recommendations for public comment. With no objections, Chew said the proposed revisions to the handbook will be exposed for a 30-day public comment period ending Oct. 23, with a request to comment specifically on the unrealized capital gains and losses in the hazardous financial condition formula guidance.

3. Exposed Proposed Changes to P/C IRIS Ratio 9—Adjusted Liabilities to Liquid Assets Ratio

Rodney Good (NAIC) said that the Insurance Regulatory Information System (IRIS) Ratio 9—Adjusted Liabilities to Liquid Assets currently pulls the affiliated stock value from the five-year historical data table, which includes both

admitted and non-admitted amounts. This creates a double penalty for insurers with non-admitted affiliated amounts. In 2024, five insurers would have avoided the unusual result if the calculation excluded non-admitted values. Therefore, committee support recommended changing the source for affiliated stocks from the five-year historical data table to Schedule D, Part 6, where the net admitted value can be obtained.

With no objections, Chew said the IRIS ratio change will be exposed for a 30-day public comment period ending Oct. 23.

Having no further business, the Financial Analysis Solvency Tools (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2025\_3Fall/EOTF/FASTWG 9-23-2025 meeting minutes.docx

**MEMORANDUM**

TO: Greg Chew (VA), Chair, Financial Analysis Solvency Tools (E) Working Group

FROM: Amy Malm, Chair, Risk-Focused Surveillance (E) Working Group

DATE: February 26, 2025

RE: Oversight of Contractor Guidance in FAH

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The Financial Regulation Standards and Accreditation (F) Committee sent a referral to the Risk-Focused Surveillance Working Group (RFSWG) on July 26, 2024, related to standards and expectations for state insurance departments in using contractors to conduct financial analysis and examination projects. The referral asked the RFSWG to consider several questions related to supervisory expectations and timelines in this area.

The RFSWG held multiple calls to discuss the issues raised in the referral, before developing proposed revisions to the Accreditation Review Team Guidelines, *Financial Analysis Handbook*, and *Financial Condition Examiners Handbook* to outline additional regulatory guidelines and expectations in this area. The proposed revisions were subject to a 45-day public comment period, during which comment letters were received from a joint group of interested parties and the Georgia Office of the Insurance Commissioner.

Many of the comments received were incorporated into an updated draft of the guidance, which was discussed at the RFSWG's Feb. 26 virtual meeting. During the meeting, the RFSWG agreed to some additional edits before finalizing the guidance. Proposed edits to the *Financial Analysis Handbook* are included in **Attachment One** of this memorandum for FASTWG consideration. Edits are proposed to section I.A. Department Organization and Communication and to section II. Risk-Focused Financial Surveillance Framework.

As the proposed revisions have been thoroughly reviewed and subject to a public comment period, we recommend they be considered for adoption without additional public exposure or significant modifications, to ensure the guidance remains consistent with guidance proposed for the NAIC's *Financial Condition Examiners Handbook* and the Accreditation Review Team Guidelines.

If there are any questions regarding the proposed recommendations, please contact us or NAIC staff (Bruce Jenson at [bjenson@naic.org](mailto:bjenson@naic.org)) for clarification. Thank you for your consideration of this referral.

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**MEMORANDUM**

TO: Greg Chew, Chair of the Financial Analysis Solvency Tools (E) Working Group

FROM: Diana Sherman, Facilitator of the Chief Financial Regulator Forum

DATE: March 23, 2025

RE: Model #385 Criteria Clarifications

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During its March 23, 2025, meeting, the Chief Financial Regulator Forum discussed questions regarding certain elements of the NAIC's *Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition* (Model #385). Section 3 of Model #385 identifies standards that may be considered by the commissioner to determine whether the continued operation of any insurer transacting an insurance business in this state might be deemed to be hazardous to its policyholders, creditors or the general public.

Some of the standards provided in Section 3 include specific financial performance criteria that require calculations to determine whether the standards have been triggered. In some cases, regulators have found it difficult to determine how the calculation should be performed, due to ambiguous language used in the Model. For example, see standards E and F in Section 3 of Model #385, as included below:

- E. Whether the insurer's operating loss in the last twelve-month period or any shorter period of time, including but not limited to net capital gain or loss, change in non-admitted assets, and cash dividends paid to shareholders, is greater than fifty percent (50%) of the insurer's remaining surplus as regards policyholders in excess of the minimum required;
- F. Whether the insurer's operating loss in the last twelve-month period or any shorter period of time, excluding net capital gains, is greater than twenty percent (20%) of the insurer's remaining surplus as regards policyholders in excess of the minimum required;

The terms operating loss, net capital gain or loss, and remaining surplus are not defined within Model #385, nor are they used in the NAIC Annual Statement, leading to potential confusion and lack of consistency in the application of standards across states and companies. As guidance for applying Model #385 considerations is included in the NAIC's *Financial Analysis Handbook*, the Chief Forum is referring this issue to the Financial Analysis Solvency Tools (E) Working Group for further consideration.

We recommend the Working Group develop additional guidance for financial analysts to use in performing these calculations and implementing the standards outlined in Model #385 within the *Financial Analysis Handbook*.

If there are any questions regarding the referral, please contact either me or NAIC staff (Bruce Jensen at [bjensen@naic.org](mailto:bjensen@naic.org)) for clarification. Thank you for your consideration of this important issue.

**Financial Analysis Solvency Tools (E) Working Group  
Exposure Draft [Due: 10/23/25]  
Proposed Revisions to the Financial Analysis Handbook  
(2025 Annual/2026 Quarterly)  
WI OCI Comments**

**1. Model 385 Financial Hazardous Condition Standards Guideline (pgs. 2-3) <sup>1</sup>**

Comments:

(1) On pg. 3 [P&C Table] – the Annual Statement Reference for “E – Remaining Surplus” is:

“Surplus as regards policyholders: Page **2**, Col. 1, Line 37.”

The reference to page 2 is incorrect (it should be Page 3 – Liabilities, Surplus and Other Funds).

(2) Feedback on use of Net Unrealized Capital Losses in the calculation:

As the Change in Net Unrealized Capital Gains and Losses is already reflected in Surplus – I’m assuming this is referring to the total accumulated Unrealized Changes in Capital Gains and Losses.

The concern is that this is a paper loss only, which could fluctuate dramatically during periods of extreme volatility. [Also – for companies that have strong liquidity (good cash flows from operations and more than ample liquid assets), including this figure in the calculation could cause the company to ‘fail’ simply due to one bad day in the market (especially if it just happened to occur on a statutory reporting date).]

**2. Branded Risk Assessment Guidance (pg. 4)**

Comments: The following statement can be a bit confusing – as the term “risk components” is not defined:

- “Just as the analysis is customized to the individual insurer, analysts are strongly encouraged to customize the *risk component* names used within the analysis documentation...rather than relying solely on titles of risks from the Handbook guidance.”

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<sup>1</sup> For the Model 385 guidance, please provide any feedback on the components used in the suggested calculations shown in the attachment, including whether Net Unrealized Capital Gains/Losses should be included or not in the calculation (along with supporting reasoning).

Suggested change:

- Within each branded risk category, there are generally multiple sub-risks, which should be clearly defined (using a risk title/risk statement) for the benefit of the reviewer. For example, Reinsurance Recoverables is a common sub-risk within the “Credit” branded risk category:

Reinsurance Recoverables [Risk Title]: The risk that reinsurance recoverables are uncollectable and/or are not paid on a timely basis. [Risk Statement]

Once the sub-risk is clearly defined, the analyst should select appropriate metrics to assess the company’s exposure to the sub-risk (which could include quantitative and/or qualitative metrics).

When a branded risk category includes multiple sub-risks with different risk assessments include an explanation of the overall branded risk category assessment to explain how the overall risk assessment was determined.

### 3. Blank Changes Guidance for Principle Based Bond Definition (PBB) (pgs. 5-24)

Pg. 8: Procedures/Data First Bullet Point states: “Consider evaluating the following asset classes that may have credit default risk in comparison to total net admitted assets to determine the level of concentration...**Corporate Bonds**...”

Comment: The inclusion of “Corporate Bonds” in this list is misleading, as the vast majority of corporate bonds are highly liquid (publicly traded) and are mostly investment grade (NAIC 1 or 2). Recommend changing “Corporate Bonds” to:

- Non-investment grade Corporate Bonds

**Page 9: Suggest a slight modification to add when to this sentence: “*Within the six NAIC Designations are NAIC Designation Modifiers, which when combined result in the NAIC Designation Category.*”**

### 4. Separate Accounts General Interrogatories Disclosures on Guarantees (pgs. 25 -31)

Comments: None

### 5. Notes to the Financial Statement (pgs. 32 – 43)

Comments: None

### 6. Risk Assessment IPS and GPS Examples (pgs. 44 – 68)

Comments:

- Insurer Profile Summary Example: It would be helpful to include a subsection “Holding Company System Overview” (either within the Business Summary, or just after the Business Summary). [It’s difficult to have a good understanding of the company unless you understand the business profile of the holding company system (key business segments/products, geographic territory, etc.) (particularly if the company participates in an intercompany pooling arrangement).]

Note: This could be combined with the “Impact of the Holding Company on Insurer” section. [Since understanding the group is a critical pre-requisite for understanding the company’s risk profile – it would be best to place this information in the front-end of the IPS.]

## **7. Proposed Changes to P&C IRIS Adjusted Liabilities to Liquid Assets Ratio (pg. 69)**

Comments: None (agree with the proposed changes).

	Financial Analysis Handbook 2025 Annual / 2026 Quarterly
III.A.7 Use of Branded Risk Assessment Guidance	

## USE OF BRANDED RISK ASSESSMENT GENERAL GUIDANCE

To assess ~~credit~~-a branded risk category, consider the procedures, data elements, metrics and benchmarks in this chapter. The placement of procedures, metrics and data within ~~credit~~-each branded risk category is based on “best fit.” Analysts should use their professional judgement in categorizing risks when documenting financial determinations of the analysis. For example, key insurance operations or lines of business may have related risks addressed in different risk categories. Therefore, analysts may need to review ~~other~~-risks in conjunction with ~~credit~~-risk multiple branded risk categories.

Analysts are not expected to document every procedure, data or benchmark result. Rather, analysts and supervisors should use their expertise, knowledge of the insurer and professional judgement to tailor the analysis to address the specific risks of the insurer and document the applicable details within the analysis. Results of ~~credit~~ risk analysis should be documented in Section III: Risk Assessment of the insurer. Documentation of the risk assessment analysis should be sufficiently robust to explain the risks and reflect the strengths and weaknesses of the insurer.

Just as the analysis is customized to the individual insurer, analysts are strongly encouraged to customize the risk component names [i.e., an individual risk exposure or element that contributes to the broader branded risk category assessment] used within analysis documentation (including within TeamMate+) and the IPS, rather than relying solely on titles of risks from the Handbook guidance. Clearly labeled risk component names benefit the understanding of the risk assessment for the reviewer and other readers of the IPS.

In conducting your analysis, utilize available tools in iSite+ such as financial profile reports, dashboards, investment snapshots, jumpstart reports, and other industry aggregated analysis. Consider also external tools such as rating agency reports, industry reports, and publicly available insurer information.

Analysts should complete their ~~credit~~ risk assessment in conjunction with:

- A review of the Supervisory Plan and Insurer Profile Summary and the prior period analysis.
- Communication with the company.
- Communication and/or coordination with other internal departments.
- The insurer’s corporate governance which includes the assessment of the risk environment facing the insurer in order to identify current or prospective solvency risks, oversight provided by the board of directors and the effectiveness of management, including the code of conduct established by the board.

The ~~following Handbook’s guidance by branded risk~~ is not an all-inclusive list of possible procedures, data, or metrics. Therefore, risks identified for which no procedure is available should be analyzed by the state insurance department based on the nature and scope of the risk.

**Commented [JK1]:** Staff recommends the highlighted text in response to WI’s comment #2. The term “Risk Component” has been used throughout the Handbook for several years. To change the terminology would be more extensive not only within the Handbook but also in analysis training materials. While “Risk Statement” is a term for documentation by examiners, it has not been used in analysis. While staff agrees with directing analysts to utilize metrics and make overall risk assessments, we feel that is already sufficiently covered elsewhere in existing Handbook guidance.

### III.B.1 Credit Risk Assessment

CREDIT RISK: Amounts actually collected or collectible are less than those contractually due or payments are not remitted on a timely basis.

The Credit Risk Assessment is focused primarily on exposure to credit risk of investments and reinsurance receivables. In analyzing credit risk, analysts may analyze specific types of investments and receivables held by insurers. Analysts' risk-focused assessment of credit risk should take into consideration the following areas (but not be limited to):

- Concentrations of investments in type and sector (i.e., diversification).
- Materiality of high-risk or low-quality investments.
- Credit quality of affiliates and subsidiaries.
- Extensive use of reinsurance.
- Credit quality of reinsurers.
- Collectability of reinsurance receivables.
- Quality of collateral held on unauthorized or overdue authorized reinsurance.
- Collectability of other receivables (e.g., intercompany receivables).
- Collectability of uncollected premium and agents' balances.
- ~~Credit quality of affiliates and subsidiaries.~~
- ~~Quality of collateral held on unauthorized or overdue authorized reinsurance.~~
- Strategies for mitigating credit risk (i.e., counterparty risk with derivatives and off-balance sheet transactions).
- ~~Collectability of uncollected premium and agents' balances.~~

~~Derivatives: Refer to IV.A. Supplemental Analysis Guidance – Financial Analysis and Reporting Considerations for general information and a primer on derivatives.~~

#### GENERAL GUIDANCE

~~To assess credit risk, consider the procedures, data elements, metrics and benchmarks in this chapter. The placement of procedures, metrics and data within credit risk is based on “best fit.” Analysts should use their professional judgement in categorizing risks when documenting financial determinations of the analysis. For example, key insurance operations or lines of business may have related risks addressed in different risk categories. Therefore, analysts may need to review other risks in conjunction with credit risk.~~

~~In conducting your analysis, utilize available tools in iSite+ such as financial profile reports, dashboards, investment snapshots, jumpstart reports, and other industry aggregated analysis. Consider also external tools such as rating agency reports, industry reports, and publicly available insurer information.~~

~~Analysts are not expected to document every procedure, data or benchmark result. Rather, analysts and supervisors should use their expertise, knowledge of the insurer and professional judgement to tailor the analysis to address the specific risks of the insurer and document the applicable details within the analysis. Results of credit risk analysis should be documented in Section III: Risk Assessment of the insurer. Documentation of the risk assessment analysis should be sufficiently robust to explain the risks and reflect the strengths and weaknesses of the insurer.~~

~~Analysts should complete their credit risk assessment in conjunction with:~~

- ~~A review of the Supervisory Plan and Insurer Profile Summary and the prior period analysis.~~

### III.B.1 Credit Risk Assessment

- ~~• Communication and/or coordination with other internal departments.~~
- ~~• The insurer's corporate governance which includes the assessment of the risk environment facing the insurer in order to identify current or prospective solvency risks, oversight provided by the board of directors and the effectiveness of management, including the code of conduct established by the board.~~

~~The following is not an all-inclusive list of possible procedures, data, or metrics. Therefore, risks identified for which no procedure is available should be analyzed by the state insurance department based on the nature and scope of the risk.~~

#### Principles-Based Bond Definition (PBBB)

Beginning in 2025, investment schedules and certain other Notes to the Financial, General Interrogatories, 5-Year History, and related pages of the quarterly and annual financial statement were amended for the implementation of the statutory accounting principles-based bond definition (PBBB) revisions.

Analysts should be aware that in some cases, changes between amounts reported on investment schedules and certain lines of the schedules may not be comparable to the prior year (2025 to 2024) or may vary from the prior year due to the bond definition change, in which an insurer may hold some securities that no longer meet the definition of a bond (or vice versa), as well as revisions to investment schedule reporting categories.

The PBBB project revised the definition of a bond to "a security structure representing a creditor relationship with a fixed payment schedule." A creditor relationship requires the evaluation of substance rather than solely the legal form. In assessing credit, market and liquidity risks for bonds, the analyst should have a clear understanding of what securities are reported as bonds and the related reporting requirements.

Debt securities that do not qualify as bonds are in scope of SSAP No. 21 and would be reported on Schedule BA. Under PBBB, there are three reasons why a debt security would not qualify as a bond: 1) the debt security does not reflect a creditor relationship (applies to Issuer Credit Obligations—ICO and Asset-Backed Securities—ABS); 2) the debt security has a lack of substantive credit enhancement (applies to ABS); and 3) the debt security lacks meaningful cash flows (applies to non-financial ABS).

The PBBB modified Schedule D reporting to differentiate more fully between Issuer Credit Obligations (ICO), reported on Schedule D Part 1, Section 1, and Asset-Backed Securities (ABS) reported on Schedule D Part 1, Section 2, which are defined as follows.

ICOs are issued by operating entities. For an ICO, the repayment of the instrument is supported primarily by the general creditworthiness of an operating entity or entities. ICOs are reported on Schedule D, Part 1, Section 1, which only includes securities in scope of SSAP No. 26. Investments in orange italics are not bonds but are explicit inclusions within the scope of SSAP No. 26.

- U.S. Government Obligations
- Other U.S. Government Obligations
- Non-U.S. Sovereign Jurisdiction Securities
- Municipal Bonds – General Obligations
- Municipal Bonds – Special Revenue
- Project Finance Bonds Issued by Operating Entities (Unaffiliated / Affiliated)
- Corporate Bonds (Unaffiliated / Affiliated)
- Mandatory Convertible Bonds (Unaffiliated / Affiliated)
- Single Entity Back Obligations (Unaffiliated / Affiliated)
- SVO-Identified Bond Exchange Traded Funds–Fair Value
- SVO-Identified Bond Exchange Traded Funds–Systemic Value

### III.B.1 Credit Risk Assessment

- [Bonds Issued by Funds Representing Operating Entities \(Unaffiliated / Affiliated\)](#)
- [Bank Loans—Issued \(Unaffiliated / Affiliated\)](#)
- [Bank Loans—Acquired \(Unaffiliated / Affiliated\)](#)
- [Mortgage Loans that Qualify As SVO-Identified Credit Tenant Loans \(Unaffiliated / Affiliated\)](#)
- [Certificates of Deposit](#)
- [Other Issuer Credit Obligations \(Unaffiliated / Affiliated\)](#)

[ABSs are bonds created for the primary purpose of raising debt capital backed by financial assets or cash-generating non-financial assets owned by the ABS issuer, where repayment is primarily derived from the cash flows associated with the underlying defined collateral other than the issuing entity's operating cash flows.](#)

- [Required Defining Characteristics:](#)
  - [Reporting entity holder of debt is in a different position than if the underlying collateral was held directly.](#)
  - [Collateral must be financial assets or cash-generating non-financial assets expected to generate a meaningful source of cash flows for bond repayment other than through sale or refinancing of the assets.](#)

[ABSs are reported on Schedule D, Part 1, Section 2, which only includes securities in scope of SSAP No. 43.](#)

- [Financial Asset-Backed Securities – Self-Liquidating \[i.e. RMBS, CMBS, CLOs\]](#)
  - [Agency Residential / Commercial Mortgage-Backed Securities – Guaranteed \(Exempt from RBC\)](#)
  - [Agency Residential / Commercial Mortgage-Backed Securities – Not/Partially Guaranteed \(Not Exempt from RBC\)](#)
  - [Non-Agency Residential / Commercial Mortgage-Backed Securities \(Unaffiliated / Affiliated\)](#)
  - [Non-Agency – CLOs/CBOs/CDOs \(Unaffiliated / Affiliated\)](#)
  - [Other Financial Asset-Backed Securities – Self-Liquidating \(Unaffiliated / Affiliated\)](#)
- [Financial Asset-Backed Securities – Not Self-Liquidating \[i.e. CFOs, other equity-backed\]](#)
  - [Equity Backed Securities \(Unaffiliated / Affiliated\)](#)
  - [Other Financial Asset-Backed Securities – Not Self-Liquidating \(Unaffiliated / Affiliated\)](#)
- [Non-Financial Asset-Backed Securities – Practical Expedient \[i.e. Lease-backed with less than 50% cashflows from sale/refinance at maturity\]](#)
  - [Lease-Backed Securities – Practical Expedient \(Unaffiliated / Affiliated\)](#)
  - [Other Non-Financial Asset-Backed Securities – Practical Expedient \(Unaffiliated / Affiliated\)](#)
- [Non-Financial Asset-Backed Securities – Full Analysis \[i.e. Lease-backed / other ABS supported as bonds due to entities detailed analysis\]](#)
  - [Lease-Backed Securities – Full Analysis \(Unaffiliated / Affiliated\)](#)
  - [Other Non-Financial Asset-Backed Securities – Full Analysis \(Unaffiliated / Affiliated\)](#)

[Further detailed guidance on the Principles Based Bond Definition, including what classifies as a bond and the related reporting changes can be found within:](#)

- [SSAP No. 21—Other Admitted Assets](#)
- [SSAP No. 26—Bonds](#)
- [SSAP No. 43—Asset-Backed Securities](#)
- [Statutory Issue Paper No. 169—Principles-Based Bond Definition](#)
- [2025 annual and quarterly financial statement reporting blanks and instructions](#)

### III.B.1 Credit Risk Assessment

## ANNUAL CREDIT RISK ASSESSMENT

### Significant Investment Concentration by Asset Class

Determine whether the insurer's investment portfolio appears to be adequately diversified to avoid an undue concentration of investments by asset type, duration or issuer.

Various types of investments to total net admitted assets (excluding separate accounts) are a measure of the diversity of the insurer's investment portfolio by type of investment. The results of these ratios may also provide some indication of the insurer's liquidity. Ratios are included for most types of investments except for government and agency bonds and cash and short-term investments, which are generally very liquid and have low credit risk. In addition, the ratio of the investment in any one issuer to total net admitted assets (excluding separate accounts) is a measure of the diversity of the insurer's investment portfolio by issuer.

#### Procedures / Data

- Consider evaluating the following assets classes that may have credit default risk in **comparison to total net admitted assets** to determine the level of concentration:

~~o Industrial and miscellaneous bonds (unaffiliated)~~

o Issuer Credit Obligations (Unaffiliated):

- Project Finance Bonds Issued by Operating Entities
- Corporate Bonds (non-investment grade)
- Mandatory Convertible Bonds
- Single Entity Back Obligations
- Bonds Issued by Funds Representing Operating Entities
- Bank Loans—Issued or Acquired
- Mortgage Loans that Qualify As SVO-Identified Credit Tenant Loans
- Other Issuer Credit Obligations

o Financial and Non-Financial Asset-Backed Securities

~~Residential mortgaged-backed securities (RMBS), commercial mortgage-backed securities (CMBS) or other loan-backed and structured securities (LBaSS)~~

- o Preferred stocks
- o Mortgage loans
- o Other invested assets (Schedule BA)
- o Derivative exposure to any single Exchange, Counterparty or Central Exchange
- o Collateral Loans [Life/A&H Insurers]
- o Aggregate write-ins for invested assets
- o Investments in affiliates, subsidiaries, and parent
- o Any single investment (by issuer) in bonds, preferred stock, mortgages, or BA assets (excluding federal issuers and affiliated investments)

#### Additional Review Considerations

- Review the percentage distribution of assets for significant shifts in the mix of investments owned during the past five years.
- Compare the insurer's distribution of cash and invested assets to industry averages and peer averages on iSite+ to determine significant deviations from the industry and peer averages. The comparison should focus on an appropriate peer group based on insurer type and asset size.

Commented [JK1]: Addresses WI Comment #3

### III.B.1 Credit Risk Assessment

- Review of the Annual Supplemental Investment Risks Interrogatories to identify any unusual items or areas and determine whether the insurer's investment portfolio is adequately diversified to avoid significant aggregate credit risk.
- Perform sector analysis of Schedule D holdings with assistance of the NAIC Capital Markets Bureau if concerns exist that indicate a sector of the market may be experiencing financial distress that could result in credit risk to holders of bonds or stocks in that sector.
- If concerns exist regarding counterparty credit risk on derivatives, review Annual Financial Statement, Schedule DB, Part D to identify the counterparties and use available information (e.g., rating agency reports) to identify any concerns with the credit quality of the counterparty. [Refer to IV.A. Supplemental Analysis Guidance – Financial Analysis and Reporting Considerations for general information and a primer on derivatives.](#)
- Review the Legal Risk Assessment to determine whether the insurer's investment portfolio is in compliance with the investment limitations and diversification requirements per the state's insurance laws.
- Inquire of the insurer:
  - Planned asset mix and diversification strategies.
  - How the insurer manages counterparty credit risk, including diversification risk of counterparties.

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#### Procedures / Data

- Distinguish between the different non-investment grade classes as the risks are materially different. Consider the level of exposure to non-investment grade bonds in comparison to policyholder surplus (P/C), to capital and surplus plus AVR (L/H) and to capital and surplus (Health), to total bonds, or to total invested assets.
- Consider fluctuations in non-investment grade bond holdings by designation.
- Review Annual Financial Statement, Schedule D – Part 1A – ~~Section 1~~ and compare the insurer's holdings of non-investment grade bonds to the limitations included in *Investments in Medium and Lower Grade Obligations Model Regulation* (#340) (or similar state law). Given the potential volatility in prices and that the main concern is risk of loss to capital, an important consideration is the price at which non-investment grade bonds are held. The NAIC's Model #340 establishes limitations on the concentration of non-investment grade bonds because of concerns that changes in economic conditions and other market variables could adversely affect insurers having a high concentration of these types of bonds.
  - Review the amount of non-investment grade bonds by NAIC designation compared to total net admitted assets (excluding separate accounts) utilizing Model #340:
    - Aggregate amount of all bonds owned which have an NAIC rating of 3, 4, 5, or 6.
    - Aggregate amount of all bonds owned which have an NAIC rating of 4, 5, or 6.
    - Aggregate amount of all bonds owned which have an NAIC rating of 5, or 6.
    - Aggregate amount of all bonds owned which have an NAIC rating of 6.

[Within the six NAIC Designations are NAIC Designation Modifiers, which when combined result in the NAIC Designation Category. These categories are 20 granular delineations of investment risk within the NAIC 1 through NAIC 6 investment risk scale used to relate investment risk in insurer-owned securities to a risk-based capital factor.](#)

[Refer to the Purposes and Procedures Manual of the NAIC Investment Analysis Office for detailed information on how the following NAIC designations and modifiers are determined.](#)

III.B.1 Credit Risk Assessment

NAIC Designation	NAIC Designation Modifier	NAIC Designation Category
1	A	1A
	B	1B
	C	1C
	D	1D
	E	1E
	F	1F
	G	1G
2	A	2A
	B	2B
	C	2C
3	A	3A
	B	3B
	C	3C
4	A	4A
	B	4B
	C	4C
5	A	5A
	B	5B
	C	5C
6		6

Additional Review Considerations

- If the level of non-investment grade bonds is material, review Annual Financial Statement, Schedule D Part 1A and Part 1, Jumpstart Reports (e.g., Bond Investment Designation Exception Report), [Risk-Based Capital report](#), and the Financial Profile Reports and Dashboards to assess and understand the composition of non-investment grade bonds:
  - Amount and/or percentage of bonds in each NAIC designation class 3, 4, 5 or 6.
  - Amount and/or percentage of bonds within each NAIC designation 3, 4, or 5 by designation category.
  - Fluctuations and shifts in concentrations by class; new purchases; downgrades or upgrades.
  - Concentration by sector or issuer, including affiliates.
  - Whether or not bonds have been rated by a credit rating provider (CRP) (e.g., Moody’s Investors Service, Standard & Poor’s, A.M. Best, or Fitch Ratings).
  - Issuers that the rating agencies have on negative watch.
- Inquire of the insurer:
  - Explanation of significant exposures.
  - Policies and strategy for investing in non-investment grade bonds. Determine if the insurer is adhering to those investment policies.
  - For the more significant non-investment grade bonds, consider requesting from the insurer audited financial statements and a rating agency report from a CRP for the issuer of the bonds to assess the issuer’s current financial position and ability to repay its debt.

Borrower Default [and Volatility](#) for ~~RMBS, CMBS and LBaSS~~ [Asset-Backed Securities](#),

~~Volatility of RMBS, CMBS, and LBaSS Securities;~~

~~or~~ [OR](#)

Prepayment Variability for RMBS

Determine whether concerns exist over borrower default risk due to the level of investments in [asset-backed securities \(ABS\) including residential mortgage-backed securities \(RMBS\), commercial mortgage-backed securities \(CMBS\) and other financial or non-financial asset-backed securities reported on Schedule D Part 1, Section 2;](#) ~~and loan-backed and structured securities (LBaSS)~~ or prepayment variability risk in RMBS. Lower credit

### III.B.1 Credit Risk Assessment

quality of the borrowers (i.e., prime versus subprime) may result in higher risk of default, leading to credit losses in the event of a housing and/or commercial real estate market downturn.

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##### Procedures / Data

- Review the following ratios to determine the level of concentration in ~~RMBS, CMBS and LBaSS~~ [asset-backed securities](#) owned.
  - Ratio of all ~~RMBS, CMBS and LBaSS~~ [asset-backed securities](#) compared to total net admitted assets.
  - Ratio of all ~~RMBS, CMBS and LBaSS~~ [asset-backed securities](#) compared to policyholder surplus (P/C), or capital and surplus or capital and surplus [L/H or Health].
  - RMBS compared to total cash and invested assets, or to capital and surplus.
  - Any increasing trend in a material exposure from the prior year.

##### Additional Review Considerations

- Review the [asset-backed securities](#) ~~RMBS, CMBS and LBaSS~~ securities categories in Annual Financial Statement, Schedule D – Part 1 – [Section 2](#) for bonds with a book/adjusted carrying value (BACV) significantly in excess of par value. This could result in a loss being realized if bond prepayments occur faster than anticipated.
- Review the [asset-backed securities](#) ~~RMBS, CMBS and LBaSS~~ categories in Annual Financial Statement, Schedule D – Part 1 – [Section 2](#) for bonds with an unusually high effective yield.
- The effective yield on most debt securities is generally linked to its credit risk and duration. However, significant prepayment risk can also increase the effective yield.
- Review Annual Financial Statement, Schedule D, Part 1 – [Section 2](#), and the Snapshot Investment Summary Report on iSite+ to assess exposure to agency versus non-agency [asset-backed securities](#) ~~RMBS, CMBS and LBaSS~~.
- Consider having the [asset-backed securities](#) ~~RMBS, CMBS and LBaSS~~ modeled by an independent actuary as a part of an independent cash flow analysis.
- Inquire of the insurer:
  - Estimated prepayment speeds on its RMBS. Several standardized forms of calculating the rate of prepayments of a mortgage security exist in the market. Historically, the constant prepayment rate (CPR) and the standard prepayment model of the Bond Market Association (PSA curve) are simple methods used to measure prepayments. Numerous other methods have evolved. Analysts should consider further analysis in those instances that prepayment risk appears high.
  - There are many different types of RMBS, each of which have different characteristics and inherent risks. Therefore, consider requesting information from the insurer regarding the percentage distribution and amounts of each type of [asset-backed securities](#) ~~RMBS, CMBS and LBaSS~~ held; planned amortization class (PAC), support bonds, interest-only (IO) tranches, and principle-only (PO) tranches to evaluate the help evaluate the riskiness of the portfolio and the level of prepayment risk in the portfolio. IO bonds are particularly volatile.
  - Projected prepayment speeds on its RMBS portfolio and compare with historical prepayments, as well as the prepayment assumption at the time of purchase.

#### ---DETAIL ELIMINATED TO CONSERVE SPACE---

### Default, Volatility or Collateral Concentration of Structured Notes

### III.B.1 Credit Risk Assessment

~~Determine whether concerns exist due to the level of structured notes held by the insurer. If the amount is material compared to the the insurer's capital and surplus plus asset valuation reserve (AVR) (L/H), to policyholder surplus (P/C), or to capital and surplus (Health), the analyst should consider steps to gain a better understanding of the prospective risks of these investments and the insurer's level of investment expertise regarding these types of notes.~~

~~Structured notes are issuer bonds where the cash flows are based on a referenced asset and not the issuer credit. These notes differ from structured securities in that they do not have a related trust. Structured notes that are classified as mortgage-referenced securities are valued in accordance with *Statement of Statutory Accounting Principles (SSAP) 43—Asset-Backed Securities* while all other structured notes are valued in accordance with *SSAP 86—Derivatives*. Some examples of mortgage-referenced securities include securities issued by the Federal Home Loan Mortgage Corporation (FHLMC) (e.g., Structured Agency Credit Risk or STACR) and the Federal National Mortgage Association (FNMA). These mortgage-referenced securities are not FE, and the Structured Securities Group (SSG) assigns their NAIC designation based upon modeling assumptions.~~

#### Risks related to structured notes include:

- ~~Structured notes collateral concentration risk
  - ~~Material investment in structured notes that may have collateral type concentration may result in concentration risk (lack of diversity) to the insurer's portfolio.~~~~
- ~~Structured notes default
  - ~~Structured notes may be subordinated in the overall transaction representing exposure to non-payment in event of default.~~~~
- ~~Structured notes cash flow volatility risk (Refer to Market Risk)
  - ~~Impact of the volatility of structured notes and the underlying asset on which its cash flows are based.~~~~

#### Procedures / Data

- ~~Ratio of investments in structured notes to capital and surplus plus AVR (L/H), to policyholder surplus (P/C), or to capital and surplus (Health).~~

#### Additional Review Considerations

- ~~Review the Annual Financial Statement, Schedule D—Part 1—Section 2, to identify and understand the types of structured notes.~~
- ~~Refer to any recent examination findings.~~
- ~~Inquire of the insurer on such items as the structured note's use and investment strategy, the insurer's level of expertise with this type of security and controls the insurer has implemented to mitigate this risk.~~

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### Default or Volatility of Other Invested Assets (Schedule BA)

Determine whether concerns exist due to the level of investment in other invested assets (Schedule BA). The types of investments included in Annual Financial Statement, Schedule BA include: [debt securities that do not qualify as bonds; surplus notes; capital notes; collateral loans](#), joint ventures, and partnerships, and [limited liability companies; collateral loans; non-collateral loans; federal and state tax credit investments; working capital finance investments; and residual tranches or interests](#) ~~oil and gas production and mineral rights~~. Refer to [SSAP No. 21 and the guidance above on the PBBB as it relates to debt securities that do not qualify as bonds](#). Joint ventures and partnerships typically involve real estate. These types of assets also tend to be fairly illiquid and may contain significant credit risk. BA assets often have complex investment strategies and unpredictable cash flows. The

### III.B.1 Credit Risk Assessment

volatility of underlying assets (e.g., certain hedge funds and private equity funds) may result in underlying assets not being adequate.

Credit risks for Schedule BA assets include:

- Credit quality of the investments that may result in impairment and default.
- Complexity of BA assets.
- Adequacy of collateral of BA assets.
- Volatility of cash flows.
- Portfolio volatility driven by economic changes on BA assets.

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#### Credit Quality, Adequacy and Appropriateness of Assets Held for Modco or FWH Agreements (Life/A&H Insurers)

Concerns may exist regarding the quality, adequacy and appropriateness of assets held to support Modified Coinsurance (Modco) or Funds Withheld (FWH) reinsurance, particularly as investments become increasingly complex. Concerns may include controls and governance over investment practices, valuation and ratings of assets, and if material amounts of assets involve related party transactions.

Where collateral held is related to Modco and FWH reinsurance, the analyst should review the information in Note to the Financials #5L(1), #5L(4) and #5L(5), and Schedule S—Part 8—Reinsurance Agreements with Funds Withheld and Modified Coinsurance, in conjunction with other credit, operational and strategic risk of the insurer's reinsurance program. Additionally, review the analysis considerations related reserve reporting required by AG 53 (complex assets) and AG 55 (assets supporting reinsurance) outlined in the Reserving Risk Assessment and SOA procedures and guidance.

Where the company is engaged in material Modco and FWH arrangements, the analyst can use the detail of collateral received and held under Note 5L(4) to identify the types of assets held by investment schedule, and gain an understanding of the materiality of aggregate BACV of the collateral received to the insurer's asset portfolio. Further, the Note #5L(5) disclosure identifies if securities held as collateral under Modco or FWH agreements are also pledged under other arrangements, in which case they would not be for the benefit of the reinsurer or available to fulfill the liabilities of the reinsurance contract. The analyst can use the information in Schedule S—Part 8 to identify any concerns with the types of assets and credit quality of assets held under ceded or assumed Modco or FWH agreements.

#### Procedures / Data

- Identify the types of reinsurance agreements and jurisdiction of the reinsurer [Annual Financial Statement, Schedule S – Part 3] and determine if concerns may exist over the adequacy and quality of assets held by reinsurers in support of ceded reserves that may require further analysis or inquiry to the insurer.
- Compare the BACV of the collateral received and assets held under Modco/FWH Reinsurance Agreements to the recognized obligation for Modco and FWH assets. [Annual Financial Statement, Notes to the Financials #5L(4)(m and n)].
- Identify if investments held under FWH agreements (including Modco) are related to the Modco/FWH reinsurer [Annual Financial Statement, Notes to the Financials 5L(5)(o-v)].
- Identify if the insurer is engaged in ceding business under Modco and FWH agreements with offshore reinsurers.

### III.B.1 Credit Risk Assessment

- [Gain an understanding, through review of Schedule S - Part 3, of the types of insurance business ceded, the reinsurer's jurisdiction, if affiliated or non-affiliated, and applicable collateral requirements by type of reinsurer \(i.e. authorized, unauthorized, reciprocal jurisdiction, certified\)](#)
- [Review Schedule S – Part 8 to determine if concerns exist regarding the types of assets held or the credit quality of assets held under Modco/FWH agreements. Consider if the aggregate of medium or lower quality assets held represent a material amount of the related Modco/FWH liabilities.](#)
- [Determine if assets held under Modco or FWH agreements are also pledged under other agreements \[Annual Financial Statement, Notes to the Financials #5L\(5\)\].](#)

#### Additional Review Considerations

- [If concerns exist regarding the types of assets held or the credit quality of assets held under Modco or FWH agreements, or concerns over reinsurance reporting, inquire of the insurer to:](#)
  - [Identify the applicable reinsurers and reinsurance agreements.](#)
  - [Has the insurer entered into new offshore unaffiliated Modco or FWH agreements for which the agreement was not required to be reviewed by the Department?](#)
  - [If offshore reinsurance, gain an understanding of the insurer's business purpose for ceding business offshore.](#)
  - [Gain an understanding of the collateral requirements for the type of reinsurance and jurisdiction.](#)
  - [Request a copy of the applicable Modco/FWH reinsurance agreements and assess if the investment requirements are in compliance with the terms of the agreement and the state's reinsurance statutes.](#)
  - [Gain an understanding of the insurer's investment practices, governance policies and use of asset managers for reinsurance assets.](#)
- [If a material amount of assets held under Modco or FWH agreements are also pledged under other arrangements, inquire of the insurer to gain a better understanding of their use of collateral assets within their reinsurance program and to ensure the insurer is in compliance with collateral requirements.](#)
- [Refer significant concerns identified to the examiner for further review, if warranted.](#)

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## QUARTERLY CREDIT RISK ASSESSMENT

The quarterly credit risk procedures are designed to identify the following. [For additional guidance on individual procedure steps, please see the corresponding annual procedures discussed above.](#)

---DETAIL ELIMINATED TO CONSERVE SPACE---

### Volatility Risk by Asset Class

Determine whether the insurer has a significant portion of its assets invested, or has significantly increased its holdings since the prior year-end, in certain types of investments that tend to be riskier.

#### Procedures/Data

- Review and determine whether there are concerns due to the change in certain asset classes from the prior year-end.

### III.B.1 Credit Risk Assessment

- Increase in non-investment grade bonds and non-investment grade short-term investments from the prior year-end, where such investments are material compared to cash and invested assets (L/H) or policyholder surplus (P/C), or capital and surplus (Health).
- Increase in mortgage loans from prior year-end, where the ratio of total mortgage loans are material compared to cash and invested assets (L/H) or policyholder surplus (P/C), or capital and surplus (Health).
- Increase in BA assets from prior year-end, where the ratio of BA assets is material compared to cash and invested assets (L/H) or policyholder surplus (P/C) or capital and surplus (Health).
  - [Note: Beginning with quarterly 2026, collateral loans are classified and reported on Schedule BA Parts 2 and 3, in accordance with the type of collateral that secures the loan, enabling analysts the ability to identify the type of collateral. \(Refer to 2026 Quarterly Blanks Instructions and SSAP No. 21R–Other Admitted Assets\).](#)
- 
- Increase in aggregate write-ins from prior year-end, where the ratio of aggregate write-ins are material compared to cash and invested assets (L/H) or policyholder surplus (P/C) or capital and surplus (Health).
- Increase in affiliated investments from the prior year-end, where the ratio affiliated investments are material compared to cash and invested assets (L/H) or policyholder surplus (P/C) or capital and surplus (Health).
- [Life only] Review Schedule DB – Part D – Section 1. Increase in derivative investments where the ratio of potential exposure to counterparty exposure for derivative instruments to capital and surplus plus AVR is material.

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PRINCIPLES-BASED BOND DEFINITION (PBBB)

Beginning in 2025, investment schedules and certain other Notes to the Financial, General Interrogatories, 5-Year History, and related pages of the quarterly and annual financial statement were amended along with the implementation of the statutory accounting principles-based bond definition (PBBB) revisions.

Analysts should be aware that in some cases, changes between amounts reported on investment schedules and certain lines of the schedules may not be comparable to prior year (2024) or may vary from the prior year due to the bond definition change, in which an insurer may hold some securities that no longer meet the definition of a bond (or vice versa).

\*Refer to the Credit Risk Assessment chapter of this Handbook for further information on the PBBB.

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ANNUAL LIQUIDITY RISK ASSESSMENT

Insufficient Overall Liquidity, f

or,

Illiquid Assets are Significant)

Evaluate the insurer’s liquidity position and examine its ability to meet financial obligations as they come due, including claim payments, operational expenses, and other financial commitments. Less liquid assets may be unavailable to pay policyholder claims as they are not as easily or quickly marketable. The assessment of liquidity involves a detailed analysis of changes in the insurer’s liquid assets, asset-to-liability ratios, and liquidity trends. Comparison with industry averages and peer companies offers valuable insights into the insurer’s liquidity standing within its market segment.

Procedures / Data

- Analyze the insurer’s liquidity position by reviewing the following metrics and data elements:
  - Change in liquid assets
    - A significant increase in an insurer’s total liquid assets could indicate that it has been unable to collect on receivables. If the change is significant, an analyst may consider a more detailed review of the change in the asset mix from the prior period to determine the cause of the fluctuation.
  - Ratio of restricted assets to total cash and invested assets
    - Assessment of materiality of restricted assets is intended to determine if any liquidity concerns exist regarding the level of assets not under the insurer’s exclusive control. Analysts should review General Interrogatories and Notes to the Financial Statement #5 to determine the reason the assets are not under the insurer’s exclusive control (e.g., loaned to others, subject to repurchase or reverse repurchase agreements, pledged as collateral, placed under option agreements) and who holds the assets in order to evaluate whether there are liquidity concerns. Analysts should also consider the potential for pledging additional assets, as in variation margin requirements for derivatives transactions.

III.B.3. Liquidity Risk Assessment

Examination Oversight (E) Task Force

12/1/25

- [Assess if collateral received and assets held under Modco/Funds Withheld reinsurance contracts reflected as assets within the insurer’s financial statement have also been pledged under other agreements and are not available for the benefit of the reinsurer \(e.g., securities lending, repo transactions, FHLB collateral, etc.\), per Notes to the Financials 5L\(5\).](#)

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ADDITIONAL PROCEDURES ~~APPLICABLE TO LIQUIDITY RISK~~

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Inquire of the Insurer

Consider requesting additional information from the insurer if liquidity risk concerns exist in a specific area. The list provided are examples of types of information or explanations to be obtained that may assist in the analysis of liquidity risk for specific topics where concerns have been identified.

- General Investment Inquiries
  - If management has adequately reviewed the investment portfolio and understand the yields, underlying collateral, cash flows and investment volatility.
  - Any additional concentration by collateral type.
  - Management’s process for valuing securities to assist the analyst in assessing if the securities are valued appropriately.
  - Management’s intended use of certain riskier investments and purpose within the insurer’s portfolio.
  - If management has an appropriate level of knowledge and expertise with the type of securities being purchased/held.
  - If the insurer has controls implemented to mitigate the risks associated with this investment type.
  - Sources of liquidity, such as letters of credit (LOCs).
  - Information/explanation of guarantees or other commitments to PSA.
  - Securities lending program (nature, size, reinvestment policies, etc.).
  - Separate accounts plan descriptions and/or policy forms as they relate to its securities lending program (Life/A&H).
- Investment Diversification
  - Planned asset mix and diversification strategies.
- Mortgages
  - Handling of foreclosed mortgage loans.
- BA Assets
  - Information regarding the liquidity of non-traditional investments to ensure that limitations in this area are understood.
  - Current Audited Financial Statements and other documents (partnership agreements, etc.) necessary to support the value of the insurer’s investment in partnerships and joint ventures.
  - Information necessary to support the value of significant other invested assets other than partnerships and joint ventures.
  - Current details on cash flows and returns for the different types of investments, especially hedge funds and private equity funds.

### III.B.3. Liquidity Risk Assessment

Examination Oversight (E) Task Force

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- ~~RMBS, CMBS and LBaSS~~ [Financial and Non-Financial Asset-Backed Securities](#)
  - Percentage distribution and amounts of ~~each type of RMBS, CMBS and LBaSS~~ [asset-backed securities \(e.g. Agency RMBS/CMBS, Non-Agency RMBS/CMBS, CLO/CBO/CDO, Other ABS\)](#) held; planned amortization class (PAC), support bonds, interest only (IO) tranches, and principle only (PO) tranches to evaluate the level of prepayment risk in the portfolio.
  - Projected prepayment speeds on its RMBS portfolio and compare with historical prepayments, as well as the prepayment assumption at the time of purchase.

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### III.B.4. Market Risk Assessment

**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.

The **Market Risk Assessment** is focused primarily on exposure to market risk of investments and **reinsurance** receivables. In analyzing market risk, the analyst may analyze specific types of investments and receivables held by insurers. An analyst's risk-focused assessment of market risk takes into consideration the following areas (but not be limited to):

- Diversification of assets subject to market risk
- Valuation of assets
- Economic/market impacts on asset value (e.g., real estate, **structured notes**, etc.)
- Use of derivatives
- Investment turnover
- Capital gains and losses on investments
- Investment Income

#### **Derivatives**

~~Refer to IV. Supplemental Analysis Guidance — Financial Analysis and Reporting Considerations for general information and a primer on derivatives.~~

#### **General Guidance**

~~To assess market risk consider the procedures, including specific data elements, metrics, and benchmarks in this chapter. The following is not an all-inclusive list of possible procedures, data, or metrics. Therefore, risks identified for which there is no procedure is available should be analyzed by the state insurance department based on the nature and scope of the risk.~~

~~The placement of procedures, metrics, and data within market risk is based on “best fit.” Analysts should use their professional judgement in categorizing risks when documenting financial determinations of the analysis. For example, key insurance operations or lines of business may have related risks addressed in different risk categories. Therefore, analysts may need to review other risks in conjunction with market risk.~~

~~In conducting your analysis, utilize available tools in iSite+ such as financial profile reports, dashboards, investment snapshots, jumpstart reports, and other industry aggregated analysis. Consider also external tools such as rating agency reports, industry reports, and publicly available insurer information.~~

~~Analysts are not expected to document every procedure, data or benchmark result. Rather, analysts and supervisors should use their expertise, knowledge of the insurer and professional judgement to tailor the analysis to address the specific risks of the insurer and document the applicable details within the analysis. Results of market risk analysis should be documented in Section III: Risk Assessment of the insurer. Documentation of the risk assessment analysis should be sufficiently robust to explain the risks and reflect the strengths and weaknesses~~

### III.B.4. Market Risk Assessment

~~of the insurer.~~

~~Analysts should complete their market risk assessment in conjunction with:~~

- ~~• A review of the Supervisory Plan and Insurer Profile Summary and the prior period analysis.~~
- ~~• Communication and/or coordination with other internal departments. The insurer's corporate governance which includes the assessment of the risk environment facing the insurer in order to identify current or prospective solvency risks, oversight provided by the board of directors and the effectiveness of management, including the code of conduct established by the board.~~

#### Principles-Based Bond Definition (PBBD)

*Beginning in 2025, investment schedules and certain other Notes to the Financial, General Interrogatories, 5-Year History, and related pages of the quarterly and annual financial statement were amended along with the implementation of the statutory accounting principles-based bond definition (PBBD) revisions.*

*Analysts should be aware that in some cases, changes between amounts reported on investment schedules and certain lines of the schedules may not be comparable to prior year (2024) or may vary from the prior year due to the bond definition change, in which an insurer may hold some securities that no longer meet the definition of a bond (or vice versa).*

*\*Refer to the Credit Risk Assessment chapter of this Handbook for further information on the PBBD.*

## ANNUAL MARKET RISK ASSESSMENT

### Significant Investment Concentration by Asset Class

Determine whether the insurer's investment portfolio appears to be adequately diversified to avoid an undue concentration of investments by asset type, duration or issuer.

Various types of investments to total net admitted assets (excluding separate accounts for Life/A&H) are a measure of the diversity of the insurer's investment portfolio by type of investment. The results of these ratios may also provide some indication of the insurer's liquidity. In addition, the ratio of the investment in any one issuer to total net admitted assets (excluding separate accounts for Life/A&H) is a measure of the diversity of the insurer's investment portfolio by issuer.

For foreign securities, market risk may include material exposures that could result in credit losses if those investments are affected by negative changes in geopolitical or foreign economic environments.

For mortgage loans, market risk may include the risk that the insurer is not properly identifying, handling and recording foreclosed mortgage loans.

#### Procedures/Data

- Consider evaluating the following assets classes in comparison to total admitted assets<sup>1</sup> to determine the level of concentration (See also *Credit Risk Assessment for diversification of other asset classes*):
  - ~~Asset-Backed Securities: Residential mortgaged-backed securities (RMBS, commercial mortgage-backed securities (CMBS), or other loan-backed and structured securities (LBaSS).~~
  - Foreign bonds.

<sup>1</sup> For ratios in this asset concentration procedure, net admitted assets excludes separate accounts for Life/A&H.

### III.B.4. Market Risk Assessment

- Common stocks.
- Mortgage loans.
- Real Estate (before encumbrances), including home office real estate.
- Total derivatives (notional value).
- Investment in affiliates.
- Any one single investment in foreign bonds, common stock, real estate and derivatives (excluding affiliated investments) (Note that single investments in [financial asset-backed securities](#) are considered [within](#) the Credit Risk Assessment).

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#### ~~Structured Notes Cash Flow Volatility, Collateral Concentration Risk, or Default Risk~~

~~Determine whether concerns exist due to the level of structured notes held by the insurer and the impact of the volatility of structured notes and the underlying asset on which its cash flows are based (e.g., the risks on structured notes are different from risks of typical corporate bonds). Material investment in structured notes that may have collateral type concentration may result in concentration risk (i.e., lack of diversity) to the insurer's portfolio. (e.g., structures can be complicated and cash flows hard to predict. Cash flows can be linked to a variety of factors or indices, including those that are not capital markets related.) Structured notes may be subordinated in the overall transaction, representing exposure to non-payment in event of default.~~

~~If the amount is material as compared to the the insurer's capital and surplus plus asset valuation reserve (AVR), consider steps to gain a better understanding of the prospective risks of these investments and the insurer's level of investment expertise regarding these types of notes.~~

~~Structured notes are issuer bonds where the cash flows are based upon a referenced asset and not the issuer credit. These notes differ from structured securities in that they do not have a related trust. Structured notes that are classified as mortgage-referenced securities are valued in accordance with *Statement of Statutory Accounting Principles (SSAP) 43—Asset-Backed Securities* while all other structured notes are valued in accordance with *SSAP 86—Derivatives*. Some examples of mortgage-referenced securities include securities issued by the Federal Home Loan Mortgage Corporation (FHLMC) (e.g., Structured Agency Credit Risk or STACR) and the Federal National Mortgage Association (FNMA). These mortgage-referenced securities are not FE, and the Structured Securities Group (SSG) assigns their NAIC designation based upon modeling assumptions.~~

~~Determine whether there are concerns due to the level of investment in structures notes.~~

#### ~~Procedures/Data~~

- ~~● Ratio of investment in structured notes to surplus.~~

#### ~~Additional Review Considerations~~

- ~~● Review the Annual Financial Statement, Schedule D—Part 1 to identify the types of structured notes and the yield reported.
  - If an insurer has a material amount of structured notes, through discussion with the insurer, determine whether management has adequately reviewed the insurer's structured note portfolio and understands the underlying yields, cash flows and volatility.
  - Consider the following risks related to structured notes: collateral type concentration, subordination in the overall structure of the transactions, and trend analysis of underlying assets to ensure appropriate valuation.
  - Assess if the notes are valued appropriately so as to ensure the insurer is not undercapitalized.~~
- ~~● Refer to any recent examination findings.~~

**Commented [JK1]:** Removed due to Principles-based bond definition. However, a note is recommended to be added to the Primer on Derivatives in IV.A. stating "Additionally, securities that are labeled "principal-protected notes" and "structured notes" are captured within the scope of *SSAP No. 86—Derivatives* (refer to *SSAP No. 86* paragraph 5g)."

### III.B.4. Market Risk Assessment

- ~~○ Inquire of the insurer on such items as the structured note's use, valuation, the insurer's level of expertise with this type of security and controls the insurer has implemented to mitigate this risk.~~
- ~~• If management has adequately reviewed the structured note portfolio and understands the underlying yields, cash flows and volatility~~
- ~~• Concentration by collateral type, subordination in the overall structure of the structured note transactions, and any trend analysis management has performed on the underlying assets to ensure appropriate valuation of the structured note~~
- ~~• Management's process for valuing the structured notes so as to assist analysts in assessing if the notes are valued appropriately~~
- ~~• Management's intended use of these structured notes and purpose within the insurer's portfolio~~
- ~~• If management has an appropriate level of expertise with this type of security~~
- ~~• If the insurer has controls implemented to mitigate the risks associated with this investment type~~
- ~~• What the insurer's expectations are for liquidity in the secondary market~~
- ~~• Ensure that the insurer understands the difference between these instruments and more traditional corporate bonds (i.e., that there is significant risk that is separate from the issuer's ability to pay)~~

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Exposure to Derivative Investments,

~~or~~ **OR**

Hedge Effectiveness of Derivatives Portfolio

Determine whether concerns exist due to the value of investment in derivative instruments. A derivative instrument is a financial market instrument which has a price, performance, value, or cash flow based primarily on the actual or expected price, performance, value, or cash flow of one or more underlying interests. Derivative instruments (which consist of options, caps, floors, collars, swaps, forwards, swaptions and futures) are used by some insurers to hedge against the risk of a change in value, yield, price, cash flow, or quantity or degree of exposure with respect to its assets, liabilities, or anticipated future cash flows. A market risk may include that insurer's derivatives strategy may not meet hedge effectiveness for mitigating risk. If an insurer invests in derivative instruments, it is important for the analyst to understand the impact that these derivative instruments have on the risk return profile of the insurer's cash market investment portfolio under different scenarios. For insurers with significant investments in derivative investments, this will probably require the analyst to obtain the assistance of an actuary.

[Refer to IV. Supplemental Analysis Guidance – Financial Analysis and Reporting Considerations for general information and a primer on derivatives.](#)

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## QUARTERLY MARKET RISK ASSESSMENT

The quarterly market risk procedures are designed to identify the following. [For additional guidance on individual procedure steps, please see the corresponding annual procedures discussed above.](#)

Significant Investment Concentration by Asset Class

### III.B.4. Market Risk Assessment

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Determine whether the insurer's investment portfolio appears to be adequately diversified to avoid an undue concentration of investments by type or issue. See also Credit Risk Assessment for diversification of other asset classes.

#### Procedures/Data

- Common stocks owned as a percent of total net admitted assets<sup>ii</sup>.
- Mortgage loans owned as a percent of total net admitted assets.
- Real estate (before encumbrances), including home office real estate owned as a percent of total net admitted assets.
- Investments in affiliates owned as a percent of total net admitted assets.

#### Additional Procedures

- Review iSite+ for significant shifts in the mix of investments owned over the last five years.

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<sup>ii</sup> For ratios in this asset concentration procedure, net admitted assets excludes separate accounts for Life/A&H, and Health.

III.B.8.b.i. Statement of Actuarial Opinion Worksheet – Life/A&H/Fraternal Annual

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**Reserve Understatement / Reserve Adequacy Risk Based on Review of Actuarial Memorandum**

1. Consider the following procedures for reviewing the Actuarial Memorandum.

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	<i>Comments</i>
<p><a href="#">g. If required within the scope of Actuarial Guideline 55 (AG-55) and as required under VM-30, did the company provide (either in the AOMR, a standalone document, or similar memorandum) a report documenting the information on treaties, cash-flow testing assumptions and results, attribution analysis and risk identification reinsurance transactions?</a></p>	

2. Identify any concerns from the review of the Actuarial Memorandum including, but not limited to, the areas of assets, liabilities, scenario results, actuarial assumptions, sensitivity tests and the general overall adequacy of the asset adequacy analysis.

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	<i>Comments</i>
<p>If additional concerns are noted based on the review of the RAAS and/or Actuarial Memorandum, consider performing the following additional procedures [Note: Procedures “a” through “d” are applicable to insurers utilizing the New York 7 actuarial interest rate scenario tests. Procedure “e” is applicable to other cash flow scenario testing.]</p>	
<p><a href="#">g. Review the AG-55 reporting in the AOMR regarding asset intensive reinsurance transactions, if within scope of AG-55. Determine whether concerns exist in meeting asset adequacy requirements, such as:</a></p> <ul style="list-style-type: none"> <li><a href="#">i. the adequacy of assumptions utilized</a></li> <li><a href="#">ii. the cash flow testing results</a></li> <li><a href="#">iii. attribution analysis performed and its results</a></li> <li><a href="#">iv. explanations provided within risk identification or other analysis performed</a></li> <li><a href="#">v. the collectability risk associated with the assuming company</a></li> </ul>	

III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal

## RESERVING RISK: Actual losses and other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.

The Reserving Risk Assessment is focused primarily on two key aspects of reserving: 1) reserve valuation; and 2) reserve adequacy. Analysis of reserves relies heavily on the review of the Statement of Actuarial Opinion (SAO) and other related filings. In analyzing reserving risk, the analyst may analyze specific types of reserves established by life insurers, reserving methodologies and various aspects of life insurance that affect reserving. For example, an analyst's risk-focused assessment of reserving risk may consider the following areas (but not limited to):

- Reserve valuation in accordance with the appropriate valuation requirements.
- Reasonableness of valuation bases utilized, testing, assumptions, and methodologies to determine reserves.
- Adequacy of assets to support policyholder benefits.
- Appropriate reporting of reserves.
- Lines of business written by the insurer.
- Types of reserves for life, accident, and health (A&H) and annuity lines of business.
- Reserve development.
- Reinsurance.
- Reserving for guarantees on separate accounts.

[The analyst may need to review other risks in conjunction with reserves. For example:](#)

- [Reserves are also addressed in the Actuarial Opinion Worksheet.](#)
- [Separate Accounts are also addressed in the Operations and Liquidity Risks.](#)
- [Surrender activity is also addressed in the Liquidity Risk.](#)

## GENERAL GUIDANCE

The Annual Reserve Risk Assessment Procedures are designed to identify potential areas of concern to the analyst. While the underlying actuarial techniques relating to life reserves are quite complicated, the analyst should remember that there are two basic objectives regarding life reserves. The first objective is that the insurer's life reserves are calculated using the appropriate valuation methodology (formula or principle-based), and the second objective is that the insurer's assets are adequate to support the future policy obligations. To meet the first objective, reserves for policies and contracts subject to the formula-based valuation methodology, including the formula reserves required by VM-20, should be calculated in accordance with the minimum formula statutory valuation standards, using the appropriate valuation assumptions and valuation methods. For policies and contracts subject to a principle-based valuation methodology, in addition to the formula reserves, reserves should be calculated in accordance with the principle-based valuation requirements of VM-20.

**Involvement of an Actuary:** The analyst should involve an actuary where indicated in the procedures or as needed. To stay within any required deadlines for reviews, the analyst should document any greater in-depth reviews being performed by the actuary (such as involving the confidential actuarial memorandum or the confidential principle-based reserving (PBR) report for life reserves) and supplement the documentation when such actuarial review is complete. Questions or requests for assistance regarding PBR and for asset adequacy analysis may be

### III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal

made to the NAIC actuarial resources. Please see the NAIC website for the Valuation Analysis (E) Working Group for contact information regarding the use of NAIC actuarial resources and use of the Working Group if needed.

**Depth of Review:** Life, annuity, PBR and accident and health (A&H) involve many products and complex requirements. A complete determination of compliance with all of these requirements during the course of an annual financial analysis review is typically not practical for many companies. Judgment in a risk-focused approach will need to be exercised regarding greater focus and use of actuarial expertise in any procedure provided below.

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#### Non-Guaranteed Elements Opinion (if applicable)

**PROCEDURE #6.** Determine that a qualified actuary prepared the non-guaranteed elements opinion.

**PROCEDURES #6B AND #6C.** Review the non-guaranteed elements opinion in order to determine that the insurer's reserves were determined in a manner that considered the non-guaranteed elements for individual life and annuities policies.

#### **GENERAL GUIDANCE**

~~The Annual Reserve Risk Assessment Procedures are designed to identify potential areas of concern to the analyst. While the underlying actuarial techniques relating to life reserves are quite complicated, the analyst should remember that there are two basic objectives regarding life reserves. The first objective is that the insurer's life reserves are calculated using the appropriate valuation methodology (formula or principle based), and the second objective is that the insurer's assets are adequate to support the future policy obligations. To meet the first objective, reserves for policies and contracts subject to the formula-based valuation methodology, including the formula reserves required by VM-20, should be calculated in accordance with the minimum formula statutory valuation standards, using the appropriate valuation assumptions and valuation methods. For policies and contracts subject to a principle-based valuation methodology, in addition to the formula reserves, reserves should be calculated in accordance with the principle-based valuation requirements of VM-20.~~

~~To assess reserve risk consider the quantitative and qualitative data, benchmarks, and procedures in this chapter. The assessment is not an all-inclusive list of possible procedures. Therefore, risks identified for which no procedure is available should be analyzed by the state insurance department based on the nature and scope of the risk.~~

~~The placement of the following data and procedures in the reserving risk assessment is based on "best fit." Analysts should use their professional judgement in categorizing risks when documenting financial determinations of the analysis. Key insurance operations/activities or lines of business, for example, may have related risks addressed in different risk categories. Therefore, the analyst may need to review other risks in conjunction with reserves. For example:~~

~~Reserves are also addressed in the Actuarial Opinion Worksheet.  
Separate Accounts are also addressed in the Operations and Liquidity Risks.  
Surrender activity is also addressed in the Liquidity Risk.~~

~~In conducting your analysis, utilize available tools in iSite+ such as financial profile reports, dashboards, investment snapshots, jumpstart reports, and other industry aggregated analysis. Consider also external tools such as rating agency reports, industry reports, and publicly available insurer information.~~

### III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal

~~Analysts are not expected to document every procedure, data or benchmark result. Rather, analysts and supervisors should use their expertise, knowledge of the insurer and professional judgement to tailor the analysis to address the specific risks of the insurer and document the applicable details within the analysis.~~

~~Results of risk analysis should be documented in Section III: Risk Assessment of the insurer. Documentation of the risk assessment analysis should be sufficiently robust to explain the risks and reflect the strengths and weaknesses of the insurer.~~

~~Analyst should complete their reserve risk assessment in conjunction with:~~

- ~~• A review of the Supervisory Plan and Insurer Profile Summary and the prior period analysis.~~
- ~~• Communication with the company.~~
- ~~• Communication and/or coordination with other internal departments.~~

~~The analyst should also consider the insurer's corporate governance which includes the assessment of the risk environment facing the insurer in order to identify current or prospective solvency risks, oversight provided by the board of directors and the effectiveness of management, including the code of conduct established by the board.~~

~~**Involvement of an Actuary:** The analyst should involve an actuary where indicated in the procedures or as needed. To stay within any required deadlines for reviews, the analyst should document any greater in-depth reviews being performed by the actuary (such as involving the confidential actuarial memorandum or the confidential principle-based reserving (PBR) report for life reserves) and supplement the documentation when such actuarial review is complete. Questions or requests for assistance regarding PBR and for asset adequacy analysis may be made to the NAIC actuarial resources. Please see the NAIC website for the Valuation Analysis (E) Working Group for contact information regarding the use of NAIC actuarial resources and use of the Working Group if needed.~~

~~**Depth of Review:** Life, annuity, PBR and accident and health (A&H) involve many products and complex requirements. A complete determination of compliance with all of these requirements during the course of an annual financial analysis review is typically not practical for many companies. Judgment in a risk-focused approach will need to be exercised regarding greater focus and use of actuarial expertise in any procedure provided below.~~

## ANNUAL RESERVING RISK ASSESSMENT

*Refer to the Overview sections at the end of this chapter for more guidance on Life, Annuity, A&H and Long-Term Care reserves.*

**---DETAIL ELIMINATED TO CONSERVE SPACE---**

### Insufficient Asset Adequacy

Determine whether the insurer's underlying assets are adequate to support the future obligations of its life insurance policies. Risks may include the potential for understated reserves if unusual or specific policy features and benefits are not valued and reserved for correctly; or, if asset adequacy testing results reflect the assets held and may not be sufficient to support future policy obligations. If the insurer filed an SAO based on an asset adequacy analysis, then the SAO itself, and the supporting actuarial memorandum, if requested, can provide the analyst with comfort in this regard. If a SAO that does not include an asset adequacy analysis is filed, the analyst can review net interest spread ratios for insights regarding the relationship of investment income with tabular interest. Insurance Regulatory Information System (IRIS) ratio #11 is included in the procedures as a test of reserve consistency between the current year and the prior year.

### III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal

The analyst may also consider performing a review of the actuarial memorandum, if available. This will provide the analyst with substantial analyses with regard to asset adequacy. If an actuarial memorandum is not available, the analyst should consider the need to have an independent asset adequacy analysis conducted. Additional procedures regarding the SAO are found in Section III.B.8.d. Additional guidance for new reporting requirements for AG-53 regarding high-yielding complex assets is found above.

#### Procedures / Data

- Net interest spread on life reserves (net investment income, less tabular interest, divided by average life reserves)
- Change in Asset Mix (IRIS Ratio 11)

#### Qualitative and Additional Review Considerations

- If the insurer filed a Statement of Actuarial Opinion based on an asset adequacy analysis, review the results of the Actuarial Opinion Assessment, and note any concerns regarding the adequacy of the insurer's underlying assets to support future life insurance policy obligations.
- Pursuant to the review of the Regulatory Asset Adequacy Issues Summary (RAAIS) in the Actuarial Opinion Assessment, note whether the responses to the questions were satisfactory.
- If concerns still exist upon review of the asset adequacy analysis, discuss with the appointed actuary and the company, and request any additional information or work to be performed to address these concerns. If the insurance commissioner determines that the supporting actuarial memorandum fails to meet the standards prescribed by the Valuation Manual or is otherwise unacceptable to the insurance commissioner, the insurance commissioner may engage a qualified actuary at the expense of the company to review the opinion and basis for the opinion and prepare the supporting actuarial memorandum required by the insurance commissioner. See the state's equivalent authority to NAIC Model #820, Section 3B(3)(b). This also is noted in the Actuarial Opinion Worksheet.
- [Review the Actuarial Guideline 53 reporting relating to assumptions and sensitivity testing for reinvested high-yielding complex assets within the asset adequacy analysis, if applicable. Determine whether concerns exist in meeting asset adequacy requirements. See further guidance in the AOMR procedures and reference guide.](#)
- [Review the Actuarial Guideline 55 reporting related to assumptions and cash flow testing for assets that support long-duration reinsurance transactions within asset adequacy analysis, if applicable. Determine whether concerns exist in meeting asset adequacy requirements. See further guidance in the AOMR procedures and reference guide.](#)

### Understated Reserves Associated with Separate Account Products & Guarantees

Review and identify situations where separate accounts products may be creating contingent liabilities to the general account that may not be sufficiently reserved for on the general account. This is largely a function of the types of separate accounts products offered by the insurer, and the analyst should rely on general knowledge of the insurer's products at this stage of the analysis.

The analyst should review disclosures in Separate Accounts General Interrogatories, Analysis of Operations by Line of Business (Page 6), Analysis of Increase in Reserves During the Year (Page 7) and the Notes to the Financial Statements of the general account to gain an understanding of the types of products included in the separate account and the general account guarantees on separate account products, as well as identify any concerns with reserving or asset adequacy that may require additional analysis of actuarial filings. The analyst should gain an understanding of any products in the separate account that contain guarantees that are held in the separate account instead of the general account and the types of guarantees (guaranteed minimum death benefit [GMDB], guaranteed minimum income benefit [GMIB], etc.). [Where the general account provides an inherent/ultimate guarantee, the analyst should review the Separate Account General Interrogatories #2.7 to identify the materiality of the BACV of the separate account assets attributed to those products \(i.e. pension risk transfer group annuities,](#)

**III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal**

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[registered index linked annuities, other group and individual annuities and life insurance\), the related risk charges to the general account and if the asset were included in asset adequacy testing.](#)

## Exposure to Separate Account Products & Guarantee Liabilities and Accuracy of Separate Account Reserve Liabilities

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### Procedures / Data

- [Identify the materiality of Separate Account assets with General Account guarantees \[Separate Account Gen. Int. #2.71\].](#)
- Identify if any of the separate accounts have guarantees that are designed to mirror an established index (Annual Financial Statement, Note #35B-).
- Identify if any of the separate accounts have material non-indexed guarantees. [Annual Financial Statement, Note #35B]

### Qualitative and Additional Review Considerations

- If material guarantees exist, or if non-insulated products exist, determine whether the assets associated with these products are being invested in accordance with statutory guidelines.
- [If material guarantees exist, gain and understanding of the types of Separate Account products for which the guarantees are provided \[Separate Account Gen. Int. #2.71\].](#)
- [If material guarantees exist, determine whether the assets associated with these products were included in asset-adequacy testing \[Separate Account Gen. Int. #2.71\].](#)
- Review Separate Account General Interrogatory #5 to identify if the insurer reported a material amount of assets in the separate account at amortized cost rather than fair value. If yes, consider additional analysis of actuarial and asset adequacy reporting.
- Review Separate Account Analysis of Operations by Line of Business (Page 5) and Analysis of Increase in Reserves During the Year (Page 6) to identify if any concerns exist regarding the types of products included in the Separate Account and reserving for those products. If yes, consider additional analysis of actuarial and asset adequacy reporting.
- Based upon an overall understanding of the insurer's separate accounts products, assess if there is evidence that such products may be creating contingent liabilities to the general account with product features such as minimum guaranteed death benefits, minimum guaranteed interest rates, etc.
- If concerns or questions are noted, contact the state insurance department's actuary or other actuarial resource to discuss the nature and scope of the valuation procedures performed relating to guarantees included with separate accounts products. If determined to be necessary, contact the company's qualified actuary.
- Determine whether growth in separate accounts appears to be financed through borrowings of the general account and, if so, whether any concerns exist regarding the terms of repayment or collateralization.
- Determine whether the insurer writes any modified guaranteed annuities and, if so, the overall materiality and potential negative impact on the insurer's general account.
- Through the analyst's quarterly interdepartmental communication with the policy forms department, inquire as to whether the insurer filed any new and unusual separate account policy forms during the past 12 months.
- If concerns are noted about the types of policies included in separate accounts, review the insurer's separate accounts plan descriptions and/or policy forms to better understand the types of plans offered and the specific policy features and benefits, particularly minimum guarantees.
- If concerns are noted about reserving for separate accounts, consider a target examination of reserves, request that the field examination staff request a valuation listing by plan and issue year, and test a sample of the individual policy reserves for accuracy.
- Assess if there is any indication of contingent liabilities created by the separate accounts for the general account.

**III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal**

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- Assess if separate account assets and liabilities were subject to asset adequacy analysis. If “no,” review the actuarial opinion for an explanation.
- Request from the insurer separate accounts plan descriptions and/or policy forms to better understand the types of plans offered and the specific policy features and benefits, particularly minimum guarantees.
- Request information from the insurer regarding any significant changes in reserve methodologies and assumptions, underwriting practices, case reserving, or claims handling practices with the potential to affect reserve setting.

## DISCUSSION OF ACTUARIAL OPINION ASSESSMENT PROCEDURES

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### Actuarial Guideline 53:

Beginning with annual 2022, certain insurers will be required to document support for asset adequacy analysis for high-yielding complex assets pursuant to *Actuarial Guideline 53 – Application of the Valuation Manual for Testing of Adequacy of Life Insurer Reserves (AG-53)*.

As noted in AG-53, "regulators have observed a lack of uniform practice in the implementation of asset adequacy analysis. The variety of practice in incorporating the risk of complex assets into testing does not provide regulators comfort as to reserve adequacy. Examples of complex assets are structured securities, including asset-backed securities and collateralized loan obligations, as well as assets originated by the company or an affiliated or contracted entity. An initial increase in this activity has been noted in support of general account annuity blocks; however, recent activity was noted in other life insurer blocks. AG-53 is intended to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for asset adequacy analysis performed by life insurers."

This Guideline applies to a limited scope of life insurers, specifically those with:

- A. Over \$5 billion of general account actuarial reserves (from Exhibits 5, 6, 7, and 8 of the Annual Statement) and non-unitized separate account assets; or,
- B. Over \$100 million of general account actuarial reserves (from Exhibits 5, 6, 7, and 8 of the Annual Statement) and non-unitized separate account assets and over 5% of supporting assets (selected for asset adequacy analysis) in the category of Projected High Net Yield Assets, as defined in Section 3.F. of the AG-53.

The NAIC Life Actuarial (A) Task Force has developed a template for reporting of AG-53 documentation. The templates include reporting by asset classes, affiliated vs. non-affiliated, and initial assets vs. reinvestment assets. The template along with a narrative are submitted for the filing.<sup>±</sup>

The NAIC Valuation Analysis Working Group (VAWG) anticipates conducting reviews of AG-53 filings and can serve as a resource for state insurance departments for their own AG-53 reviews.

### Actuarial Guideline 55:

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<sup>±</sup> Given this is a new reporting requirement in 2022, additional analysis guidance in this area may be added to the Handbook in the future.

**III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal**

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Beginning with annual 2025, certain insurers will be required to document support for asset adequacy analysis for the assets that support reinsurance transactions pursuant to *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties (AG 55)*.

As stated in AG55, the reporting provides information for the analyst “to better understand the amount of reserves and type of assets supporting long duration insurance business that relies substantially on asset returns. In particular, there is risk that domestic life insurers may enter into reinsurance transactions that materially lower the amount of reserves and thereby facilitate releases of reserves that prejudice the interests of their policyholders. The goal of this Guideline is to enhance reserve adequacy requirements for life insurance companies by requiring that asset adequacy analysis use a cash flow testing methodology that evaluates ceded reinsurance as an integral component of asset-intensive business.”

This Guideline applies to all life insurers with asset intensive reinsurance transactions exceeding certain amount of reserve credit plus modified coinsurance reserves (see AG 55 for specific scope limits).

The AG 55 documentation, sensitivity test results, and attribution analysis referenced within AG 55 are to be incorporated as a separate, easily identifiable section of the actuarial memorandum required by VM-30 or as a standalone document, with a due date of April 1 following the applicable valuation date. Similar memorandum may also be allowed under certain circumstances.

The NAIC Valuation Analysis Working Group (VAWG) anticipates conducting reviews of AG-55 asset adequacy analysis filings, on a targeted basis, and coordinating with states as appropriate. VAWG will serve as a resource for state insurance departments for their own AG-55 reviews as well as providing periodic reports identifying outliers and concerns regarding the analysis to help inform regulators about the effectiveness of this Guideline in meeting the objectives.

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**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

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**Note 5 – Investments**

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This Note focuses on:

- A. Accounting for mortgage loans, including mezzanine real estate loans and the allowance for credit losses as required as a result of *SSAP No. 37—Mortgage Loans*.
- B. Recording of the investment in loans that have been recognized as impaired as required by *SSAP No. 36—Troubled Debt Restructuring*.
- C. Information regarding the credit risk for the reporting entity and the methods and assumptions used in calculating the reserve for reverse mortgages as a result of *SSAP No. 39—Reverse Mortgages*.
- D. Sources of prepayment assumptions for yield calculations and the risk exposure in ~~loan-backed securities~~ asset-backed securities as required by *SSAP No. 43R—~~Loan~~Asset-Backed ~~and~~ Structured Securities*.
- E. Insurer’s policy on collateral requirements for repurchase agreements and/or securities lending transactions and accounting for the asset and income associated with it, as required by *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.
- F. Information regarding the insurer’s policy or strategies for repurchase agreements, accounted for as secured borrowings transactions and collateral requirements associated with it, as required by *SSAP No. 103R*.
- G. Information regarding the terms of the reverse repurchase agreements and collateral requirements for any repurchase agreements accounted for as secured borrowings transactions the insurer has, as required by *SSAP No. 103R*.
- H. Information regarding the insurer’s policy or strategies for repurchase agreements, accounted for as sale transactions and collateral requirements associated with it, as required by *SSAP No. 103R*.
- I. Information regarding the terms of the reverse repurchase agreements and collateral requirements for any repurchase agreements accounted for as sale transactions the insurer has, as required by *SSAP No. 103R*.
- J. Recording of real estate investments that have been recognized as impaired and the reporting of receivables and improvements associated with retail land sale operations as required by *SSAP No. 40R—Real Estate Investments*.
- K. Information regarding the investment in ~~low-income housing tax credit structures~~ (LIHTC) properties and the accounting for the asset and income associated with it as required by *SSAP No. 93—~~Low Income Housing Investments in Tax Credit Structures~~ Property Investments*.
- L. Recording of restricted assets, which are assets pledged to others as collateral or otherwise restricted by the insurer.
- M. Recording of the book/adjusted carrying value (BACV) of working capital finance investments in aggregate, as required by *SSAP No. 105R—Working Capital Finance Investments*.
- N. Disclosures regarding the offsetting and netting of assets and liabilities as required by *SSAP No. 64—Offsetting and Netting of Assets and Liabilities*.
- O. Disclosure regarding ~~structured notes~~ 5GI securities as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual)*.
- ~~P.—Disclosure regarding 5\* securities as defined in the P&P Manual.~~
- ~~Q.P.~~ Disclosures regarding short sales within the reporting period, including settled and unsettled, as required by *SSAP No. 103R*.
- Q. Disclosures regarding prepayment penalties and acceleration fees.

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

[R. Reporting of shares of a qualified cash pool.](#)

~~R.S. Reporting of aggregate collateral loans by qualifying investment collateral, pursuant to SSAP No. 21R—Other Admitted Assets.~~

The information provided in this Note is helpful to the analyst in reviewing the financial statements and related investment schedules for income, and gains and losses.

Section, Part		Risks
A, 1–3	The analyst should use the information provided in section (A) of this Note to help quantify the insurer’s investment in mortgage loans, including mezzanine real estate loans, and assess the impact of impaired loans; determine whether the insurer followed the guidelines as prescribed by SSAP No. 37 to record the carrying value of the loan; and what allowances for credit losses on impaired loans have been made by the insurer.	CR, MK
<b>---DETAIL ELIMINATED TO CONSERVE SPACE---</b>		
F – I	The analyst should use the information provided in Sections (F-I) to gain an understanding of the insurer’s policy for requiring collateral or other security under repurchase agreements and/or reverse repurchase agreements. Insurance companies invest in repurchase agreements to purchase securities with the intent to resell them at a stated price on a specified date within 12 months of the purchase. Under SSAP No. 103R, repurchase agreements should be accounted for as collateralized loans. It should be noted that the underlying securities should not be accounted for as investments owned by the insurer, but rather as short-term investments. For repurchase agreements, the analyst should determine whether the estimated fair value of the security has fallen below 95% and therefore requires additional collateral. For reverse repurchase agreements, the analyst should determine whether the estimated fair value of the security has fallen below 100% and therefore requires additional collateral.	CR, MK
J	The information provided in Section (J) of this Note can be helpful in quantifying the insurer’s investment in real estate determined to be impaired. The analyst should use this information to determine whether the insurer has recorded the investment in real estate recognized as impaired as prescribed by SSAP No. 40R. In addition, if the insurer engages in retail land sales operations, the analyst should use this information to determine whether accounts receivable and expenditures have been accounted for properly as prescribed by SSAP No. 40R.  The analyst should consider the information disclosed in this section to evaluate the insurer’s investment in impaired real estate. The analyst should note the amount of the impairment and how fair value was determined. Also, the analyst should use information in this section regarding retail land sales operations to assess the maturities and quality of accounts receivable, planned expenditures and recorded obligations for improvements.	CR, MK
K	The analyst should use the information provided in Section (K) of this Note to gain an understanding of an insurer’s <del>investments in Tax Credit Structures (tax credit investments) in LIHTC properties.</del> The insurer is required by SSAP No. 93 to provide <del>information that enables the users of the financial statements to understand the insurer’s investments in projects that generate tax credits and other tax benefits from tax programs. the number of remaining years of unexpired tax credits and the required holding period for the LIHTC investments, as well as comment on whether any LIHTC properties are currently subject to any regulatory reviews and the status of such review.</del> The insurer is also required to provide	CR, MK

IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement

	<p>details regarding <a href="#">the nature of investments in these projects, the effect of recognition and measurement of these investments, the balance recognized, a schedule of tax credits expected to be generated for the subsequent five years, commitments or contingent commitments, -if the project is currently subject to any regulatory reviews and the status of such review; modifications or events that result in changes to the program, the ownership, accounting policies, and valuation of each partnership or limited liability company investment if the aggregate investment in LIHTC properties exceeds 10% of total admitted assets. In addition, the insurer is required to disclose</a> and any recognized impairments and the nature of any <a href="#">impairments, write-downs or reclassifications made during the year.</a></p> <p>The information can be helpful in the rare instances where insurers hold this type of investment to help identify the extent of the insurer’s exposure and any issues regarding impairment write-downs <del>or reclassifications.</del></p>	
L	<p>Section (L) requires the reporting entity to disclose the amount and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under exclusive control, assets subject to a put option contract, etc.) by the reporting entity. The analyst should review the detail on restricted assets provided in this Note for any restricted assets greater than 10% of total cash and invested assets. Restricted assets impact liquidity as they are not assets available to pay policyholder claims.</p> <p><a href="#">Where collateral held is related to Modified Coinsurance (Modco) or Funds Withheld (FWH) reinsurance, review the information in this note in conjunction with credit, operational and strategic risk of the insurer’s reinsurance program. The disclosure also identifies if securities held as collateral under Modco or FWH agreements are also pledged under other arrangements, in which case they would not be for the benefit of the reinsurer or available to fulfill the liabilities of the reinsurance contract. Further, where the company is engaged in material Modco and FWH arrangements, the analyst can use the detail of collateral received and held under Note 5L(4) to identify the types of assets held and gain an understanding of the materiality of the collateral BACV to the insurer’s asset portfolio and related reinsurance liability.</a></p>	CR, MK, ST
M	<p>Section (M) requires the reporting entity to disclose certain working capital finance investments on an aggregate basis regarding the BACV, by NAIC designation as required by SSAP No. 105R. Per SSAP No. 105R, working capital finance investments represent a confirmed short-term obligation to pay a specified amount owned by one party (the obligor) to another (typically a supplier of goods), generated as a part of a working capital finance investment program currently designated by the NAIC Investment Analysis Office. The information provided assists the analyst in the review of this Schedule D category. Like other Schedule D investments, the analyst should consider NAIC designation, other-than-temporary impairments and credit risk associated with the investment.</p>	CR, MK
N	<p>Section (N) for Life/Accident and Health (A&amp;H) insurers, Fraternal Societies and Health entities only requires the reporting entity to disclose certain quantitative information (separately for assets and liabilities) when derivative, repurchase and reverse repurchase, and securities borrowing and securities lending assets and liabilities are offset and reported net in accordance with a valid right to offset per SSAP No. 64. Assets and liabilities that have a valid right to offset but are not netted because they are prohibited under SSAP No. 64 are not required to be captured in these disclosures. The information in this note assists the analyst in gaining a better understanding of the netted assets, if material, by providing the gross and offset amounts.</p>	CR, MK
<del>O</del>	<p><del>Section (O) requires the reporting entity to disclose the following per the P&amp;P Manual: the Committee on Uniform Security Identification Procedures (CUSIP), actual cost, fair value,</del></p>	<del>CR, MK</del>

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

	<del>and BACV of the structured note. The reporting entity is also required to disclose if the structured note is a Mortgage-Referenced Security.</del>	
<a href="#">QP</a>	Section ( <a href="#">QP</a> ) requires the reporting entity for each annual reporting period to provide a comparable disclosure to the prior annual reporting period of the number 5* <a href="#">GI</a> securities, by investment type, and the BACV and fair value for those securities, per the P&P Manual, Special Reporting Instructions.	CR, MK
<a href="#">PQ</a>	The analyst should use the information provided in Section ( <a href="#">PQ</a> ) of this Note to gain an understanding of an insurer’s utilization of short sales. The insurer is required by SSAP No. 103R, for unsettled short sale transactions, to provide the amount of proceeds received and the fair value of the securities to deliver, with current unrealized gains and/or losses, and the expected settlement timeframe (# of days), including current transactions that were not settled within three days. For settled short sale transactions, the aggregate amount of proceeds received and the fair value of the security as of the settlement date with recognized gains and/or losses, including the aggregated fair value of settled transactions that were not settled within three days and that were settled through a securities borrowing transaction.	CR, MK
<a href="#">QR</a>	Section ( <a href="#">QR</a> ) requires the reporting entity to disclose the following: the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee.	CR, MK
<a href="#">R</a>	<a href="#">Section (R ) requires the reporting entity to disclose its share of cash pools by asset type: cash, cash equivalents and short-term investments. This information may be used in assessing available liquidity.</a>	<a href="#">LQ</a>

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**Note 11 – Debt**

This note discloses information related to all other debt, including capital notes as provided by SSAP No. 15—*Debt and Holding Company Obligations*. SSAP No. 15 requires a full description of the type of borrowing, (e.g., amounts, interest rates, collateral, interest paid, debt terms, covenants and any violations) and information related to agreements with the Federal Home Loan Bank (FHLB).

Section		Risks
A	The analyst should use the information in this Note to review the insurer’s total debt. In cases where the insurer’s total debt exceeds 10% of capital and surplus, special attention should be given. For all debt, the analyst should verify that the insurer has a sufficient matching of assets to meet the debt repayment schedule given its current cash flow needs and the maturity of investments. If any new debt has been reported, the analyst should evaluate the reasons or need for additional funding. Another important area to review is repayment conditions, restrictions, or covenants. In particular, the analyst needs to be aware of any violations of the covenants or restrictions and possible ramification (e.g., collateral pledged) to the insurer for these violations. The analyst should also determine if there are any provisions in the debt to require early payment. For capital notes, the analyst should evaluate the quality of assets received in exchange for the note and determine if the insurer has properly valued the assets.	ST, LQ
B	The analyst should review any agreements the insurer has entered into with FHLB. The	ST, LQ

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

	analyst should evaluate the type of funding (advances, lines of credit, borrowed money, etc.) and intended use of the funding. The analyst should also evaluate the amount of collateral pledged to FHLB, the amount of FHLB stock purchased as part of the agreement, and the total borrowing capacity currently available to the insurer. In particular, the analyst needs to be aware how assets and liabilities related to the agreement with FHLB are classified within the general and separate accounts, and the elements that support these classifications. FHLB agreements that are reported as deposit-type fund contracts are reported in Note 31, while FHLB agreements reported as debt are reported in Note 11.	
<a href="#">C</a>	<a href="#">Section C provides disclosures on short-term and long-term unused commitments and lines of credit for financing arrangements for the current and prior year. The analyst should review this information in conjunction with an overall assessment of available liquidity as it identifies undrawn amounts available as well as terms and conditions in accordance with SSAP No. 15–Debt and Holding Company Obligations.</a>	<a href="#">ST, LQ</a>

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**Note 13 – Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations**

This Note covers key areas of an insurer’s overall capitalization.

Section		Risks
<del>A-J</del> <del>10</del>	The first portion of the Note (#1–#10) is capital and surplus. The analyst should be familiar with the overall holding company structure of the insurer before reviewing and analyzing the information included in this Note. The analyst should use the information in this area of this Note to obtain a greater understanding of the capital structure of the insurer. The first item of this Note provides the number of shares of capital stock authorized, issued, and outstanding as of the statement date. Items #2–#10 of this Note disclose restrictions on dividends and surplus, along with other information on the company’s capital and surplus. These items should be reviewed by the analyst to determine the amount of the insurer’s surplus that is available to meet policyholders’ liabilities. When considering the overall capital structure of the insurer, the analyst should take into account any recent Form A filings made by the insurer. If there is any change in the capital stock of the insurer, the analyst should consider if a Form A was necessary and, if it was filed, reviewed, and approved by the insurance department.	ST
<del>K</del> <del>11</del>	The analyst should use the information in the second portion of the Note to obtain a greater understanding of the insurer’s surplus note obligations. The analyst should be able to determine if the insurer has issued any surplus notes recently. Insurers must have prior insurance department approval for the issuance of surplus notes and each payment. The analyst should review any new surplus notes to verify appropriate approvals were given for the issuance of surplus notes. Additionally, the analyst should verify: 1) the proper accounting for the notes and any associated interest; 2) the payment schedule for repayment and if the insurer will be able to meet this schedule; 3) the type and quality of assets received in the transaction; 4) <a href="#">any guarantees, support guarantees or related party transactions associated with the surplus note issuance</a> ; and 45) if the notes were issued to a parent or affiliate <a href="#">or related party</a> . If the notes were issued to an insurance affiliate, the analyst should consider reviewing the affiliate’s financial statements to verify the notes are appropriately reported by the other entity.	OP

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

<p><del>12</del>  <del>13</del> L, M</p>	<p>The third portion of this Note provides information on quasi-reorganization. Insurers must receive prior regulatory approval for quasi-reorganizations. The analyst should verify approval was given. Quasi-reorganizations are generally rare and are usually only allowed if certain conditions are met. If the insurer has received prior approval, the analyst should verify proper disclosures and accounting for this transaction. (See SSAP No. 72—<i>Surplus and Quasi-Reorganizations</i> for further discussion.)</p>	<p>ST</p>
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**Note 21 – Other Items**

This Note is required by various SSAPs, INTs and other sources and focuses on:

- A. Unusual or infrequent items as required by SSAP No. 24
- B. Troubled debt restructuring for debtors as required by SSAP No. 36
- C. Other miscellaneous amounts not recorded in the financial statements that represent assets pledged to others as collateral in accordance with SSAP No. 1
- D. Business interruption insurance recoveries, including information related to the nature and aggregate amount of losses and recoveries recognized due to business interruption
- E. State transferable and non-transferable tax credits
- F. Subprime mortgage-related risk exposure and related risk management practices
- G. Use of retained asset accounts for beneficiaries (life/A&H insurers, fraternal societies and health entities only)
- H. Insurance-linked securities (ILS) contracts

Section		Risks
A	<p>Section (A) requires the insurer to disclose the nature and financial effect of any unusual or infrequent items. Under SSAP No. 24, an insurer is required to account for any unusual or infrequent item using the same lines that are used to report continuing operations. Section (A) allows the analyst to understand the impact that the event or transaction considered unusual or infrequent items have had on each of the financial statement line items and in total. This Note should be used to better understand the impact of the item on the insurer’s overall financial position and allows the analyst to more easily compare the financials of the current period with prior periods.</p>	<p>CR, LQ</p>
<p>---DETAIL ELIMINATED TO CONSERVE SPACE---</p>		
E	<p>Section (E) requires the insurer to disclose information regarding state <u>and federal transferable</u> tax credits. The total unused <del>transferable state</del> tax credits represent the entire <del>transferable state</del> tax credits available. The information includes the following: 1) the carrying value of <del>transferable and non-transferable state</del> tax credits <u>disaggregated by transferable/certificated or non-transferable</u> gross of any related <del>state</del> tax liabilities <del>and total unused transferable and non-transferable state tax credits by state and in total by jurisdiction and in total</del>; 2) <u>the total unused tax credits by jurisdiction disaggregated by transferable/certificated or non-transferable</u>; <del>23</del> 3) the method of estimating utilization of remaining <del>transferable and non-transferable state</del> tax credits or other projected recovery of the current carrying value; <del>34</del> 4) the impairment amount recognized by the reporting period, if any; <del>and 45</del> 5) the identity <u>of of state</u> tax credits by transferable/<u>certificated</u> and non-</p>	<p>OP</p>

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

	transferable classifications, and the admitted and nonadmitted portions of each classification; <a href="#">and 6) any commitment or contingent commitment to purchase tax credits.</a> To the degree the amount of the transferable tax credits is material to the insurer, the analyst should perform a more in-depth review.	
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**Note 24 – Retrospectively Rated Contracts and Contracts Subject to Redetermination**

This Note requires the insurer to disclose general information regarding its premium volume under retrospectively written contracts. (This Note is not applicable to title insurers.) The accounting guidance for retrospectively rated contracts is addressed in *SSAP No. 66—Retrospectively Rated Contracts*. SSAP No. 66 defines a retrospectively rated contract as one that determines the final policy premium based on the loss experience of the insured during the term of the policy (including loss development after the term of the policy) and the stipulated formula set forth in the policy. The periodic adjustments might involve either the payment of return premium to the insured or payment of an additional premium by the insured, or both, depending on experience. Policy periods do not always correspond to reporting periods, and because an insured’s loss experience may not be known with certainty until sometime after the policy period expires, retrospective premium adjustments are estimated based on the experience to date. Contracts with retrospective rating features are referred to as loss-sensitive contracts.

Section		Risks
A, B, C	Although these types of contracts generally subject the insurer to less risk than more traditional contracts, the analyst should use the information in the Note to determine if the amount of retrospective premiums is material in relation to total net premiums written. This Note also requires the insurer to disclose how it determined the estimated premium adjustment. The disclosure should include all business that is subject to the accounting guidance provided in SSAP No. 66, including business that is subject to medical loss ratio rebate requirements pursuant to the Public Health Service Act or otherwise known as the ACA.  The analyst should review the Note to determine whether the reported amount is recorded in compliance with statutory guidance.	PR/UW, RV
D	Section (D) requires reporting on the ACA medical loss ratio rebates. The analyst should use this information to assess if rebates were paid and/or liabilities established, as well as calculate the materiality and impact of rebates on the capital and surplus of the insurer.	PR/UW, ST
E (P)	For P/C companies, the analyst should compare the admitted amount reported in the Note for accrued retrospective premiums to what is recorded on the balance sheet.	PR/UW, RV
E, F (P)	One of the most significant new drivers of uncertainty attributable to the ACA is its premium stabilization programs, <a href="#">ACA Risk Adjustment Program</a> , <del>which are referred to as the 3Rs—risk adjustment, reinsurance benefits and risk corridors.</del> These <a href="#">is</a> programs primarily affects the commercial individual and small-group markets <del>starting in 2014</del> . The impact on a specific health entity will be somewhat dependent on its concentration in those markets.  <a href="#">ACA Risk Adjustment Program</a> <del>Each of the premium stabilization programs</del> is designed to provide protection to the health insurance entity by mitigating adverse financial outcomes; however, <del>these</del> programs could have a negative impact as well. Moreover, <del>each</del> <a href="#">the</a> program includes a retrospective settlement process. The health entity’s annual	PR/UW, ST

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

	<p>financial statements will include estimates of amounts payable or receivable under <del>these</del> programs. However, these estimates may be uncertain in magnitude and direction, and may be large in relation to the forecasted annual net income for the affected lines of business.</p> <p>The analyst should monitor an insurer’s writings and determine whether the insurer wrote any A&amp;H insurance premium which is subject to the ACA <a href="#">Risk Adjustment Program</a> <del>risk-sharing provisions</del>. It is also recommended that the analyst identify whether the impact of underestimating the amount of health premium subject to the ACA <a href="#">Risk Adjustment Program</a> <del>risk-sharing provision</del> is greater than their level of capital would allow. The analyst should review the health care chapter in <a href="#">VI.C. and ACA risk assessment within Section III. B.9 Strategic Risk Assessment</a>.</p> <p>Any reporting entity that reports A&amp;H insurance premium and losses on their statement that is subject to the ACA <a href="#">Risk Adjustment Program</a> <del>risk-sharing provisions</del> must complete the tables provided within Note 24 for the purpose of disclosure of the impact of <a href="#">Risk Adjustment Program</a> <del>risk-sharing provisions of the ACA</del> on admitted assets, liabilities, and revenue by program for the current year even if all amounts in the table are zero.</p>	
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**Note 28 – Health Care Receivables**

(For Health insurers only, Note 28 is for supplemental reserve and requires disclosure of discounting, the method, rate and amount of discount.)

This Note requires disclosure on pharmaceutical rebate receivables and information on risk sharing receivables. While this Note contains quarterly information, the disclosure is only required annually unless material changes occur. The Note for health care receivables is required by *SSAP No. 84—Health Care and Government Insured Plan Receivables*. Exhibit C—Implementation Guide of SSAP No. 84 provides additional accounting guidance for the practical application of SSAP No. 84. Note that when reviewing health care receivables, amounts from government insured plans may be admitted if they are in excess of 90 days, provided the receivable originates from the government.

Section, Part	Pharmaceutical Rebate Receivables	Risks
A	As stated in SSAP No. 84, pharmaceutical rebates are arrangements between pharmaceutical companies and insurers in which the insurer receives rebates based on the drug utilization of its subscribers. These rebates are recorded as receivables by the insurer and include both billed amounts and estimated amounts.	LQ
A, 1	Estimates are calculated using a variety of methods. Section (A) of the Note addresses the method used by the reporting entity to estimate pharmaceutical rebate receivables. As stated in Exhibit C of SSAP No. 84, the insurer should use the most accurate method possible utilizing historical information and should consider such things as contractual changes in rebate amounts, seasonality differences, changes in membership or premium revenue, changes in utilization for various rebate levels, etc. An analyst should use the information in the Note to gain an understanding of the method used for estimating receivables. If an insurer has not taken into consideration all of the factors that can impact the amount of the receivable, material differences might exist between the estimated receivable and the actual receivable.	LQ
	Section (A) of the Note also contains a table (from Exhibit A of SSAP No. 84), which	

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

	<p>discloses, for the most recent three years, the estimated balance of pharmacy rebate receivables, pharmacy rebates as billed or otherwise confirmed, and pharmacy rebates received. The simplest way to understand the table is with the example provided at the end of the Note.</p> <p>The disclosure for pharmaceutical rebates was developed to compare an insurer’s actual pharmacy rebates to its estimated pharmacy rebates. By comparing the second column, titled Estimated Pharmacy Rebates as Reported on Financial Statements (the estimate), to the third column, titled Pharmacy Rebates as Invoiced/Confirmed (the actual amount), the analyst can gain an understanding of the insurer’s ability to reasonably estimate their pharmacy receivables. If an insurer reported significant discrepancies between its estimated and actual receivable balances, the analyst may consider doing further analysis into causes for the discrepancy and the methods used by the insurer to calculate the estimated receivable.</p>	
A, 2	<p>When reviewing this Note in conjunction with the balance sheet and statement of revenue and expenses, the analyst should consider that, while Column A of the Note should only reflect amounts recorded as admitted assets on the balance sheet, rebates on uninsured plans are included in the Note. Uncollected rebates on uninsured plans are only admitted to the extent that they exceed offsetting rebates due to the uninsured plan. Further, pharmacy rebates for uninsured plans (including admitted receivable balances) are reported as reductions in administrative expenses, while rebates on insured plans are reported as a reduction in pharmacy claims expense on the Statement of Revenue and Expenses. The analyst should also be aware that, as stated in SSAP No. 84, adjustments to previously billed amounts (billed or confirmed in writing) would be included in the disclosure. This could result in variances between the estimate and the billed/confirmed amount. Any material variances should be explained in the Note. The analyst should consider additional analysis if any material variances exist that is not explained in the Note.</p>	LQ
A, 3	<p>The Note was also designed to provide information on collectability. If, in accordance with SSAP No. 5R, it is probable the balance of a receivable is uncollectable, any uncollectable receivable shall be written off and charged to income. This also applies to risk-sharing receivables (discussed below). As in the example above, an analyst can use the information in the fourth, fifth, and sixth columns of the table to gain an understanding of the collectability of the receivables. Significant discrepancies between the actual amount of the receivables and the amount collected might indicate to the analyst that the insurer has not appropriately evaluated the collectability of pharmaceutical rebate receivables, and certain receivables should be written off if they are deemed to be uncollectable.</p>	LQ
<i>Section, Part</i>	<i>Risk Sharing Receivables</i>	<i>Risks</i>
B, 1	<p>SSAP No. 84 defines risk-sharing agreements as contracts between insurers and providers with a risk-sharing element based on utilization. These agreements can result in receivables due from providers if the actual utilization differs from the estimates. Section (B) of the Note should disclose the method used by the reporting entity to estimate its risk-sharing receivables. Gross receivable and payable balances should be disclosed in the Note if any receivable or payable amounts with the same provider have been netted. As stated in Exhibit C of SSAP No. 84, receivables consist of estimated amounts and billed amounts. The estimated amounts represent the reporting entity’s best estimate of the receivable. When determining an estimate, an insurer should use the most accurate methods possible that utilize inception-to-date encounter data relative to outpatient surgery encounters, hospital days, etc. An analyst should use the information in the Note to gain an understanding of the</p>	LQ

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

	<p>method used for estimating receivables. If an insurer has not taken into consideration all of the factors that can impact the amount of the receivable, material differences might exist between the estimated receivable and the actual receivable.</p> <p>The Note also contains a table that discloses, for the most recent three years, the risk-sharing receivables estimated and reported in the prior year for annual periods ending in the current year; risk-sharing receivables estimated and reported for annual periods ending in the current year or in the following year; risk-sharing receivables invoiced as determined after the annual period; risk-sharing receivables not yet invoiced; and amounts collected from providers as payments.</p> <p>Exhibit B of SSAP No. 84 provides an illustration of the disclosure and an explanation of the amounts in the table. Exhibit C, Question #17 of SSAP No. 84 provides a detailed explanation of what should be reported in the columns for risk-sharing receivables (columns 3–6). In addition to the guidance in the SSAP, it is helpful to note that the sum of the columns titled “Risk-Sharing Receivable Invoiced” and “Risk Sharing Receivable Not Invoiced” should equal the balance in the column entitled “Risk-Sharing Receivable as Estimated and Reported in the Current Year,” unless the company has invoiced amounts in a certain year and collected on that invoice in the current year.</p>	
B, 2	<p>The purpose of this disclosure is to show how an insurer’s risk-share balances have changed over time (i.e., estimated and billed amounts), to show how much of the receivable is estimated amounts or subsequently billed amounts, and to provide information on collectability. An analyst’s review of this section should be similar to the analysis of the pharmaceutical rebate receivable section of the Note. If an insurer reported significant discrepancies between their estimated and actual receivable balances, the analyst might consider doing further analysis to determine the causes for the discrepancy and to evaluate the methods used by the insurer to calculate their estimated receivable. Significant discrepancies between the actual amount of the receivables and the amount collected may indicate to the analyst that the insurer has not appropriately evaluated the collectability of risk-sharing receivables, and certain receivables should be written off if they are deemed to be uncollectable. Risk-sharing receivables from affiliated entities are included in this footnote and are reported as Health Care Receivables.</p>	LQ
<u>C</u>	<p><a href="#">The purpose of this disclosure is to show how much of health care receivables are attributed to Medicare Part D prescription payment plans receivables and the aging of those receivables. The analyst can use this information to assist in assessing any issues with collectability or impairment of recoverables.</a></p>	

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**Note 35 – Separate Accounts (L/AH/F)**

This Note discloses detailed information on the reporting entity’s separate account activity, a description of the general nature and characteristics of separate accounts business conducted by the insurer included in the company’s Separate Accounts Statement as prescribed by SSAP No. 56—*Separate Accounts*, and a reconciliation of the amounts reported as transfers between the general and separate accounts in their respective summary of operations.

Separate accounts are authorized by state statutes to allow insurance companies to accumulate assets without investment restrictions for specific purposes pursuant to product agreements. SSAP No. 56 defines separate

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

accounts as segregated pools of assets owned by a Life/Health insurer in which the investment experience is credited directly to the participating policies. Generally, performance is not guaranteed. Separate accounts were first used primarily to fund pension accounts. Now they are used for investment type products with unique life options and/or guaranteed returns. The investment income and any realized and unrealized capital gains or losses emanating from the separate account assets are credited or charged against the separate account policyholders. Separate accounts fund the liabilities for variable life insurance and annuities, modified guaranteed life insurance and annuities, or various group contracts under pension or other employee benefit plans.

SSAP No. 56 states that the separate account statement reports the assets, liabilities and operations of the separate account. Moreover, the Separate Accounts Annual Statement is concerned primarily with the recording of the cash flow of funds related to investment activities and obligations of the separate accounts and to document the transfer of funds between the separate account and the general account. Certain products found in the separate accounts contain risks that are the responsibility of the general account. Some of these are: Modified Guaranteed Annuities, Modified Guaranteed Life, and separate accounts established and filed with the regulator that provide guaranteed benefits – such as interest rate guarantees built into the product.

Section		Risks
A	<p>Section (A) provides a detailed summary of the general nature of the reporting entity’s separate account activity on the general account. In reviewing this note, the analyst should be able to identify those assets on the separate account that are legally isolated from claims on the general account. This note should also provide a total for those products on the separate account that have guarantees that are backed by the general account. This should include providing the total maximum guarantees, the amount of risk charges paid to the general account over the prior five-year period as compensation for the risk transferred to the general account and the total amount of guarantees paid by the general account to the separate account over the past five years.</p> <p>The analyst should gain an understanding of general account guarantees on separate account products. If the General Interrogatories indicate that the insurer provides guarantees on separate account assets, then there should be some risk charges paid to general accounts. Otherwise the insurer is not charging any risk fees for providing guarantees that could result in contingent liabilities to the general account. Note that while group products require risk charges, there may be no requirements for risk charges on individual products.</p> <p>The analyst should determine whether there were any securities lending transactions within the separate account and conduct a separate review of the amount of loaned securities within the separate account. The analyst should determine whether the investment policies and procedures for the separate account differ from those for the general account.</p> <p><i><u>Note that new reporting in Note 35A for disclosures where the general account provides an inherent or ultimate guarantee, such as with pension risk transfer (PRT) or registered index-linked annuity (RILA) products, and other related disclosures (2025-09BWG and SSAP Ref. #2024-10), are effective for 1-1-2026; however, early adoption is permitted and disclosures may be available at Annual 2025 for insurers who adopt early. The disclosures identify if risk charges have been provided to the general account, confirm the inclusion of these separate account products within asset-liability testing, discuss securities lending and repurchase/reverse repurchase agreements in the separate account, and fair value of asset transfers that do not reflect sales in exchange for cash between the general account and separate account.</u></i></p>	OP, RV

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

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VI.C.1. Group-Wide Supervision – Group Profile Summary Example

XX DEPARTMENT OF INSURANCE

GROUP PROFILE SUMMARY

GROUP NAME

As of 12/31/20XX

Updated as of XX/XX/20XX

<b>Group Number</b>	List here
<b>Lead State</b>	List here
<b>Group-wide Supervisor</b>	List here
<b>Group Credit Rating</b>	List here
<b>Publicly Traded</b>	List ticker and exchange
<b>International Jurisdictions</b> Country/Capital Regime (Solvency II, Swiss Solvency Test, etc.)	
<b>Contact at Group</b>	List name, phone and email
<b>CPA Firm</b>	List here
<b>Analyst</b>	List here
<b>List of Affiliated Firms</b>	

**Holding Company System Summary**

Identify the ultimate controlling person (UCP), and provide a summary of the structure and business operations of the holding company system, including any significant recent events or changes in structure.

**EXAMPLE:**

**Ultimate Controlling Person:** COMPANY 1 is a mutual holding company that acts as the ultimate controlling person for the group.

**Organizational Structure:** The group is structured as a mutual holding company. The majority of the entities within the group are 100% owned by COMPANY 1. The group provides a wide range of financial products to its customers, but operates under a fairly direct and simple organizational structure.

**Business Segments:** The GROUP is divided into three business segments: insurance, banking and financial services/planning. All of the business segments are designed for and marketed to TARGET MARKET. The insurance segment makes up approximately 70% of the group's total revenue, which includes both ~~personal~~-property & casualty (55% of total revenue) and life insurance (15% of total revenue). Banking services make up approximately 15% of total revenue, with the remaining 15% attributed to financial services/planning and other minor segments.

Insurance policies are sold through ~~internet~~the internet, mail, and telephone on a direct basis, primarily from its LOCATION office. There are 13 financial centers in cities with TARGET MARKET LOCATION to assist members with insurance, banking and investments. The company is exposed to some level of risk concentration due to its concentration in the TARGET MARKET, which exposes it to certain geographic concentrations.

**Sample text:**

The [name of parent] has [issued or modified] a parental guarantee agreement [or capital support agreement] under which the Parent will be responsible for ensuring that the insurance Companies [LIST APPLICABLE PARTIES TO THE AGREEMENT] have sufficient capital and liquid assets to pay claims. The Parent will also maintain capital at a level that ensures a minimum RBC level of ##.##% ACL.

**Insurance Entities and Jurisdictions:** The group has seven different insurance legal entities domiciled across three different states in the U.S. In addition, COMPANY 9 is an alien insurer domiciled in FOREIGN LOCATION. The Company is authorized to provide insurance in the other countries in that region and is subject to insurance

**Commented [JK1]:** Staff suggestion: Consider adding international Jurisdiction capital regime or accounting basis, if applicable for international groups

**VI.C.1. Group-Wide Supervision – Group Profile Summary Example**

supervision by the FOREIGN SUPERVISOR. COMPANY 9 reported \$547 million in retained profit in 20~~11~~~~xx~~, so its operations are not overly significant to the Group.

**Captives:** The group has established COMPANY 14 as a captive life insurer, to assume XXX and AXXX reserve liabilities from COMPANY 6. COMPANY 14 is domiciled in CAPTIVE STATE X and is subject to coordinated supervision. The initial transaction to transfer reserve liabilities was subject to review and approval by the CEDING STATE and the CAPTIVE DOMICILE and is subject to ongoing review and oversight. During a Dec. 31, 20XX, coordinated examination, it was determined that the group continues to operate in accordance with the approved transaction restrictions and maintains sufficient reserves, collateral and surplus to support the captive reinsurance structure.

**Non-Insurance Entities:** The group offers many banking and financial products including credits cards, consumer loans, home equity loans, mortgages, auto loans, checking and savings accounts through COMPANY10 and COMPANY 11. The Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) regulate the banks and the LEAD STATE communicates with those supervisors on a regular basis regarding group issues.

In 20XX, the Group was examined by the Federal Reserve Bank (FRB). No significant findings were noted during the exam. In 20XX, the Group issued \$800 million in additional bank debt through Company 1. However, this additional debt does not appear to significantly increase the group’s current leverage position, which is conservative in comparison to most competitors and does not represent a significant concern at this time.

In 20XX, the Federal Reserve conducted stress testing on the bank in COMPANY10. The bank passed the latest stress tests, demonstrating that they have sufficient capital to withstand adverse scenarios.

**Other Information:** A recent press release announced the group’s intentions to partner with UNAFFILIATED COMPANY A to offer additional financial services products to its existing customers. The partnership is not expected to have a significant financial impact in the near term.

**Financial Snapshot (Selected Summary Data)**

Provide financial data as well as any notes and explanations of the data to outline the group’s financial position, segment performance and other key information that is customized and relevant for an understanding of the specific group. ~~Financial information provided in the GPS, which may be more detailed as compared to~~ than the insurer profile summary of a legal entity insurer ~~as~~ since the availability of group data differs significantly from one group to the next and fewer tools are available at the group level. However, the information presented may vary depending upon the availability of consolidated financial data from one group to the next.

**EXAMPLE:**

<u>Consolidated Balance Sheet (U.S. GAAP)</u>		
<u>Years Ended December 31 (Dollars in millions)</u>	<u>20XX</u>	<u>20XY</u>
<u>Insurance Assets</u>	<u>\$</u>	<u>\$</u>
<u>Non-Insurance Assets</u>	<u>\$</u>	<u>\$</u>
<u>[Add detail based on group specifics]</u>	<u>\$</u>	<u>\$</u>
<u>TOTAL ASSETS</u>	<u>\$</u>	<u>\$</u>
<u>Holding Company Debt</u>	<u>\$</u>	<u>\$</u>
<u>[Add detail based on group specifics]</u>	<u>\$</u>	<u>\$</u>
<u>TOTAL LIABILITIES</u>	<u>\$</u>	<u>\$</u>
<u>EQUITY</u>	<u>\$</u>	<u>\$</u>

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

<u>TOTAL LIABILITIES AND EQUITY</u>	<u>\$</u>	<u>\$</u>
<u>[Add detail based on group specifics]</u>	<u>\$</u>	<u>\$</u>
<u>Total revenues</u>	<u>\$</u>	<u>\$</u>
<u>Total losses, benefits and expenses</u>	<u>\$</u>	<u>\$</u>
<u>NET INCOME</u>	<u>\$</u>	<u>\$</u>
<u>CASH FLOW</u>	<u>\$</u>	<u>\$</u>
<u>NET INCOME BY SEGMENT</u>	<u>20XX</u>	<u>20XY</u>
<u>Property &amp; Casualty Insurance</u>	<u>\$</u>	<u>\$</u>
<u>Life Insurance</u>	<u>\$</u>	<u>\$</u>
<u>Banking &amp; Finance</u>	<u>\$</u>	<u>\$</u>
<u>Non-Financial</u>	<u>\$</u>	<u>\$</u>
<u>Corporate</u>	<u>\$</u>	<u>\$</u>
<u>INSURANCE OPERATIONS BY JURISDICTION</u>	<u>20XX</u>	<u>20XY</u>
<u>[Add international detail based on group, e.g., premium, revenue, or assets under management]</u>	<u>\$</u>	<u>\$</u>
<b>Consolidated Balance Sheet (U.S. GAAP)</b>		
<b>Years Ended December 31 (Dollars in millions)</b>	<b>20XX</b>	<b>20XX</b>
Cash and cash equivalents	13,447	8,786
Investments	38,944	35,033
Real estate investments, net	2,370	1,956
Loans receivable	38,103	37,548
Premiums due from policyholders	2,309	2,124
Property and equipment, net	1,309	1,343
Other Assets	7,870	7,472
<b>TOTAL ASSETS</b>	<b>\$104,352</b>	<b>\$94,262</b>
Insurance reserves	15,588	14,062
Life insurance funds on deposit	15,368	13,626
Bank deposits	46,432	39,775
Borrowings	1,974	3,441
Other liabilities	5,050	4,647
<b>TOTAL LIABILITIES</b>	<b>\$84,312</b>	<b>\$75,551</b>
Equity	\$20,040	\$18,711
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$104,352</b>	<b>\$94,262</b>
<b>Consolidated Income Statement</b>	<b>20XX</b>	<b>20XX</b>
Insurance premiums	11,960	11,205
Total investment return	2,940	2,723
Fees, sales and loan income, net	3,489	3,422
Real estate investment income	253	190

**VI.C.1. Group-Wide Supervision – Group Profile Summary Example**

<i>Other income</i>	<del>424</del>	<del>406</del>
<i>Total revenues</i>	<del>\$19,036</del>	<del>\$17,946</del>
<b>LOSSES, BENEFITS AND EXPENSES</b>		
<i>Policyholder Benefits</i>	<del>177</del>	<del>157</del>
<i>Net losses, benefits and settlement expenses</i>	<del>10,998</del>	<del>9,160</del>
<i>Deferred policy acquisition costs</i>	<del>574</del>	<del>556</del>
<i>Real estate investment expenses</i>	<del>189</del>	<del>153</del>
<i>Interest expense</i>	<del>475</del>	<del>604</del>
<i>Dividends to policyholders</i>	<del>112</del>	<del>223</del>
<i>Other operating expenses</i>	<del>3,899</del>	<del>3,669</del>
<i>Total losses, benefits and expenses</i>	<del>\$16,247</del>	<del>\$14,365</del>
<i>Pre-tax income</i>	<del>2,789</del>	<del>3,581</del>
<i>Income tax expense</i>	<del>661</del>	<del>944</del>
<b>NET INCOME</b>	<del>\$2,148</del>	<del>\$2,637</del>
<b>CASH FLOW From Operations</b>	<del>\$4,737</del>	<del>\$2,828</del>

**EXAMPLE:**

Significant Financial Performance Notes:

- The ~~group~~ Group continues to experience positive financial results including steady revenue growth, increasing capital/surplus levels, positive net income and positive cash flow from operations.

**Corporate Governance Summary**

Provide a summary of the corporate governance structure and an overall assessment for the holding company.

**EXAMPLE:**

The Group is governed by a board of directors at the mutual holding company level and separate boards are in place for each insurance and banking entity, but they are led by company employees and have limited responsibilities. Strategic direction is set by the COMPANY 1 board and the audit committee for COMPANY 1 has assumed responsibility for the financial reporting and internal controls of all insurance entities. The board is made up of 10 members, 8 of which are independent from management. The Board and its committees are governed by formal written charters and the board meets a minimum of 4 times a year to fulfill its responsibilities. Based on the results of the most recent financial exam, board members of Company 1 were deemed suitable for their positions with a wide-range of experience and expertise demonstrated including financial and actuarial knowledge. A review of insurance board meeting materials and minutes indicated that the board is actively engaged in reviewing reported financial results of the organization and taking action to address strategy when necessary.

Senior management is led by a CEO that has been in place since 20XX and has a background in insurance company leadership going back more than 25 years. Based on the most recent discussions with management at the department and through discussions at the last supervisory college, the CEO appears to be well informed in regards to all significant operations of the group. All of the other members of senior management appear to have appropriate knowledge, background and experience to fulfill their responsibilities and appear to be actively engaged in the group's strategic initiatives. The assignment of authority and responsibility across the group appears to be clear and effective and the management team has demonstrated its competence through numerous interviews and meetings with the department. Overall, the Group's corporate governance is assessed as strong.

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

### Enterprise Risk Management Summary

Provide a summary of the enterprise risk management function and an overall assessment for the holding company, as well as a discussion of the ORSA Summary Report filing status.

**EXAMPLE:**

*The Enterprise Risk Management function is organized at the COMPANY 1 level, although an ERM function is also organized for the banking subsidiaries. Both are overseen by a Risk Management Committee of the board. The Risk Management Committee is governed by a charter that makes it responsible for developing, communicating and implementing a risk appetite statement and supporting risk limits/tolerances across the organization. The Chief Risk Officer oversees the Enterprise Risk Management function for COMPANY 1 and reports to the Risk Management Committee at least quarterly, providing updates on the organization's compliance with risk limits/tolerances, describing new and emerging risks the organization is facing, and seeking input on changes to risk limits/tolerances and remediation efforts to address breaches. Individual risks are assigned to risk owners for development of mitigation strategies, monitoring and day-to-day management. The results of the organization's ERM efforts are documented in an ORSA Summary Report and similar information is reviewed and approved by the Risk Management Committee and the Board of Directors on an annual basis. ~~The results of the most recent regulatory assessment of the organization's ORSA Summary Report (filed 10/25/XX) indicate that the ERM function is generally performing at "Level 4", which is at or above the majority of its peers in this area. Similar conclusions were reached during the last supervisory college conducted for the Group.~~*

~~*The insurer also reviews liquidity (see liquidity branded risk) and discusses contingency funding to mitigate potential liquidity stresses due to catastrophic events or severe market fluctuations.*~~

*The Group's assessment of its key risks through its ERM framework generally align with the department's understanding of the Group and its exposures, with the exception of geopolitical risk (see other branded risk) that is of concern to the department but not directly addressed by the Group as a key risk. A recommendation has been made for the Group to incorporate additional geopolitical risk considerations into its ERM framework going forward.*

*Amongst a wide range of other risk exposures, the Group also reviews liquidity (see liquidity branded risk) and discusses contingency funding to mitigate potential liquidity stresses due to catastrophic events or severe market fluctuations.*

### Group Capital Calculation Summary

Provide a summary of an assessment of the GCC both quantitatively and qualitatively, including any such items as may not be applicable to a branded risk category. The GCC summary is intended to be high-level. Therefore, other more detailed observations from reviewing the GCC should generally not be documented into the GPS unless they are specifically insightful, add to a high-level understanding of the ~~group~~Group's financial condition, or are specific to a branded risk category as stated.

**EXAMPLE:**

It may be appropriate to indicate whether the review of the ~~group~~Group's GCC indicated the scope of the application is consistent with the lead state's determination and summarize the general scope of the GCC. For example, "the GCC includes all U.S. and Bermuda operations, but excludes ABC non-insurance operations in South American countries".

**VI.C.1. Group-Wide Supervision – Group Profile Summary Example**

It may also be appropriate to identify key drivers of risks for the ~~group~~Group within the GCC as those risks supplement existing risk assessments derived from holding company analysis or are new risks that warrant further review.

**EXAMPLE:**

"The ~~group~~Group's GCC of 201% in the current year was impacted by a decline in total available capital of \$X which is related to the ~~group~~Group's non-insurance operations in Bermuda and as well as the negative impact of market risks in the U.S. insurance legal entity ratio components, which based on further analysis has resulted from the recent financial market volatility".

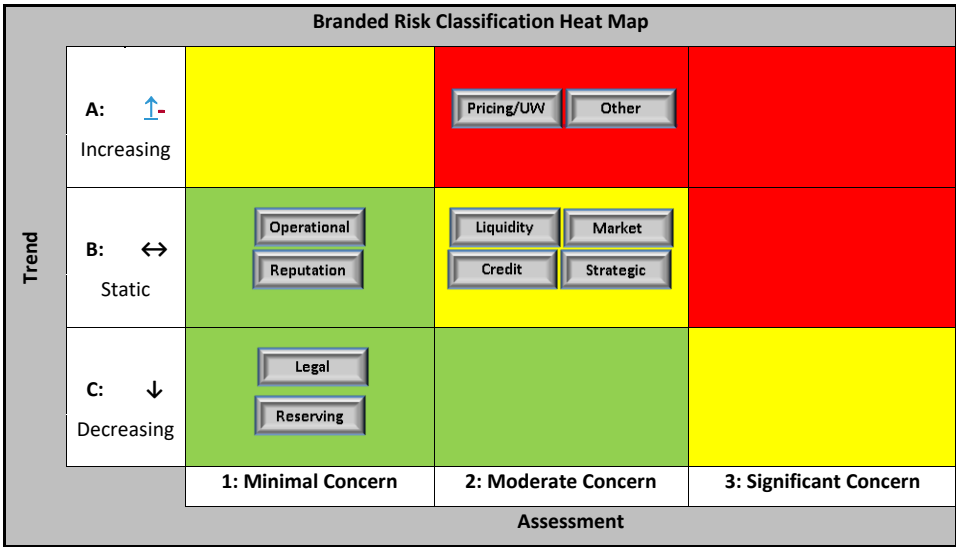
**Branded Risk Assessments**

Summarize your assessment of the branded risk classifications for the ~~group~~Group based upon both quantitative (e.g., 5-year trending of key ratios) and qualitative information. An assessment of each significant individual risk component (including prospective risks) relevant to the classification should be provided by indicating either "minimal concern," "moderate concern," or "significant concern" as well as the direction in which the risk is trending. If no ~~significant~~material individual risk components are identified for a branded risk classification, documentation should be provided to support this conclusion. Consider the materiality and/or significance of each individual risk component in aggregating the overall assessment and overall trend, including positive considerations and mitigating factors, for each branded risk classification. Update the Branded Risk Classification Heat Map to illustrate your conclusions.

The following is an interactive map. Click and drag the risk classification to the appropriate section of the risk classification heat map after assessing the trend in each individual category.



**EXAMPLE:**



VI.C.1. Group-Wide Supervision – Group Profile Summary Example

**Credit:**

- **Loan Portfolio** - ~~Based upon a review of consolidating financial statements, the~~ primary credit risk for the ~~group~~ Group appears to be in the banking segment. The banks have a significant amount invested in mortgages and automobile loans. Through discussions with the group wide supervisor, the Federal Reserve Bank, and a review of documentation they provided, it appears that the loans carry a moderate risk of default. However, current loans past due are less than 1% of loans receivable, indicating that the Group appears to manage its loan portfolio well.
- **Insurer Investments** – Other investments are heavily concentrated in investment grade bonds associated with the insurance operations, which represent a minimal concern. We requested the ~~group~~ Group provide us with summary investment information for the ~~group~~ Group, which indicated that there were no material concentrations in non-investment grade bonds, equities, private securities or other types of invested assets. In addition, the ~~group~~ Group's ORSA Summary Report ~~assesses credit within its economic capital model. does not list credit as an area of material risk.~~ Because most of these assets are within the individual insurers, we also reviewed the legal entity insurer profile summaries and noted no significant concerns with either investments or reinsurance.

Overall: Credit risk is assessed as moderate and static driven by its loan portfolio from banking operations, as other insurance segment risks are minimal or immaterial to the overall Group.

Minimal Concern	Moderate Concern	Significant Concern	Trend
	Loan Portfolio		↔
<del>Reinsurance/Insurer investments</del>			↔
<b>Overall Credit Assessment: Moderate Concern</b>		<b>Overall Trend: ↔</b>	

**Legal:** No specific concerns identified through either review of the legal entity insurer profile summaries, results of recent coordinated exam, the ORSA Summary Report, other holding company filings, discussions with the Federal Reserve, communication with the FOREIGN SUPERVISOR of COMPANY 9, or any other sources.

- **Claim Lawsuits** – The ~~group~~ Group is periodically involved in individual claim lawsuits, but frequency has trended downward and results are not historically significant.
- **Regulatory Risk** – As a Group with US insurance, banking and financial services operations and international operations, regulatory risk associated with prospective regulatory changes and compliance costs are identified as a risk to the Group, but considered minimal at this time.

Overall: Due to the company's strong management of existing exposures to legal issues, the legal risk is assessed as minimal and declining.

Minimal Concern	Moderate Concern	Significant Concern	Trend
Claim lawsuits			↓
<u>Regulatory Risk (incl. Federal and International)</u>			↔

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

Overall Legal Assessment: <del>Not</del> Minimal Concern		Overall Trend: ↓	
<p><b>Liquidity:</b> As previously discussed, although the insurance assets are fairly conservative, and despite <del>finding identifying no</del> <del>insurer Profile Summaries of legal entities that identified liquidity as an issue</del> <u>specific liquidity concerns in the insurance segment</u>, this may be an area requiring greater focus at the <del>group</del> <u>Group</u> level moving forward.</p> <ul style="list-style-type: none"> <li>• <u>Liquidity of Banking Operations</u> – The Federal Reserve indicated that the banking operations were subject to liquidity strain under certain <u>conditions</u>. The banking operations passed the latest stress tests and demonstration solvency in all but the extreme scenario, however the specific conditions of the <u>scenario testing were not provided for the lead state’s review</u>.</li> <li>• <u>Liquidity Stresses</u> – The Group has a liquidity risk appetite statement and liquidity risk limits and determines if the current liquidity position is within the risk appetite and limit. Given in part the Group’s exposure to certain types of catastrophic risks as well as certain risks with its banking operations, the Group has in place a strategy to liquidate assets and access sources of contingency funding in times of stress.</li> </ul> <p><del>The analyst suggests as an area of focus during the next coordinated on-site examination, this contingency funding, specifically the \$XXM Federal Home Loan Bank (FHLB) letter of credit; as well as reviewing the current liquidity position compared to the risk limits; and reviewing the banking stress test scenario to better understand the entire Group’s liquidity management conditions, but did not provide specifics regarding those conditions or the results. In addition, although the ORSA Summary Report provides some information on the insurance operations liquidity management program, a greater understanding is needed given in part the group’s exposure to certain types of catastrophic risks as well as certain risks with its banking operations. We suggest this as an area of focus during the next coordinated on-site examination to better understand the entire group’s liquidity management.</del></p> <p><u>Overall: Liquidity risk is assessed as moderate and static due to liquidity strain at the non-insurance operations and contingency funding in place to address stress scenarios. Both will be considered for further assessment during a future examination.</u></p>			
Minimal Concern	Moderate Concern	Significant Concern	Trend
	<u>Liquidity of Banking operations</u>		↔
	<u>Liquidity Stresses (in a cat scenario or market fluctuations)</u>		↔
<del>Liquidity under normal conditions</del>			
Overall Liquidity Assessment: Moderate Concern		Overall Trend: ↔	

<p><b>Market:</b> <u>The Group is exposed to market risk with:</u></p> <ul style="list-style-type: none"> <li>• <u>Loan Portfolio</u> – Similar to credit risk, through discussions with the Federal Reserve, market risks related to the loan portfolio were identified, as these loans can be subject to market swings during certain economic conditions. Although general concerns were communicated in this area, specific concerns related to the company’s stress test results for various scenarios were not communicated.</li> </ul>
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VI.C.1. Group-Wide Supervision – Group Profile Summary Example

- Insurance Portfolio** – Despite the relatively conservative investment portfolio, the Company identified through stress tests specifically reviewing the capital effects for interest rate changes/levels on the insurer’s portfolio in its ORSA that market risk was an area where a moderate risk, or at least a moderate amount of capital, may be needed to absorb certain specific economic conditions. However, based on discussions with management, despite the use of various types of derivatives to reduce such risks, the company indicates that its cost-benefit analysis suggests that further hedging is not used to manage this extreme tail risk that has a somewhat low probability. Further review of such need not be performed until the next five-year examination.
- Geopolitical Risk** – The most recent Form F report provided by COMPANY 1 indicated that The Group is exposed to geopolitical risk and uncertainty related to its investment in COMPANY 9, which is an alien reinsurer operating in Country XX. As the stability of Country XX’s government has been weakened due to recent protests related to government corruption, the Group’s investment in COMPANY 9 is of some concern. However, as the Group’s total investment in COMPANY 9 (\$547 million at Dec. 31, 20XX) represents less than 3% of overall capital and surplus, the situation warrants only a moderate concern at this time.

Commented [JK2]: Moved here from Other risk, as it is proposed to eliminate the Other risk category from the example.

**Overall:** Based on the above, market risk is assessed as moderate and static attributed to both the insurance and non-insurance segments as the economic market remains volatile.

Minimal Concern	Moderate Concern	Significant Concern	Trend
	Loan Portfolio		↔
	Insurance Portfolio		↔
	<u>Geopolitical risk (COMPANY 9)</u>		↔
Overall Market Assessment: Moderate Concern		Overall Trend: ↔	

**Operational:**

- Earnings** – Consolidated GROUP reported net income of \$2,128 million in the current year compared to \$2,637 million in the prior year. In the current year, GROUP P/C companies experienced significant catastrophe events, which included tornadoes, floods, hail, wildfires, earthquakes and hurricanes. However, even with the heightened number of catastrophes faced by the group, the overall financial results were favorable and group capital, per the ORSA Summary Report according to the Group, appears to be well above target even under adverse conditions. The group is not structured like most companies and its overall approach is geared towards its policyholders.

**Holding Company Debt** – While the group’s holding company has issued debt to fund operations, the group’s interest coverage ratio (provided below) shows that the group is not overly reliant on cash flow from the insurance entities to cover the holding company debt.

	CY	PY	PY1	PY2	PY3
Interest Coverage	4.5X	4.4X	4.4X	2.2X	5.2X

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

- Internal Control Documentation – ~~However, a~~ Although the last examination revealed that governance risk was low, certain internal control processes were not clearly documented. The ~~group~~ Group indicated that it was in the process of working with its internal audit department to enhance its documentation. Through discussions with the Federal Reserve, it appears that the ~~group~~ Group has recently developed additional documentation around internal controls. These activities will be verified during the next onsite examination.
- Cybersecurity – The Group identified cyberattack as a key risk with moderate concern due to the number of entities, IT platforms, lines of business, and counties that the insurer operates within. Therefore, the company has purchased a cyber policy for \$5 million. The analyst will recommend the exam team confirm and review the provisions of the policy. Additionally, the Group’s stress testing shows that the insurer’s capital could absorb a moderate cyber event with reinsurance and controls that are in place. However, stress testing also shows that a combination event with both a cyber attack and an underwriting (CAT) event would require the insurer to obtain additional capital to absorb.

Overall: Operational risk is assessed as minimal and static at this time due to strong profitability, slightly offset by potential risks noted within documentation of internal controls and cybersecurity.

Minimal Concern	Moderate Concern	Significant Concern	Trend
<del>Earnings &amp; Group Capital</del>			↔
<del>Holding Company Debt</del>			
	Internal control documentation		↓
	<u>Cybersecurity</u>		↓
Overall Operational Assessment: <del>No</del> /Minimal Concern		Overall Trend: ↔	

**Pricing/Underwriting:** Our review of pricing/underwriting risk focused on the insurers within the organization, as similar risks in the banking segment were evaluated as an element of credit risk.

~~Per review of the legal entity Insurer Profile Summaries, Company 6 was identified as having a concentration of catastrophe risk in one state, which was identified as a significant concern by State Y. However, after review of the ORSA Summary Report, and after significant discussions with management, we determined that CAT risk for the entire group as a whole was moderate.~~

- Auto/Home Underwriting & Pricing – Underwriting performance within the auto and homeowner’s lines of business remain within expectations for premium revenue growth and earnings groupwide. However, expansion and the shift to more property lines (Auto and Homeowners), may result in higher pricing risks going forward.
- CAT Risk – Company 6 has a concentration of catastrophe risk in one state, which was identified as a significant concern by State Y. However, after further review, and detailed discussions with management, we determined that CAT risk for the entire Group as a whole was moderate. ~~Additionally, the Company has taken steps in the current year to minimize this risk further by creating a separate legal structure to reduce this risk through the issuance of insurance linked securities, as discussed in the Group’s Form F filing. We suggest that a~~ Although this is a risk mitigator, a target exam is

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

~~recommended to review~~ the details of the structure ~~should be examined more closely during a targeted exam as soon as possible and that regulators and we will continue to~~ monitor this activity closely as it could represent a significant concern if not structured effectively.

- **WC Underwriting & Pricing** – ~~Also, the~~ ~~group~~Group’s workers’ compensation (WC) line of business appears to contain some risk for the ~~group~~Group, where despite relatively strong historical performance, we’re noticing an industry trend of decreasing prices. As this line of business represents more than 25% of the ~~group~~Group’s total gross written premiums, we believe a detailed review of national underwriting procedures and current pricing on workers’ compensation may be appropriate during the next onsite exam (scheduled for two years from now).

**Overall:** Pricing/underwriting risk is assessed as moderate and increasing due to uncertainties in the changing product focus and expansion, as well as potential for pricing trends to impact the WC line of business, which is material to the Group.

Minimal Concern	Moderate Concern	Significant Concern	Trend
Auto/home underwriting & pricing			↔
	CAT risk		↔
	WC underwriting and pricing		↑
		Insurance linked securities	
<b>Overall Pricing/Underwriting Assessment: Moderate Concern</b>		<b>Overall Trend: ↑</b>	

**Reputation:** No ~~significant issues~~ ~~material risks~~ were identified. The Group appears to monitor its reputation and strong financial strength and credit ratings on a regular basis, ~~as described in its ORSA Summary Report.~~

**Overall:** Reputation risk is assessed as minimal and static due to the Group’s historically strong reputation, ratings, and demonstration of strong corporate governance in managing its reputational risk, despite the challenging insurance markets.

Minimal Concern	Moderate Concern	Significant Concern	Trend
Overall reputation			
<b>Overall Reputation Assessment: <del>No</del> Minimal Concern</b>		<b>Overall Trend: ↔</b>	

**Reserving:** Our review of reserving risk focuses on the insurance segment of the Group, as the risk associated with bank lending activities are addressed in Credit.

- **Adequacy of Reserves and Leverage** – The ~~group~~Group sets P&C reserves at a level slightly above the actuary’s central estimate ~~continues to~~and maintains a ~~relatively~~ conservative ratio of reserves to equity of ~~78%~~ although ~~this ratio~~ has been trending slightly negative.
- **Loss Development** – This is offset by a slight shift in the insurer’s exposure from less casualty business to more property business and is the primary driver for the change. ~~Although the group sets P&C reserves slightly above the actuary’s central estimate, it reported unfavorable prior year reserve development, following three consecutive years of favorable development (see graphic below). This~~

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

unfavorable development stemmed from reserve strengthening in the auto liability line, driven by industry-wide trends of increased claims severity attributed to social inflation. The Group maintains internal actuarial expertise but has limited experience in some of the new markets they are operating in. However, as shown in the insurer's ORSA Summary Report, the insurance group sets aside economic capital to cover a one-in-500-year event in addition to other amounts set aside for other risks.

	CY	PY	PY1	PY2	PY3
Two Year Develop	812.0%	-10.0%	-10.4%	-5.6%	1.1%
Loss & LAE/C&S	779.8%	76.28%	756.82%	73.7%	71.9%

- Life Insurance Reserve Adequacy of Ceded Business - The Company cedes a material portion of life insurance to its affiliated captive insurer. As noted above, during the Dec. 31, 20XX, coordinated examination, it was determined that the group maintains sufficient reserves, collateral and surplus to support the captive reinsurance structure. Per the domiciliary state IPS, the 20XX Actuarial Opinion and RAIS has been reviewed and no concerns were identified since the last exam.

Overall: The Group continues to maintain a conservative reserve leverage position and has a history of favorable development, although expansion into new property markets may become a challenge. At this point, reserving risk is assessed as minimal and increasing overall.

Minimal Concern	Moderate Concern	Significant Concern	Trend
<u>Adequacy of Reserves and Leverage</u>			↔
Loss development			↔
<u>Life Insurance Reserve Adequacy of Ceded Business</u>			↔
Overall Reserving Assessment: <b>No/Minimal Concern</b>		Overall Trend: ↔	

**Strategic:** The primary risks for the Group are divided into insurance and banking segments.

- Competition (Insurance) – The Group has proven risk mitigation strategies in the insurance companies and has managed those risks well. However, the group Group is facing new competition in a number of its primary insurance markets as competitors seek to duplicate the group Group's strong financial performance. While the group Group appears to be aware of the increased competition and responding to the emerging threats in this area, these threats bear monitoring as a moderate concern.
- Group Capital and Capital Modeling – COMPANY 1 uses an internally developed economic capital model to determine the required capital to absorb unexpected losses in the 12 months arising from the following key risks: insurance, market, catastrophe and credit. Additionally, strategic risk and operational risk are quantified outside the economic capital model. The aggregate required capital is then compared to the available capital to determine the solvency position of the company. The required capital and available capital are projected and stressed over the next three years to assess

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

the ability of the company to remain solvent over the duration of the business plan. The projections and stress tests demonstrate the ability of the company to remain solvent under all but very extreme scenarios.

~~In addition, as discussed above, the one area of risk that is not easy to get a handle on at the group level is its liquidity risk.~~

- ~~The ORSA Summary report discusses some aspects (insurance focused) of ERM but it is not sufficiently detailed to assess. See above suggestion regarding liquidity.~~ The group's GCC is assessed as low-risk and stable and is a positive consideration in the overall assessment of strategic risk. The GCC has generally been reasonable and consistent over the past five years as illustrated in the following table. Additionally, refer to the GCC summary for further details.

	CY	PY	PY1	PY2	PY3
<b>GCC Ratio</b>	201%	207%	163%	202%	197%

- Liquidity Strategy – One area of risk that has not been easy to assess at the Group level is its liquidity planning and strategy (see LQ Risk for more information). Additional discussions on this topic are recommended during the next meeting with management.
- Holding Company Debt – While the Group's holding company has issued debt to fund operations, the Group's interest coverage ratio (provided below) shows that the Group is not overly reliant on cash flow from the insurance entities to cover the holding company debt.

	CY	PY	PY1	PY2	PY3
<b>Interest Coverage</b>	4.5X	4.4X	4.4X	2.2X	5.2X

**Commented [JK3]:** Moved from OP risk to ST risk. An aligning edit will be made to FAH pg. 599 (chapter VI.C) to reflect debt is recommended to be documented within ST risk.

Overall: Strategic risk is assessed as moderate and static driven primarily to the competitive nature of the Group's lines of business, but offset by a strong capital position.

Minimal Concern	Moderate Concern	Significant Concern	Trend
<del>Overall strategic planning</del>			
<u>Holding Company Debt</u>			↔
	Competition		↑
	Liquidity strategy		↔
<del>Group Capital Calculation and Capital Modeling</del>			↔
<b>Overall Strategic Assessment: Moderate Concern</b>		<b>Overall Trend: ↔</b>	

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

~~Other: The most recent Form F report provided by COMPANY 1 indicated that the group is exposed to geopolitical risk and uncertainty related to its investment in COMPANY 9, which is an alien reinsurer operating in Country XX. As the stability of Country XX's government has been weakened due to recent protests related to government corruption, the group's investment in COMPANY 9 is of some concern. However, as the group's total investment in COMPANY 9 (\$547 million at Dec. 31, 20XX) represents less than 3% of overall capital and surplus, the situation warrants only a moderate concern at this time.~~

Minimal Concern	Moderate Concern	Significant Concern	Trend
	Geopolitical risk (COMPANY 9)		-
<b>Overall Strategic Assessment: Moderate Concern</b>		<b>Overall Trend: -</b>	

**Overall Conclusion**

This section should include the analyst's overall conclusion as to the ~~group~~Group's financial condition, discuss key strengths that potentially mitigate the risks assessed above, and highlight any key weaknesses or material concerns the analyst may have with the ~~group~~Group's operations going forward. Include a discussion on the interconnections within the holding company Group that have a significant impact on the insurance segment. Include any material actions that ~~may~~ have been taken by the lead state or other jurisdictions (e.g., significant holding company transactions, prior or planned meetings with management, ~~and~~ referrals to/from other divisions, and communications with other regulatory jurisdictions, etc.).

**EXAMPLE:**

*Based on the branded risk assessments provided above as well as the company's financial results reported in recent periods, the ~~group~~Group appears to be financially stable with no major sources of potential contagion risk to the insurance entities identified. However, some of the key weaknesses and material concerns facing the ~~group~~Group include increased competition, geopolitical risk to operations in Country XX, overall liquidity planning and the Group's pricing/underwriting of workers' compensation business. These concerns are somewhat offset by company strengths including a conservative investment portfolio, strong reputation and history of strong financial performance. While the Group has issued new holding company debt, the risk of dependence upon cash flows from the subsidiaries, including the insurance operations, to make payments is minimal at this time. The department meets annually with ~~group~~Group leadership with the next meeting scheduled for the first quarter of 20XX to discuss annual results. During the meeting, the department plans to ask about the impact of increased competition on the ~~group~~Group as well as liquidity planning.*

The company has in place a capital support agreement with each of the U.S. insurance entities in which it will be responsible for ensuring that each of the insurance entities has sufficient capital and liquid assets to pay claims. The Company will also maintain capital at a level that ensures a minimum U.S. RBC level of ##.##% ACL for both life and property operations.

**Supervisory Plan**

List any specifically identified items that require further action and/or monitoring by the analyst or specific testing by the examiner. In addition, indicate if the ~~group~~Group is or should be subject to any enhanced monitoring, such as monthly reporting, meetings with the department, a targeted examination, or a more frequent exam cycle. Note if any regulatory actions have recently been taken.

**EXAMPLE:**

### VI.C.1. Group-Wide Supervision – Group Profile Summary Example

#### Analysis Follow Up

- Discuss the ~~group~~Group's strategy to address increased competition in several of its primary markets as part of the next annual meeting [scheduled for DATE], supervisory college [scheduled for DATE] and/or holding company analysis.
- Monitor the situation in Country XX to consider its impact on the ~~group~~Group's investment in COMPANY 9.
- Discuss any significant negative developments with the ~~group~~Group's executives.
- Discuss liquidity planning and strategy during the next scheduled meeting with management (see also exam considerations).

#### Examination Follow-Up

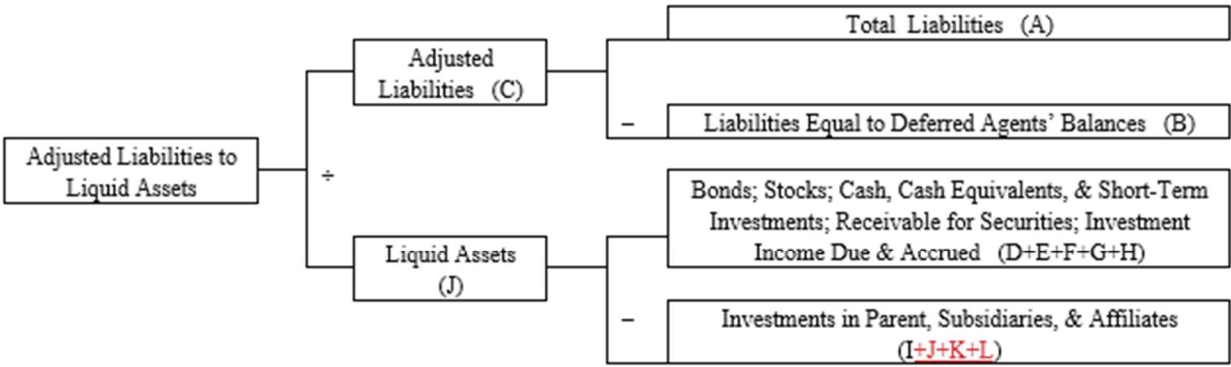
##### Interim Target Examination

- Perform a targeted examination on the ~~group~~Group's newly developed insurance linked securities in order to understand all aspects of the program including its interaction with other forms of projection, limits, the monitoring used by the company, etc.

##### Next Coordinated Examination

- The next coordinated examination is scheduled for the period ending Dec. 31, 20xx. The following are recommended areas of focus
- ~~Increase the focus on a~~National underwriting procedures and current pricing on workers' compensation during the next coordinated examination.
- ~~Increase the focus on the e~~Entire ~~group~~Group's (including banking) liquidity management program, ~~during the next coordinated examination.~~
  - Specifically review the liquidity risk appetite statement and liquidity risk limits to determine if the current liquidity position is within the risk appetite and review documentation of the insurer's control of monitoring limits.
  - Verify the existence of the FHLB letter of credit for contingency funding since it is the primary source of additional funding during a stress event. R
  - Review the banking stress testing scenarios to determine the impact of the scenarios to liquidity.
- Review of the economic capital model including the CAT model component that calculates the risk exposures by peril.
  - Assess if the insurer approves the appropriateness of the model(s) framework and ensures that all key risks are assessed either in the model or under a separate assessment.
- Reinsurance given the Group indicates it is the primary control of the Group's catastrophic risk.
  - Review the reinsurance program as outlined in the reinsurance interrogatory tower consider how aggregated/modeled loss exposures are utilized by the company to reach reinsurance decisions in the context of overall reinsurance strategy.
  - Review the probable maximum loss (PML) for catastrophe perils and compare them to the catastrophic reinsurance structure that has been selected.

**P/C LIQUIDITY RATIO 9 – ADJUSTED LIABILITIES TO LIQUID ASSETS**



A. Total Liabilities	Page 3, Line 28, Column 1	_____
B. Liabilities Equal to Deferred Agents' Balances	Page 2, Line 15.2, Column 3	_____
C. Adjusted Liabilities = (A-B)		_____
D. Bonds	Page 2, Line 1, Column 3	_____
E. Stocks, Preferred & Common	Page 2, Line 2.1 + 2.2, Column 3	_____
F. Cash, Cash Equivalents & Short-Term Investments	Page 2, Line 5, Column 3	_____
G. Receivable for Securities	Page 2, Line 9, Column 3	_____
H. Investment Income Due & Accrued	Page 2, Line 14, Column 3	_____
I. <del>Investments in Parent, Subsidiaries, &amp; Affiliates</del> <u>Affiliated Investments – Bonds</u>	Page 17, Line 42 + 43 + 44 + 45, Column 1	_____
J. <u>Affiliated Investments – Preferred Stocks</u>	Page E17, Line 0999999, Col. 6-8	_____
K. <u>Affiliated Investments – Common Stocks</u>	Page E17, Line 1899999, Col. 6-8	_____
L. <u>Affiliated Investments – Short-Term Investments</u>	Page E18, Line 769999999, Col. 6	_____
<del>MJ</del> . Liquid Assets = (D+E+F+G+H-I-J-K-L)		_____

Result = 100 \* (C / MJ) \_\_\_\_\_ %

- If J is zero or negative, result is 999.

Draft: 12/3/25

Financial Examiners Handbook (E) Technical Group  
Virtual Meeting  
November 20, 2025

The Financial Examiners Handbook (E) Technical Group of the Examination Oversight (E) Task Force met Nov. 20, 2025. The following Technical Group members participated: John Litweiler, Co-Chair (WI); Blase Abreo (AL); Laura Clements (CA); William Arfanis (CT); N. Kevin Brown (DC); Cindy Andersen (IL); Shannon Schmoeger (MO); Monique D. Smith (NC); Tadd Wegner (NE); Colin Wilkins (NH); Kim McNamara (OH); and Tarik Subbagh (WA).

1. Adopted Handbook Guidance

A. Revisions Regarding the Use of AI in Exams

Litweiler introduced the first set of revisions to the *Financial Condition Examiners Handbook* (Handbook) on the use of artificial intelligence (AI) in exams. Revisions were incorporated into the introduction and Sections 1–4 of the Handbook, providing guidance on the responsible use of AI, including considerations regarding user review of AI output and confidentiality. Three comment letters were received on these revisions from AHIP (Attachment Three-A), the National Association of Mutual Insurance Companies (NAMIC) (Attachment Three-B), and the American Property Casualty Insurance Association (APCIA) (Attachment Three-C).

Tom Finnell (AHIP) stated that members are not sufficiently aware of the intended use of AI during examinations, given the long intervals between exams, and conversations have not yet been held on how AI might be used in the future. He proposed establishing a joint regulator-industry process to finalize the initial effort to develop AI guidance for examiners and to monitor ongoing development, benefits, risks, and other consequences of examiners' continued use of AI on examinations. He stated that examination processes should ensure that examiners provide the insurer under examination with transparency into their use of AI and opportunities for input.

Jay Muska (APCIA) agreed that additional language should be added to the Handbook requiring examiners to discuss with insurers when AI will be used during an exam. He noted that this is an evolving area, so these discussions would help insurers understand how the AI tools will be utilized and the insurance department's security protocols, allowing insurance companies to gain comfort with the AI tool prior to the exam.

Litweiler stated that while the group appreciates and respects the industry's concerns, no additional proposed changes will be made to the Handbook because the guidance is not all-encompassing. Given that AI technology is rapidly evolving, future revisions to the guidance are likely to occur. If there are concerns about the output of findings from the use of AI tools, a framework is in place to discuss these findings. Additionally, the Big Data and Artificial Intelligence (H) Working Group will need to finalize its work on the AI Systems Tool before including AI-specific exam steps in the guidance.

Next, Finnell stated that the revisions should explicitly state that this guidance also extends to contract examiners. Litweiler mentioned that while existing confidentiality requirements extend to contractors, and a new accreditation standard pertains to this issue, NAMIC's proposed verbiage on extending confidentiality requirements to contractors will be added to the guidance.

Lastly, Finnell stated that comparable guidance should be developed for use by market conduct examiners, if not already in development. Litweiler said that the NAIC can contact the respective working groups to inform them of this guidance following its adoption.

Litweiler said that the final two edits to the exposed guidance were proposed by NAMIC. First, the proposed edits remove two sentences, as the perceived AI risk described was too broad and conclusive as applied to all types of AI models. Secondly, some proposed edits regarding the input of confidential information into external, public-facing AI platforms were added to the guidance with a slight modification.

Arfanis stated he agrees with the current guidance as is, with the caveat that the technical group will need to revisit this again as AI technology evolves. Along with regulator-to-industry, he said there should be regulator-to-regulator conversations on the topic down the road to ensure states are on the same page about what AI is being used for during examinations.

Andersen stated it is important to ensure that consultants do not use AI without oversight or acknowledgement from states. In the future, each jurisdiction will have its own guidance on AI usage within its state. She noted that, through discussions with consultants, it was found that many states are already considering the use of AI applications on exams. Specifically, there will need to be upfront conversations between states in coordinated exams about the use of AI, as some states may have concerns about its use. These conversations will also need to be extended to the insurance companies themselves.

Elise Klebba (NAIC) noted that an updated version of the AI guidance would be provided after the meeting.

#### B. Revisions Regarding Recent Statutory Accounting Principles (E) Working Group Adoptions

Litweiler introduced the next set of revisions to the Handbook, which reflect recent Statutory Accounting Principles (E) Working Group adoptions, including updates related to modified coinsurance (modco) reinsurance and the principles-based bond definition. He stated that revisions to the capital and surplus repository enhance guidance updates made last year pertaining to the accurate calculation and reporting of risk-based capital (RBC), including any manual adjustments. Phase 5 procedures now reference the new Schedule S, Part 8, which examiners can tie out to. In addition, sample procedures were added to the reinsurance ceding repository for considerations regarding the collateral held in modco and funds withheld reinsurance agreements. Procedures include assessing the reinsurer's investments and the credit quality of collateral assets, along with affiliate and related party considerations.

Revisions related to the principles-based bond definition are included in the investments repository. An existing risk identifier related to properly implementing and monitoring structured security transactions was revised to include the reporting element. Litweiler stated that sample procedures were added to help ensure the appropriate reporting treatment of securities under the principles-based bond definition, as there is a risk that a company could report securities as bonds on Schedule D, versus reporting them as other assets on Schedule BA, in an effort to avoid a higher RBC charge.

#### C. Revisions Regarding AG 55

Litweiler shared the next set of revisions related to *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55). He stated that the revisions made to the reserves/claims handling (life) repository add sample procedures for asset adequacy testing (AAT) for certain asset-intensive reinsurance transactions in accordance with AG 55.

D. Revisions Regarding Risk Matrix Verbiage

Litweiler introduced the last set of revisions, which reflect changes to the risk matrix verbiage throughout the Handbook. Given the transition to TeamMate+, standalone risk matrices will be phased out as more states document the risk assessment through functionality within the TeamMate+ application. He stated revisions clarify that the risk assessment is the requirement, rather than Exhibit K (the risk matrix) itself. Exhibit K will remain in the Handbook, but the use of this exhibit is not required. Additionally, since automatic reference counting (ARC) references no longer exist within TeamMate+, Handbook exhibits that include examples with ARC references for illustration purposes have been updated to reflect hyperlinks to a location or document to demonstrate how references are shown in TeamMate+. This change affects Exhibits V, CC, and DD.

Smith made a motion, seconded by Clements, to adopt the revisions related to use of AI in exams (Attachment Three-D), recent Statutory Accounting Principles (E) Working Group adoptions (Attachment Three-E), AG 55 (Attachment Three-F), and risk matrix verbiage (Attachment Three-G) for inclusion in the Handbook. The motion passed unanimously.

Having no further business, the Financial Examiners Handbook (E) Technical Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/EOTF/FEHTG Meeting Minutes 11.20.25



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November 13, 2025  
Eli Snowbarger, Co-Chair  
John Litweiler, Co-Chair  
Financial Examiners Handbook (E) Technical Group  
National Association of Insurance Commissioners  
1100 Walnut Street, Suite 1500  
Kansas City, MO 64106-2197

*By Email to: Elise Klebba at [eklebba@NAIC.org](mailto:eklebba@NAIC.org).*

**Re: NAIC Financial Examiners Handbook (E) Technical Group**

Dear Mr. Snowbarger and Mr. Litweiler,

On behalf of AHIP, thank you for the opportunity to submit comments on the exposed proposed changes to the Financial Examiners Handbook.

AHIP's comments are limited to the sections of the exposure relating to the use of artificial intelligence (AI) by regulators on examinations. Our comments are summarized as follows:

1. To consider whether the proposed guidance for examines is sufficient, it would be helpful for Interested Parties to better understand from the working group the current and anticipated usage of AI by examiners on insurer examinations.
2. Examination processes should ensure that examiners provide the insurer under examination transparency into their use of AI and opportunities for input. Further there should be transparency by the insurer into any key conclusions reached using AI systems.
3. Any AI-related guidance for department examiners should extend to contract examiners as well. There may be need for additional guidance for contract examiners given the diversity of individuals and firms involved and their relative degree of experience involving AI and controls over the use of AI.
4. Comparable guidance should be developed for use of AI by market conduct examiners, if not in development already.

A joint regulator-industry process should be established to finalize the initial effort to develop AI-guidance for examiners (perhaps referring any guidance to the (H) Committee) and to monitor ongoing development, benefits, risks, and other consequences of examiners' continued use of AI on examinations.

November 14, 2025  
Page 2

Thank you for the chance to comment. We look forward to further discussions with the Technical Group.

Sincerely,  
Miranda Motter  
AHIP Senior Vice President, State Affairs and Policy  
[mmotter@ahip.org](mailto:mmotter@ahip.org)  
202-923-7346

CC: LaCosta Wix, Senior Regulatory Counsel  
Tom Finnell, AHIP Consultant

AHIP is the national association whose members provide health care coverage, services, and solutions to hundreds of millions of Americans every day. We are committed to market-based solutions and public-private partnerships that make health care better and coverage more affordable and accessible for everyone. Visit [www.ahip.org](http://www.ahip.org) to learn how working together, we are Guiding Greater Health.



November 13, 2025

**VIA ELECTRONIC SUBMISSION**

Mr. Eli Snowbarger, Chair  
Financial Examiners Handbook (E) Technical Group  
National Association of Insurance Commissioners  
c/o Elise Klebba  
Via Email: [eklebba@naic.org](mailto:eklebba@naic.org)

**RE: Revision of Financial Examiners Handbook Incorporating Guidance Related to the Use of Artificial Intelligence (AI) in Exams**

Dear Mr. Snowbarger,

Thank you for the opportunity to comment on the revision of the Financial Examiners Handbook (the Handbook) on guidance related to use of artificial intelligence (AI). The following is submitted on behalf of the member companies of the National Association of Mutual Insurance Companies (NAMIC).<sup>1</sup> NAMIC is appreciative of your work on this topic and looks forward to working together.

First, we think the placement of this new guidance under “G. Confidentiality” is the appropriate spot. The confidentiality of any insurer information is highly important to the financial exam process. Given the importance of confidentiality, we suggest that the guidance make explicitly clear that the expectations in this section extend to any contract examiners or vendors that a department may use in the course of an examination. We suggest this could be addressed through addition of a sentence stating: “The expectations contained in this section apply equally to state insurance department examiners as well as any contract examiners or vendors a department may use in the course of an examination.”

We also appreciate the statement that examiners should not input any confidential information, non-public, personally identifiable, or proprietary information obtained during the examination process into external, public-facing, AI platforms. From our perspective, that description suggests it is only appropriate to use internally hosted or internally integrated models for inputting

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<sup>1</sup> NAMIC has more than 1,500-member companies representing 40 percent of the total U.S. property/casualty insurance market. NAMIC member companies serve more than 170 million policyholders and write more than \$323 billion in annual premiums. Our members’ direct written premiums account for 67 percent of homeowners’ insurance and 55 percent of automobile insurance. Through NAMIC advocacy programs it promotes public policy solutions that benefit NAMIC member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.



information obtained during the examination process. We suggest the following edit, striking the current language and inserting the language in red:

~~Examiners should not input any confidential, nonpublic, personally identifiable, or proprietary information obtained during the examination process into external, public-facing, AI platforms.~~

Given the nature of examination information being confidential, nonpublic, personally identifiable, or proprietary, examiners or contract examiners shall not use external, public-facing AI platforms. Examiners should only input examination information into internally hosted or internally integrated models or custom AI applications.

While we appreciate the guidance emphasizing detailed review of workpapers if the examiner is utilizing AI during the examination, we find that the explanation of perceived AI risks is too broad and conclusive as applied to all types of available AI models, and therefore suggest the following edit in red:

Detailed review of the workpapers is especially critical if the examiner is utilizing AI during the examination. The guidance below applies when the use of AI contributes to the development of examination evidence and does not apply to basic rewording, proofreading, and editing. ~~Content generated by AI may contain factual inaccuracies, reflect unintended bias, or present information in a manner that appears authoritative but lacks supporting evidence. As such, examiners should not rely upon content generated by AI tools without reviewing and validating the accuracy, appropriateness and relevance of the output with professional skepticism.~~ Examiners should review and validate the accuracy, appropriateness, and relevance of any AI output used in the exam process.

Lastly, we appreciate and support the language stating that examiners should document use of AI. In this vein, we further suggest that the guidance should include discussion between examiners and insurers about the reviewers' intended use of AI during the exam, as well as including AI use as part of the status update meetings throughout the exams and in the exit meeting. We suggest incorporating the language in red:

If AI generated outputs are incorporated into examination work, the examiner should also document the nature of the AI usage. Documentation should indicate which tool was used and that the examiner reviewed and validated the content prior to its inclusion. **In addition to the documentation, examiners should ensure they are discussing with examinees the intended use of AI during the exam throughout the exam process, including in status update meetings and the exit meeting.**



Thank you again for your consideration of our comments and do not hesitate to reach out to me with any questions you may have.

A handwritten signature in black ink that reads "Colleen Scheele".

Colleen Scheele  
Senior Vice Policy President and Counsel, Tax and Fiscal Policy  
National Association of Mutual Insurance Companies

November 13, 2025

Eli Snowbarger, Co-Chair  
John Litweiler, Co-Chair  
Financial Examiners Handbook (E) Technical Group  
National Association of Insurance Commissioners

**VIA ELECTRONIC SUBMISSION**

Elise Klebba  
NAIC  
[Eklebba@naic.org](mailto:Eklebba@naic.org)

**RE: Financial Examiners Handbook (E) Technical Group Exposure Drafts**

Dear Mr. Snowbarger and Mr. Litweiler:

The American Property Casualty Insurance Association (APCIA)<sup>1</sup> appreciates the opportunity to comment on the Financial Examiners Handbook (E) Technical Group's proposed revisions to the *Financial Condition Examiners Handbook*.

APCIA is supportive of the proposed additions to the Handbook clarifying that examiners should not input any confidential information into AI platforms and that examiners should review and validate the accuracy, appropriateness, and relevance of AI outputs.

However, we believe there should be additional language added to the Handbook to include a requirement for examiners to notify insurers when AI will be used during an exam, as well as a short description of the program, how it will be utilized and the insurance department's security protocol. This would allow insurers and their IT teams to test and gain comfort with the AI tool prior to the exam. We believe that this is necessary at this moment, since AI use in this context is relatively new, developing quickly, and there are many AI tools being developed.

Should you have any questions, please contact us. Thank you for your consideration.

Sincerely,



John (Jay) Muska, CFA, CPA  
Vice President of Accounting and Financial Issues  
American Property and Casualty Insurance Association

cc: D. Keith Bell  
Chair, APCIA Financial Management and Regulation Committee

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<sup>1</sup> APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members include companies of all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

## INTRODUCTION

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### G. Confidentiality

The NAIC Model Law on Examinations (or a substantially similar provision) is required to be part of state law in accordance with accreditation guidelines. This Model Law provides specific guidelines regarding the confidentiality of information developed, received, or disclosed through the course of conducting financial and market conduct examinations, including the course of analysis. As detailed within this Model Law, documents, materials, or other information, including but not limited to all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in the course of an examination, or in the course of analysis by the commissioner of the financial condition or market conduct of a company shall be confidential by law and privileged and shall not be subject to public disclosure, shall not be subject to subpoena, and shall not be subject to discovery or admissible in evidence in any private civil action.

In accordance with the revised risk-focused surveillance approach contained within this Handbook, it is anticipated that the financial examiners will be incorporating new tools to document their examination approach and results (e.g., Insurer Profile Summary, Risk Assessment Matrix, Supervisory Plan and Summary Review Memorandum). Similar to other documentation completed in accordance with a financial condition examination, these tools shall be considered confidential under state law including the state's examination law. Although the risk-focused examination approach envisions enhanced communication between state insurance department examiners and analysts, the sharing (and potential further development) of these examination workpapers to and by financial analysis regulators, or to other individuals within a state insurance department, shall not impact their confidential status. All examination workpapers, including those mentioned above may be shared with other regulators whose state insurance departments have the authority under state law to preserve the confidentiality of the information they receive. (The confidentiality provisions related to examination workpapers apply to both examinations of insurance companies and holding companies.)

State insurance departments that utilize contract examiners should continue to remind such examiners of the responsibility to keep insurer-specific information confidential. Furthermore, the communication of effective practices employed by one insurer (whether it is a practice pertaining to the development or marketing of specific products, established controls, documentation of activities, etc.) to other entities may be perceived as a violation of trade secrets and should be restricted by both state and contract examiners.

If state insurance departments utilize artificial intelligence (AI) tools within examinations, these should be used in a manner consistent with applicable confidentiality requirements. Given the nature of examination information being confidential, nonpublic, personally identifiable, or proprietary, examiners should not input this information into external, public-facing AI platforms. Such information includes, but is not limited to:

- Insurer-specific financial or operational information
- Examination workpapers
- Internal insurer communications or documents
- Any information protected under law, regulation, or the NAIC Model Law on Examinations (#390).

To safeguard confidential information, examiners should limit their use of tools to those expressly approved by the state insurance department and hosted in secure, department-managed environments. If a secure AI tool is not available, examiners must ensure any data is fully anonymized to remove any non-public or sensitive information. The expectations contained in this section apply equally to state insurance department examiners as well as any contract examiners or vendors a department may use in the course of an examination. For more information on considerations when utilizing AI in examinations, please refer to Section 1-4 in this Handbook.

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## IV. STANDARD EXAMINATION PROCEDURES

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### F. Examination Review Responsibilities

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#### d. Detailed Review

All workpapers require a detailed review. On larger examinations, there may be two or more detailed reviewers, each with responsibilities for particular areas. On smaller examinations, typically there will be only one detailed reviewer.

The completion of the risk assessment enables examiners to plan the review to be proportionate to the risk of material error in specific accounts and transactions. This risk of material error and the technical competence and experience of the assigned staff personnel will influence who should perform the procedures in each area. These same factors should influence the selection of the detailed reviewer for each area.

For example, an examiner-in-charge ordinarily will perform procedures in areas requiring significant subjective judgments. As a result, the chief examiner, or designee, would perform a detailed review of the work in these areas.

The emphasis of a detailed review is on the technical accuracy and completeness of the workpapers. A detailed reviewer should determine whether:

- Procedures in the examination program were properly performed. These procedures should be cross-referenced from the examination program to the workpapers where the work is evidenced.
- Conclusions are clearly documented and adequately supported by the workpapers. A detailed reviewer should determine whether all tick marks are clearly explained, all significant or unusual amounts are appropriately supported and explained, and any ambiguous comments are clarified or removed.
- Procedures performed were sufficient in light of the examination findings and any changes in conditions occurring since the procedures were planned. The examination program is developed from expectations based on conditions existing during the planning process. Therefore, examiners should evaluate the results of procedures against those expectations, considering any subsequent changes in conditions.

Detailed review of the workpapers is especially critical if the examiner is utilizing AI during the examination. The guidance below applies when the use of AI contributes to the development of examination evidence and does not apply to basic rewording, proofreading, and editing. Examiners should review and validate the accuracy, appropriateness, and relevance of any AI output used in the exam process.

If AI generated outputs are incorporated into examination work, the examiner should also document the nature of the AI usage. Documentation should indicate which tool was used and that the examiner reviewed and validated the content prior to its inclusion. For further information on confidentiality considerations when using AI in examinations, please refer to the Introduction section of this Handbook.

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## EXAMINATION REPOSITORY – CAPITAL AND SURPLUS

### Own Risk and Solvency Assessment (ORSA)

During the review of the ORSA filing (if applicable), the examiner may identify risks and controls that are relevant to be considered when creating the Capital and Surplus Key Activity Matrix. Additionally, examiners may perform test procedures related to the information contained within the ORSA filing that provides evidence regarding the sufficiency of an insurer's capital and surplus. Examiners are encouraged to leverage the information contained within the ORSA, and associated test procedures, when populating the Key Activity Matrix.

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Capital Notes and Interest Thereon  
Aggregate Write-ins for Special Surplus Funds  
Common Capital Stock  
Preferred Capital Stock  
Aggregate Write-ins for Other than Special Surplus Funds  
Surplus Notes  
Gross Paid-in and Contributed Surplus  
Unassigned Funds (Surplus)  
Treasury Stock

### Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to other liabilities and surplus, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 41 — Surplus Notes  
No. 72 — Surplus and Quasi-reorganizations

† Risks identified with this symbol may warrant additional procedures or consideration at the head of the internationally active insurance group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
<b>Other Than Financial Reporting Risks</b>						
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<b>Financial Reporting Risks</b>						
***Text Eliminated to Conserve Space***						
The insurer is not accurately calculating, reporting and monitoring RBC, including any manual adjustments to RBC charges (i.e., modified coinsurance [modco] reinsurance, separate accounts, etc.).	OP	CM	CMT	RBC calculations are performed in accordance with instructions and subject to supervisory review.  The company has a process to ensure that RBC reports and supporting data are filed with the NAIC in a timely and complete manner.	Test controls relating to the insurer's supervisory review process for RBC.  Review the NAIC RBC crosscheck letter from the insurer or the NAIC, if applicable, and response letter from the insurer to determine the completeness and accuracy of the insurer's RBC report. Contact the NAIC quality assurance department if such correspondence is unavailable.	Obtain and review the insurer's supporting workpapers to test whether material values in the RBC report were properly classified, valued and included (e.g., catastrophe risk exposure data, C-3 Phase II, modco reinsurance adjustments, separate account assets) in accordance with SSAP guidance and RBC instructions. Compare the data provided in the RBC filing against other filings (e.g., Schedule S Part 8 for modco reinsurance) and information available to the department for consistency and reasonableness. (This procedure may only be necessary for values not obtained directly from the annual financial statement and not subject to the NAIC RBC crosscheck procedures.)
				The company reconciles data filed in support of the RBC calculation (including any manual adjustments) back to system data and/or source documentation.	Test the insurer's reconciliation of supporting data back to the system and/or source documentation.	
				The company utilizes the same modeling approach, assumptions and data to	Test the operating effectiveness of company controls to verify that	

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>determine significant components of its RBC charge (e.g., catastrophe risk exposure, C-3 Phase II) as it uses for its own internal risk management and regulatory accounting/reserving purposes.</p>	<p>modeling approaches, assumptions and data used to determine significant components of RBC charges are reconciled/agreed to those used in internal risk management and accounting/reserving processes.</p>	<p>Determine the impact of examination changes on the RBC calculation.</p> <p>Compare the modeling approaches, assumptions and data filed in support of RBC calculations with those used by the company for internal risk management and regulatory accounting/reserving purposes (including interrogatories, actuarial filings, AS exhibits, etc.). Investigate any significant variances or inconsistencies for appropriateness.</p>

## EXAMINATION REPOSITORY – REINSURANCE (CEDING INSURER)

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Amounts Recoverable from Reinsurers  
Funds Held by or Deposited with Reinsured Companies  
Other Amounts Receivable Under Reinsurance Contracts  
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)  
Funds Held by Company Under Reinsurance Treaties (P&C Companies)  
Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers (Life Companies)  
Provision for Reinsurance  
Contract Liabilities Not Included Elsewhere – Other Amounts Payable on Reinsurance  
Miscellaneous Liabilities – Reinsurance in Unauthorized Companies (Life Companies)  
Funds Held Under Coinsurance (Life Companies)

### Risk-Based Capital (RBC) Filing

RCAT (PR027) may be used to identify and assess the insurer's current exposure to catastrophic events at the modeled worst year in 50, 100, 250, and 500 levels on both a gross (direct and assumed) and net basis (after reinsurance).

### Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the reinsurance process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5 — Liabilities, Contingencies, and Impairments of Assets  
No. 25 — Affiliates and Other Related Parties  
No. 61 — Life, Deposit-Type and Accident and Health Reinsurance  
No. 62 — Property and Casualty Reinsurance  
No. 63 — Underwriting Pools  
No. 64 — Offsetting and Netting of Assets and Liabilities  
No. 65 — Property and Casualty Contracts

† Risks identified with this symbol may warrant additional procedures or consideration at the head of the internationally active insurance group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
<b>Other Than Financial Reporting Risks</b>						
<b>***Text Eliminated to Conserve Space***</b>						
The insurer is over-exposed to credit and liquidity risks in its use of reinsurance counterparties. †	CR LQ	Other	AARP	<p>The insurer has policies in place requiring utilization of multiple reinsurers to reduce concentration with any one entity.</p> <p>The insurer has a process to approve reinsurance counterparties.</p> <p>The insurer has a process in place to preapprove and set maximum limits to be ceded to reinsurers that are monitored and revised, as necessary.</p> <p>The insurer continually monitors the financial solvency of its reinsurers throughout the duration of the reinsurance contracts.</p> <p>Collateral is held in association with significant treaties to encourage prompt</p>	<p>Test the operating effectiveness of the insurer's controls to track compliance with the concentration policy.</p> <p>Obtain evidence of the insurer's process to approve reinsurance counterparties and to determine the credit worthiness of counterparties.</p> <p>Obtain evidence of the pre-approval process and documentation of maximum reinsurance limits.</p> <p>Obtain evidence of the insurer's ongoing review of its reinsurers.</p> <p>Obtain evidence of the insurer's process to consider/require collateral</p>	<p>Based on a review of significant contracts, determine whether the insurer is properly diversified.</p> <p>Perform procedures to evaluate the quality of significant reinsurers utilized by the insurer; for example:</p> <ul style="list-style-type: none"> <li>• Review agency ratings</li> <li>• Review financial results</li> </ul> <p>Contact the domestic regulator regarding any concerns.</p> <p>For select reinsurers, verify that the balance currently ceded is within the maximum limits set by the insurer.</p> <p>Review the liquidity of the assets used to secure the collateral and verify that these assets are correctly attributed to the reinsurers.</p> <p><a href="#">Review the assets held for collateral in Modco and</a></p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>settlement and fulfillment of obligations.</p> <p>Where collateral is held related to Modco or Funds Withheld (FWH) reinsurance (life/A&amp;H insurers), the reinsurance agreement includes guidelines and limits for the reinsurer regarding investments and overall credit quality of the collateral assets, as well as affiliated/related party considerations.</p> <p>The insurer has procedures in place to continually monitor the performance of the collateral assets.</p>	<p>to be held for significant treaties.</p> <p>Obtain the reinsurance agreement to validate the insurer has set forth guidelines/limits regarding the investments and overall credit quality of the collateral assets, as well as affiliated/related party considerations.</p> <p>Obtain evidence of the insurer's ongoing understanding and review of the collateral assets held and their performance.</p>	<p><u>FWH reinsurance agreements (see information in Schedule S – Part 8 and Note to the Financials #5L) for reasonableness and assess the credit quality of the assets held, individually and in the aggregate. Verify that the collateral held and affiliated/related party concentrations of the reinsurer aligns with the guidelines laid out in the Modco/FWH reinsurance agreement.</u></p>
<b>Financial Reporting Risks</b>						
<b>***Text Eliminated to Conserve Space***</b>						

## EXAMINATION REPOSITORY – INVESTMENTS

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Bonds  
Stocks (Preferred and Common)  
Mortgage Loans on Real Estate  
Cash, Cash Equivalents and Short-Term Investments  
Derivatives  
Other Invested Assets  
Securities Lending – Reinvested Collateral Assets

Other Annual Statement line items related to investments, whose risks are less common, have not been included in this examination repository. They include the following:

Real Estate  
Aggregate Write-Ins for Invested Assets  
Contract Loans  
Receivables for Securities  
Payable for Securities  
Investment Income Due and Accrued (*P&C Companies*)  
Drafts Outstanding  
Unearned Investment Income (*Life Companies*)  
Liability for Deposit-Type Contracts (*Life Companies*)  
Miscellaneous Liabilities – Asset Valuation Reserve  
Contract Liabilities Not Included Elsewhere – Interest Maintenance Reserve  
Contract Liabilities Not Included Elsewhere – Surrender Values on Cancelled Contracts (*Life Companies*)

**\*\*\*Text Eliminated to Conserve Space\*\*\***

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
<b>Other Than Financial Reporting Risks</b>						
<b>***Text Eliminated to Conserve Space***</b>						
<p>The insurer is not properly implementing <b>reporting</b> and monitoring structured security transactions.</p> <p><b>Please note:</b> If the company appears to have significant structured security holdings, consider engaging a specialist to conduct a portfolio analysis to assist in identifying and assessing risks in this area.</p>	MK CR	Other	AIPS VIA	<p>The insurer has a plan in place that documents the following for its structured security portfolio:</p> <ul style="list-style-type: none"> <li>• Strategy.</li> <li>• Relation to products.</li> <li>• Senior management review and board of directors (or committee thereof) oversight.</li> <li>• Major adverse factors and frequency of stress testing</li> </ul>	<p>Determine whether management has adequately reviewed the insurer's non-agency structured security portfolio for the following risks:</p> <ul style="list-style-type: none"> <li>• Complex cash-flow structures (including interest-only and prepayment support structures).</li> <li>• Sub-prime borrowers within the underlying assets (e.g., mortgage loans, auto loans, credit cards, etc.).</li> <li>• Collateral type concentration.</li> <li>• Subordination in the overall structure of the transactions.</li> <li>• Trend analysis (underlying assets).</li> </ul>	<p>If necessary, use an investment specialist to analyze the insurer's structured securities portfolio.</p> <p>Review a sample of structured securities to test for proper valuation <b>and reporting. For example, review a sample of financial and non-financial ABS securities reported on Schedule D, Part 1, Section 2 of the annual statement to verify the security qualifies as a bond under the Principles-Based Bond Definition and applicable SSAP standards.</b></p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>Management reviews and considers prepayment volatility and cash-flow variability with regards to mortgage-backed securities in implementing its investment strategy.</p> <p>The insurer has a process in place to understand the reporting and valuation techniques discussed in SSAP No. 43 for complex structured securities. <u>The company.</u></p> <ul style="list-style-type: none"> <li>• <u>Has a process in place to determine if the security qualifies for bond reporting treatment under the Principles-Based Bond Definition.</u></li> <li>• <u>Maintains underlying analysis that supports reporting financial and non-financial ABS as bonds (on Schedule D, Part 1, Section 2), as</u></li> </ul>	<p>Review the insurer's process to determine the <u>proper reporting and valuation</u> of complex structured securities.</p> <p><u>Obtain and review the company's underlying analysis to verify that financial and non-financial ABS are properly reported.</u></p>	

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				opposed to other assets (Schedule BA).		
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## EXAMINATION REPOSITORY – RESERVES/CLAIMS HANDLING (LIFE)

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Aggregate Reserve for Life Contracts  
Aggregate Reserve for Accident and Health Contracts  
Liability for Deposit-Type Contracts  
Contract Claims

### Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the life insurance reserving process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5 — Liabilities, Contingencies, and Impairments of Assets  
No. 50 — Classifications of Insurance or Managed Care Contracts  
No. 51 — Life Contracts  
No. 52 — Deposit-Type Contracts  
No. 54 — Individual and Group Accident and Health Contracts  
No. 55 — Unpaid Claims, Losses and Loss Adjustment Expenses  
No. 61 — Life, Deposit-Type and Accident and Health Reinsurance  
No. 63 — Underwriting Pools

† Risks identified with this symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
<b>Other Than Financial Reporting Risk</b>						
***Text Eliminated to Conserve Space***						
<b>Financial Reporting Risks</b>						
***Text Eliminated to Conserve Space***						
The assumptions used by the insurer for high-yielding complex assets are not accurate or appropriate for use in meeting asset adequacy requirements. †	RV	VA AC	RA	<p>The company maintains documentation supporting the assumptions used in determining asset adequacy of high-yielding complex assets, including:</p> <ul style="list-style-type: none"> <li>• Expected gross returns and related risk (including default rates).</li> <li>• Factors supporting the margin.</li> <li>• Extent to which high-yielding assets are supporting major product categories.</li> <li>• Rationale supporting changes in assumptions year over year, if applicable.</li> </ul> <p>The company performs sensitivity testing for high-yielding complex assets in accordance with <i>Actuarial</i></p>	<p>Obtain and review the company's documentation and approval of work performed to support the assumptions used in determining asset adequacy of high-yielding complex assets.</p> <p>Obtain and review documentation describing inputs used in sensitivity testing for high-yielding</p>	<p>Use the insurance department actuary or an independent actuary to review assumptions and methodologies for reasonableness, appropriateness, accuracy, and compliance with the <i>Valuation Manual</i>.</p> <p>Perform stress testing/scenario analysis on the insurer's high-yielding complex assets (by using an investment or actuarial specialist if necessary) to identify potential solvency risks.</p> <p>Use the insurance department actuary or an independent actuary to evaluate the impact that a change in assumptions could have on the company's asset adequacy and solvency position.</p> <p>Review the company's <a href="#">applicable AG 59</a></p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p><i>Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurance Reserves (AG 53) requirements.</i></p> <p><i>The company performs attribution analysis and/or cash flow testing for asset intensive reinsurance transactions in accordance with Actuarial Guideline LV – Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties (AG 55) requirements.</i></p> <p>The company has an internal process that is reviewed and approved by management for determining the fair value of high-yielding assets originated by the company, within the company’s group, or with an entity closely tied to the company’s group that includes:</p> <ul style="list-style-type: none"> <li>• Practices for valuing such assets.</li> <li>• Fair value determination.</li> </ul>	<p>complex assets, as well as the results of such testing.</p> <p><i>Obtain and review documentation describing assumptions utilized for cash flow testing, as well as the results of such testing and results of the attribution analysis.</i></p> <p>Obtain and review documentation of management’s review and approval of the company’s internal process for determining the fair value of high-yielding complex investments.</p> <p>Obtain and review documentation supporting the valuation of the company’s high-yielding complex assets.</p>	<p>documentation for reasonableness</p> <p>Review the company’s <del>applicable AG 53</del> reporting to identify assumptions underlying the asset adequacy testing memorandum that appear to be outliers.</p> <p>Coordinate with the Valuation Analysis (E) Working Group of the NAIC regarding any reviews it has performed on the company’s AG <del>53</del> filings.</p>

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<ul style="list-style-type: none"> <li>Contractual agreements and revenue sharing (e.g., performance fees between insurer and entity responsible for providing investments or other services).</li> </ul> <p>The company uses an independent actuarial firm (other than its appointed actuary) to periodically review its assumptions.</p>	<p>Review any third-party actuarial work to verify and substantiate the appropriateness of company assumptions.</p>	
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## INTRODUCTION

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### B. Overview of Risk-Focused Surveillance Process

The intent of the risk-focused surveillance process is to broaden and enhance the identification of risk inherent in an insurer's operations and utilize that evaluation in formulating the ongoing surveillance of the insurer. This assessment could be completed on a legal entity basis or on an organization-wide basis depending on how the company structures its business. Through their activities, insurers assume a variety of risks, which is the essence of an insurance transaction. The type of risk and its significance varies by activity. Investment activities may involve credit risk, market risk and liquidity risk. In product sales, insurers may assume market risk, pricing/underwriting risk, strategic risk, or liquidity risk in varying degrees, depending on the product. Over the years, state insurance regulators have developed numerous tools to address the risks insurers assume. Investment laws limit the market and credit risk insurers can assume. Limitations on net retentions help reduce catastrophe risk. Risk-based capital requirements establish capital levels in recognition of a variety of risks. Insurance regulators have always considered the risk profiles of licensed insurers and the activities that may pose risk to the company in the future. The risk-focused surveillance process utilizes an organization-wide risk assessment process to enhance evaluation and to better coordinate the activities of financial solvency surveillance through greater consistency within the department, and with other departments.

A risk-focused surveillance process includes identifying significant risks, assessing and analyzing those risks, documenting the results of the analysis, and developing recommendations for how the analysis can be applied to the ongoing monitoring of the insurer. This increased attention by regulators to risk assessment and risk management processes utilized by insurers will be a positive development.

The enhancements included in the risk-focused surveillance process intend to provide the following benefits:

1. Strengthen regulatory understanding of the insurer's corporate governance function by documenting the composition of the insurer's board of directors and the executive management team as well as the quality of guidance and oversight provided by the board and management.
2. Enhance evaluation of risks through assessment of inherent risks and risk management processes regarding weaknesses of management's ability to identify, assess and manage risk.
3. Improve early identification of emerging risks at individual insurers on a sector-wide basis.
4. Enhance effective use of regulatory resources through increased focus on higher risk areas.
5. Increase regulatory understanding of the insurer's quality of management, the characteristics of the insurer's business and the risks it assumes.
6. Enhance the value of surveillance work and establishment of risk assessment benchmarks performed by insurers and regulators, who have common interest in ensuring that risks are properly identified, and that adequate, effective control systems are established to monitor and control risks.
7. Better formalize and document the risk assessment process via the use of risk assessment tools (i.e., risk assessment matrix), or within the electronic workpaper application, including the risk assessment matrix tool or the TeamMate+ system, the risk assessment matrix tool to assist in examination planning and resource assignment.

8. Expand risk assessment to provide a more comprehensive and prospective look at an insurer's risks through identification of the insurer's current and/or prospective high-risk areas.
9. Coordinate the results of the risk-focused examination process with other financial solvency surveillance functions (i.e., establishing/updating the priority score and supervisory plan).

In full, the risk-focused surveillance process provides effective procedures to monitor and assess the solvency of insurers on a continuing basis. The risk-focused surveillance process is embedded in the planning activities and throughout each phase of the risk-focused surveillance process discussed in detail within this Handbook. The revised approach consists of a structured methodology designed to establish a forward-looking view of an insurer's risk profile and the quality of its risk management practices. This approach permits a direct and specific focus on the areas of greatest risk to an insurer. Through this approach, state insurance regulators can be more proactive and better positioned to identify and respond to any serious threat to the stability of the insurance company from any current or emerging risks. This regulatory approach will benefit all participants in the insurance marketplace.

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#### **D. Purpose of Risk-Focused Examinations**

The intent of the risk-focused surveillance process in a risk-focused examination is to determine areas of higher risk to enable more efficient use of examiner resources. The primary purpose of a risk-focused examination is to review and evaluate an insurer's business processes and controls (including the quality and reliability of corporate governance) to assist in assessing and monitoring its current financial condition and prospective solvency. As part of this process, the examiner identifies and evaluates risks that could cause an insurer's surplus to be materially misstated, both currently and prospectively.

With these goals in mind, the risk-focused examination approach contains seven phases: (1) understanding the company and identifying key functional activities to be reviewed; (2) identifying and assessing inherent risk in activities; (3) identifying and evaluating risk-mitigation strategies/controls; (4) determining residual risk; (5) establishing/conducting examination procedures; (6) updating prioritization and supervisory plan; and (7) drafting the examination report and management letter based on findings. ~~The risk assessment should be documented to reflect planning progress, examiner impressions, and results. The Risk Assessment Matrix is introduced as a tool that should be utilized to document the risk assessment planning progress, impressions, and results.~~ The regulator may also consider preparing a risk assessment narrative to summarize and detail the findings of the risk assessment.

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#### **E. Risk-Focused Examination Process**

The concept of risk considered in examinations had historically focused on the static risk of a material misstatement of the financial condition of the company at a given point in time. The concept of risk considered in a risk-focused examination encompasses not only risk as of the examination date, but risks which extend or commence during the time which the examination was conducted, and risks which are anticipated to arise or extend past the point of completion of the examination. As such, risks in addition to the financial reporting risks may be reviewed as part of the examination process. The timing of the risk assessment during the examination has also changed as a result of the adoption of the risk-focused examination. Risk assessment has historically occurred as part of the planning process. The risk-focused examination anticipates that risk assessment may extend through all seven phases of the examination discussed below as well as link to the work carried forward by the financial analysis function.

The following chart and Handbook sections discuss the seven phases necessary to conduct a risk-focused examination. The methodology emphasizes a "risk-focused" approach whereby resulting examination fieldwork

will analyze an insurer's solvency risk areas in addition to the risks associated with the fair presentation of surplus. The examiner-in-charge should use the risk assessment ~~documentation, such as the Risk Assessment Matrix (Exhibit K), matrix (or similar document) as a tool to document~~ determine the allocation of exam resources (by the identification of key functional activities and sub-activities) to be assessed. The approach used will be influenced by the size, complexity, and effectiveness of the overall insurer's risk control environment. A flowchart of the seven phases of a risk-focused examination follows and is described in detail later in this Handbook:

See Exhibit K for the Risk Assessment Matrix tool and the linkage to the seven phases.

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## G. Confidentiality

The NAIC Model Law on Examinations (or a substantially similar provision) is required to be part of state law in accordance with accreditation guidelines. This Model Law provides specific guidelines regarding the confidentiality of information developed, received, or disclosed through the course of conducting financial and market conduct examinations, including the course of analysis. As detailed within this Model Law, documents, materials, or other information, including but not limited to all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in the course of an examination, or in the course of analysis by the commissioner of the financial condition or market conduct of a company shall be confidential by law and privileged and shall not be subject to public disclosure, shall not be subject to subpoena, and shall not be subject to discovery or admissible in evidence in any private civil action.

In accordance with the revised risk-focused surveillance approach contained within this Handbook, it is anticipated that the financial examiners will be incorporating new tools to document their examination approach and results (e.g., Insurer Profile Summary, ~~rRisk aAssessment—toolsMatrix~~, Supervisory Plan and Summary Review Memorandum). Similar to other documentation completed in accordance with a financial condition examination, these tools shall be considered confidential under state law including the state's examination law. Although the risk-focused examination approach envisions enhanced communication between state insurance department examiners and analysts, the sharing (and potential further development) of these examination workpapers to and by financial analysis regulators, or to other individuals within a state insurance department, shall not impact their confidential status. All examination workpapers, including those mentioned above may be shared with other regulators whose state insurance departments have the authority under state law to preserve the confidentiality of the information they receive. (The confidentiality provisions related to examination workpapers apply to both examinations of insurance companies and holding companies.)

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In accordance with the revised risk-focused surveillance approach contained within this Handbook, it is anticipated that the financial examiners will be incorporating new tools to document their examination approach and results (e.g., Insurer Profile Summary, ~~rRisk aAssessment—toolsMatrix~~, Supervisory Plan and Summary Review Memorandum). Similar to other documentation completed in accordance with a financial condition examination, these tools shall be considered confidential under state law including the state's examination law. Although the risk-focused examination approach envisions enhanced communication between state insurance department examiners and analysts, the sharing (and potential further development) of these examination workpapers to and by financial analysis regulators, or to other individuals within a state insurance department, shall not impact their confidential status. All examination workpapers, including those mentioned above may be shared with other regulators whose state insurance departments have the authority under state law to preserve the confidentiality of the information they receive. (The confidentiality provisions related to examination workpapers apply to both examinations of insurance companies and holding companies.)

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## I. EXAMINATION OVERVIEW

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### J. Interim Work

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#### 2. Conducting Interim Work

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##### Use of Key Activity Matrices/Exhibit V – Overarching Prospective Risk Assessment

For current and prospective risks, ~~interim work performed should be documented within the key activity risk assessment key activity matrix~~ and/or Exhibit V ~~should be used to document interim work performed~~. For risks placed on Exhibit V, all columns should be completed in accordance with the guidance in the exhibit. This includes review of mitigation strategies, obtaining corroborating evidence and performing follow-up procedures. For risks ~~placed on recorded in a key activity matrix~~ key activity risk assessment, each phase should be evaluated and completed in accordance with the risk-focused approach. Interim work will typically place more emphasis on the review of controls/risk mitigation strategies because of the relative ease of rolling-forward and relying on this work in future periods, as opposed to the challenges in rolling-forward substantive tests of balances performed at a particular point in time. Because of the need to effectively roll-forward all interim work, if control deficiencies are identified, these concerns should be communicated to the company with an expectation they will be resolved prior to the full-scope examination. If the control deficiencies are not resolved prior to the full-scope examination or the examiner is unable to verify the resolution, the examiner may need to re-perform substantive procedures at the end of the full-scope examination period to ensure adequate coverage of the risk.

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#### 3. Utilizing Interim Work in the Full-Scope Examination

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##### Key Activity Matrices/Exhibit V – Overarching Prospective Risk Assessment

Interim work may be performed in response to a risk or series of risks that will be ~~assessed~~ evaluated on through a key activity ~~matrix~~ risk assessment or Exhibit V. When this occurs, the work performed at interim may address some or all of the risks identified for review in the full-scope examination for a particular key activity or on Exhibit V. For identified risks addressed at interim for a particular key activity or prospective risk, the examiner should determine whether any updates to the test work or conclusions reached at interim are necessary. If control deficiencies were identified, the examiner should verify the deficiencies were appropriately resolved in order to fully rely on the conclusions reached at interim or perform substantive procedures at period end if issues are not resolved. Additional work may also need to be considered if there have been changes in the exposure, key processes, employees, etc. This conclusion should be clearly documented in the examination file along with the interim workpapers upon which reliance is placed and any additional testing performed to supplement interim work in light of changes.

In addition to the documentation requirements outlined above, if the examiner identifies other risks that need to be reviewed beyond those addressed in interim procedures, such risks should be added to the exam file and addressed through the full seven-phase examination process as a supplement to the interim work performed. Such work should be presented separately from interim work (i.e., separate ~~matrix assessment or tab~~) to make it clear when various risks were addressed during the examination and which risks were

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In addition to the documentation requirements outlined above, if the examiner identifies other risks that need to be reviewed beyond those addressed in interim procedures, such risks should be added to the exam file and addressed through the full seven-phase examination process as a supplement to the interim work performed. Such work should be presented separately from interim work (i.e., separate ~~matrix assessment or tab~~) to make it clear when various risks were addressed during the examination and which risks were

subject to roll-forward review. In every examination, strong consideration should be given to identifying and addressing additional overarching prospective risks on Exhibit V beyond those addressed at interim.

#### Critical Risk Categories

Exhibit DD – Critical Risk Categories is required to be completed for each full-scope examination, but the categories may be addressed through work performed at interim or at the conclusion of the full-scope examination. In all cases, the Exhibit must include references to where work addressing related risks is located in the full-scope examination file, and all interim work related to critical risks must be subject to adequate roll-forward review as discussed above.

#### Examination Reports

The examination report is issued upon completion of a full-scope examination and may be supported by procedures performed at various points during the examination period. In order to accurately represent the information obtained to support examination conclusions, elements of the report may require modification if reliance is placed on interim work as follows.

*Reference to Interim Work in Full-Scope Examination Report* – When interim work is utilized in support of the full-scope examination conclusions, reference to such work should be made in the scope section of the examination report. Following is an excerpt from Section 2, Phase 7A.2.c demonstrating with the underlined sentence how this reference can be incorporated.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles. As permitted by the *Financial Condition Examiners Handbook*, some of the work performed in support of the conclusions in this examination report was performed within the reporting period on an interim basis. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the company's financial statements.

*Impact of Findings/Exam Adjustments Identified in Interim* – The content of the examination report should be consistent with guidance in Section 2, Phase 7, and should include significant findings of fact for issues identified during the interim period and the full-scope examination work. Findings identified as a result of interim work should be identified as such and include a brief discussion on whether items have been adequately resolved or remain a concern at the end of the examination period.

### III. GENERAL EXAMINATION CONSIDERATIONS

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#### C. Examination Sampling

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##### a. Determining Reliance on Audit Procedures

Audit workpapers can be used extensively to enhance the efficiency of an exam. The Phase 1 guidance in Section 2 of the Handbook assists examiners in developing an understanding of the company and offers guidance for determining whether the work of auditors can be used to reduce the review of financial reporting risks. If the audit function is deemed effective, it may be appropriate to eliminate certain low to moderate financial reporting risks addressed by the auditor from a detailed review through the examination process. In these situations, it would not be necessary for the exam team to document a detailed review of sampling techniques utilized by the auditors to test these risks. However, if the examiner determines that specific financial reporting risks tested by the auditor are significant (moderate to high risks) or will be used to address a relevant critical risk category, the examiner should subject these risks to the full examination process ~~by documenting and reviewing them under the relevant key activity risk assessment, placing them on a key activity matrix for review.~~ In reviewing and testing these risks ~~through the risk assessment process on the risk matrix,~~ the examiner may still choose to place reliance on test work and sampling procedures conducted by the auditor, but such work would be subject to detailed review and documentation in the exam file in Phase 3 or 5.

In reviewing audit workpapers for use in Phase 3 or 5, the examiner should ensure that the audit testing objectives align with the testing objectives established by the examiner. The examiner should also consider the auditor's intended level of reliance when determining the sufficiency of the sample size. If the examiner intends to place the same amount or a lower level of reliance on a test than was placed by the auditor, the sampling procedures employed by the auditor may be deemed sufficient if they meet the examiner's expectations and are adequately documented. However, if the examiner intends to place more reliance on a test procedure than was placed by the auditor, additional sample selections or alternate procedures may be required to provide sufficient supporting evidence. In these situations, the sampling guidance provided below may be used to assist in leveraging audit work ~~on in a key activity matrix assessment risk assessment level~~ and/or determining the amount of additional sample selections needed to obtain sufficient exam evidence.

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#### E. Using the Work of a Specialist

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##### 4. Documentation of Work Performed by the Specialist

The examiner-in-charge should communicate with the specialist as to the appropriate documentation of the work performed by the specialist. It should be determined upfront with the specialist who is responsible for the completion of the risk ~~matrix assessment~~ and supporting documentation. Regardless of who is responsible for completing the risk ~~assessment matrix~~ in a particular area, the work performed is required to clearly document a consideration of all seven phases of the risk-focused examination process.

The work should also be completed in accordance with the guidance outlined in the standard examination procedures regarding examination documentation, including sufficient documentation on all conclusions.

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### **G. Use of Independent Contractors on Multi-State Examinations**

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Depending on the scope of the engagement and extent of the work performed by the independent contractor, the following standards of examination planning, fieldwork, and examination reports are applicable:

#### 1. Standards of Examination Planning and Field Work

- a. The procedures shall be planned and developed according to the Handbook under the supervision and with the participation of the insurance department's designee. This includes review and approval of the examination planning memorandum, which may also warrant a review of workpapers supporting the conclusions reached therein.
- b. The insurance department's designee shall review and approve significant examination workpapers on a timely basis. This includes, but is not limited to the following:
  - Applicable risk assessment workpapers, including the examination risk tracker (Exhibit CC), prospective risk assessment (Exhibit V), key activity ~~matrices~~ risk assessments and consideration of critical risk categories (Exhibit DD).
  - Ongoing examination status and explanation of modifications to the approved time budget.
- c. The insurance department's designee shall supervise all significant field work activities, including appropriate review and approval of risks identified and planned procedures prior to beginning Phase 3 and Phase 5.

## PHASE 1 – UNDERSTAND THE COMPANY AND IDENTIFY KEY FUNCTIONAL ACTIVITIES TO BE REVIEWED

In Phase 1 of a risk-focused examination, key activities will be confirmed or identified using background information gathered on the company from various sources. Some of this information will already have been available in the department prior to the initial planning meeting, or can be obtained from the company's internal audit department or external auditors. A Phase 1 goal is to gather any additional or current information necessary to begin a risk-focused examination. Sources of information may include organizational charts, filings required by sections 302 and 404 of the Sarbanes-Oxley Act of 2002 (where applicable), interviews with senior management, or other publicly available information.

To ensure the appropriate risk-focused examination scope, it is important to identify the key functional activities (i.e., business activities) of the company. Information gathered by understanding the company, the company's corporate governance structure, and assessing the company's audit function will form the basis for determining key activities.

Essential to executing the risk-focused surveillance process is interviewing executive management and possibly board members of the company to identify key activities and risks. Risks identified through these interviews and each part of Phase 1 should be documented on Exhibit CC – Issue/Risk Tracking Template or a similar document to ensure they are carried through the remaining phases of the examination. Examiners and company officials should attempt to maintain an ongoing dialogue to assist the examiners in understanding the company and identifying key functional activities. It is also critical for the examination team to understand and leverage the company's risk management program; that is, how the company identifies, controls, monitors, evaluates and responds to its risks. For companies required to submit an Own Risk and Solvency Assessment (ORSA) summary report to the lead or domestic state, the report provided by the company may be a useful tool in this evaluation. The discipline and structure of risk management programs vary dramatically from company to company. "Best practices" are emerging for risk management programs and more companies are appointing chief risk managers whose responsibilities go well beyond the traditional risk management function (the buying of insurance). The Committee of Sponsoring Organizations (COSO) has published internal control standards that are widely-held, although not required, in many industries and has released an Enterprise Risk Management Integrated Framework, which is anticipated to be incorporated by several entities, as well as guidance to apply the integrated framework and internal control standards to small public companies. The examination team should evaluate the strength of the company's risk management process, which can include a "hind-sight" evaluation of why a particular negative surprise or event occurred (i.e., why was it not identified in the current risk management program of the company).

One crucial aspect to a successful planning process is the tailoring of planning procedures to the company under review. As the exam team learns about risks, subsequent planning procedures should be tailored to ensure that they provide further information on the risks already identified. For instance, if after meeting with the Department's analyst, the examination identifies a risk related to the company's planned expansion of business into new jurisdictions, subsequent procedures performed in planning—i.e., "C"-Level Interviews, review of company ERM, etc.—should be tailored to include consideration on the risk.

There are five parts to Phase 1 that are key components of performing a risk assessment, the results of which drive the direction of the risk-focused examination: (1) Understanding the Company; (2) Understanding the Corporate Governance Structure; (3) Assessing the Adequacy of the Audit Function; (4) Identifying Key Functional Activities; and (5) Consideration of Prospective Risks for Indications of Solvency Concerns. Risk assessment documentation and testing conclusions, whether in the Risk Assessment Matrix (Exhibit K), TeamMate+ system, or an equivalent format, should be updated with the identified key activities of the company after the examiner is able to obtain an understanding of the company and corporate governance structure. The Risk Assessment Matrix (Exhibit K), the tool developed to serve as the central location for the documentation of risk assessment and testing conclusions, should

~~be updated with the identified key activities of the company after the examiner is able to obtain an understanding of the company and corporate governance structure.~~The five parts of Phase 1 are discussed as follows:

- A. Part 1: Understanding the Company
- B. Part 2: Understanding the Corporate Governance Structure
- C. Part 3: Assessing the Adequacy of the Audit Function
- D. Part 4: Identifying Key Functional Activities
- E. Part 5: Consideration of Prospective Risks for Indications of Solvency Concerns

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#### **D. Part 4: Identifying Key Functional Activities**

To ensure the appropriate risk-focused examination scope, it is important to identify the key functional activities (i.e., business activities) of the company. The information gathered to this point will form the basis for this determination. Note that the list of functional activities may include both other than financial reporting (operating) and financial reporting risks. The insurance organization may be examined on the same basis, as it manages risk and controls itself, so that functional activities listed ~~on in the risk assessment a risk matrix~~ would correspond organizationally to the insurer.

When determining what to select as key functional activities, the examiner should perform a preliminary analysis of the overall materiality of an activity. The examiner should carefully consider the risk of understatement when reviewing the materiality of liability balances. If the examiner determines that a particular activity does not currently appear to be material but could represent a significant prospective solvency risk to the company, the activity should be selected as key and walked through the seven-phase examination process. In all cases, the examiner should document the reasoning behind key activity selection in the examination planning memorandum.

#### **E. Part 5: Consideration of Prospective Risks for Indications of Solvency Concerns**

In addition to conducting an examination to verify the current status of the company's solvency condition, the risk assessment surveillance cycle requires examiners to prospectively consider the company's financial condition by assessing whether the company's current processes provide indications of future solvency concerns. In conducting examinations based on the risk-focused surveillance framework, the examiner should give consideration to the business processes and management controls that often are considered retrospectively after financial issues indicate that a company has potential financial solvency issues. In addition to assessing business risks, other elements that would commonly be assessed for prospective solvency risks include consideration of the company's asset/liability matching approach, process for establishing loss reserves, pricing and underwriting, and reinsurance arrangements. Among other things, these assessments should include consideration of the company's rate of growth and whether the liquidity of assets would create future concerns about the company's financial solvency.

This approach will allow the examiner to review risks that existed at the examination "as of" date and will be positioned to assess risks that extend or commence during the time the examination was conducted and risks that are anticipated to arise or extend past the point of examination completion. How the examiner addresses the prospective risk noted during the examination depends on the nature of the prospective risk itself.

By the end of Phase 1 of the examination, the examination team should have completed a high-level review of the insurer to identify any solvency concerns that commenced or extended after the examination date, or that are anticipated to commence or extend beyond the examination completion date. Such concerns may be identified through various aspects of the planning process, such as C-level interviews, review of Form F – Enterprise Risk Report, input from the analyst, review of the most recent Form 10-K, etc. If the examiner identifies a prospective risk that relates to one specific key activity of the company, this prospective risk should be documented in the

corresponding risk ~~matrix (or similar documentation)~~ assessment for that key activity and should be treated the same as all other identified risks. As such, examples of risks that an examiner may want to consider in assessing prospective solvency concerns related to common key activities have been included within the examination repositories. However, if the examiner identifies an overarching prospective risk (a prospective risk that does not relate to a specific key activity identified or relates to more than one key activity identified), the examiner should utilize Exhibit V – Overarching Prospective Risk Assessment to document the process to consider these prospective risks.

By the end of Phase 1, the examiner should have a preliminary listing of overarching prospective risks included on Exhibit V. Prospective risks may continue to be identified beyond Phase 1. Any significant overarching prospective risks identified during later phases of the exam should continue to be documented and investigated on Exhibit V, regardless of the phase in which the risk was identified. For additional guidance on identifying and investigating overarching prospective risks during the examination, see the instructions on Exhibit V – Overarching Prospective Risk Assessment.

The examiner should complete Exhibit CC – Issue/Risk Tracking Template or a similar document to show how significant solvency risks have been identified and accumulated through the planning process. Significant issues/risks on Exhibit CC should be considered for further evaluation during the examination, either through Exhibit V, a key activity ~~matrix~~ risk assessment or the examination planning memo.

## PHASE 2 – IDENTIFY AND ASSESS INHERENT RISK IN ACTIVITIES

At the end of Phase 1, the key activities requiring examination have been determined as part of the planning process. These are outlined as follows:

- A. Identifying the Risk
- B. Identifying the Type of Risk
- C. Assessing the Inherent Risk
- D. Reviewing Inherent Risks and Finalizing Examination Planning

### A. Identifying the Risk

#### Risks Other Than Financial Reporting

In Phase 1, key functional activities were identified and ~~documented as part of the risk assessment process. captured in the Risk Assessment Matrix (or similar documentation).~~ Phase 2 requires the examiner to identify specific risks of the key activities ~~captured that are~~ related to business and prospective risks. The examiner should consider potential events that, if they occur, may affect the entity when determining risks. As stated in Phase 1, these risks would be included ~~on in the Risk Assessment documentation. Matrix (or similar documentation).~~ These risks may require that detailed examination procedures are performed or that the risks be communicated to the financial analysts for ongoing monitoring and use in the supervisory plan. The examiner may identify risks through various means, such as leveraging ~~off of~~ the insurer's own risk assessment, interviewing management and utilizing any other source that may assist in identifying risk. Exhibit CC – Issue/Risk Tracking Template or a similar document should be completed to show how issues noted in Phase 1 were incorporated into the process to accumulate and identify risks. The reference materials discussed in Phase 1 can also be helpful to the examiner in identifying other than financial reporting risks. The ~~rRisk aAssessment documentation; will serve as the central location for recording the assessment and conclusions related to identified risks. Matrix (or similar documentation), however, will be the central location for the documentation of risk assessment and conclusions related to these risks.~~

#### Financial Reporting Risks

In Phase 1, key functional activities were identified ~~and documented as part of the risk assessment process, and captured in the Risk Assessment Matrix (or similar documentation).~~ Phase 2 requires the examiner to identify risks of the key activities that are related to financial reporting and determine what the specific inherent risk is. To identify the components of risk for each key activity, the examiner may rephrase examination assertions or financial statement assertions into risk statements for the related activity. For example, within the key activity of investments, one of the relevant financial statement assertions is valuation. This methodology suggests turning that assertion into a risk statement; e.g., the value of investments is overstated in the financial statements. The ensuing inherent risk assessment will be conducted based on this risk statement (i.e., what is the likelihood and impact of securities being overstated). This is what makes the process risk-driven or risk-focused. Rephrasing examination assertions into risk statements is only the starting point in identifying risk. The examiner may identify risks through various means, such as leveraging off of the insurer's own risk assessment; utilizing internal and external audit's risk assessments; utilizing filing requirements of the SEC and SOX (Sections 302 and 404); reviewing 10-K filings; performing interviews with management; reviewing results of preliminary analytical review procedures; and using any other source that may assist in identifying risk. Exhibit CC – Issue/Risk Tracking Template or a similar document should be completed to show how issues noted in Phase 1 were incorporated into the process to accumulate and identify risks. ~~The risk statement~~**Risk statements** (identification of the risks for each

of the key activities) ~~is listed in the Risk Assessment Matrix (or similar documentation); should be documented as part of the risk assessment process.~~

## B. Identifying the Type of Risk

### Risks Other than Financial Reporting and Financial Reporting Risks

After ~~the examiner populates~~ includes the relevant risks have been identified risks ~~within for inclusion in the Risk Assessment Matrix (or similar documentation) with identified risks,~~ the examiner must assign at least one of the nine branded risk classifications below to each identified risk. ~~At least one of the nine risk classifications should are to be associated with each identified in the Risk Assessment Matrix (or similar documentation) for each specific risk identified.~~ Note that more than one of the nine branded risk types classifications may be applicable to a particular identified risk; ~~and, as such, more than one branded risk type classification may be listed in the assigned to a single risk. branded risk column of the Risk Assessment Matrix (or similar documentation).~~ However, it is not necessary to identify the level of inherent risk for each of the nine branded risks classifications. ~~The process is driven by the risk identified in the risk statement of the activity and the controls used to mitigate that risk.~~ The branded risk classifications allow for a summary of summarize the major types of risks in each of the key activities. ~~Each inherent risk identified should be associated with at least one of the following risk classifications:~~

1. Credit – Amounts actually collected; or collectibles are less than those contractually due or payments are not remitted on a timely basis.
2. Legal – Non-conformance with laws, rules, regulations, prescribed practices or ethical standards in any jurisdiction in which the entity operates will result in a disruption in business and financial loss.
3. Liquidity – Inability to meet contractual obligations as they become due because of an inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.
4. Market – 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.
5. Operational – The risk of financial loss resulting from inadequate or failed internal processes, personnel and systems, as well as unforeseen external events.
6. Pricing/underwriting – Pricing and underwriting practices are inadequate to provide for risks assumed.
7. Reputation – Negative publicity, whether true or not, causes a decline in the customer base, costly litigation, and/or revenue reductions.
8. Reserving – Actual losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.
9. Strategic – 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.

See Exhibit L for guidance that relates the above branded risk classifications to risk areas that correlate to an insurer's key activities and financial statement areas. This guidance will assist the examiner to in determininge the level of inherent risk. See Section 3 – Examination Repositories for examples of risks that fit into one of the nine

branded risk classifications. The branded risk classifications should also be assigned to each prospective risk identified on Exhibit V – Overarching Prospective Risk Assessment and will assist in communications with the financial analyst.

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### C. Assessing the Inherent Risk

#### Risks Other Than Financial Reporting and Financial Reporting Risks

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The “overall inherent risk assessment” is determined by taking into account the likelihood of occurrence, the magnitude of impact and the examiner’s professional judgment. Overall inherent risk may be assessed as high, moderate or low. This assessment ~~should be documented as part of the risk assessment process. is placed in the Risk Assessment Matrix and the~~The Overall Inherent Risk Rating Scale shown below provides guidance to assist in assessing inherent risk.

**Overall Inherent Risk Rating Scale**

		Magnitude of Impact			
		Threatening	Severe	Moderate	Immaterial
Likelihood of Occurrence	High	High	High	High	Moderate
	Moderate-High	High	High	Moderate	Moderate
	Moderate-Low	High	Moderate	Moderate	Low
	Low	Moderate	Moderate	Low	Low

The definitions for these rankings are as follows:

1. High Inherent Risk – The business activity is significant and/or transactions are large in relation to the company’s financial strength. The number of transactions and/or the complexity/volatility of the business activity (particularly underwriting risks) appears higher than normally encountered or requires competent management expertise. In this context, the business activity potentially could result in a significant and harmful loss to the organization.
2. Moderate Inherent Risk – The business activity is significant, but transactions are moderate in size in relation to the company’s financial strength. The number of transactions and/or the complexity/volatility of the business activity (particularly underwriting risks) are considered more easily manageable. Thus, the business activity could result in a loss to the insurer, but the loss could be absorbed in the normal course of the business.
3. Low Inherent Risk – The nature, transaction volume, size, volatility and/or complexity of a business is such that a loss would either be remote or have an insignificant negative impact on the insurer’s financial strength.

Once the overall inherent risk assessment has been determined, the examiner should reevaluate whether all risks assessed as low should ~~remain on the Risk Assessment Matrix and~~ proceed through the risk-~~focused~~ assessment

process. For example, a risk with a low likelihood of occurrence and an immaterial magnitude of impact may not be a significant risk to the company; therefore, it may be appropriate for the examiner to remove the risk from the risk **matrix-assessment** before proceeding to Phase 3. This will allow the examiner to focus exam resources on the more significant risks of the company.

#### **D. Reviewing Inherent Risks and Finalizing Examination Planning**

After inherent risks have been identified and assessed for each key activity, the risks selected should be reviewed for adequacy and completeness. One of the goals of a risk-focused examination is to focus on the most critical solvency risks facing an insurer. To assist the examination team in meeting this goal, a list of critical risk categories has been developed for consideration in reviewing the adequacy of risk statements developed for review on each examination. This list of critical risk categories and the corresponding documentation template (see Exhibit DD – Critical Risk Categories) should be utilized to demonstrate that all critical risks facing the insurer have been selected for review. To the extent that an individual critical risk category is not deemed relevant for review, rationale for this decision should be provided within the exam planning memorandum.

Proper risk analysis and planning of an examination are essential to the development of an effective examination plan. A thorough understanding of the company's businesses and of the effects of significant changes, trends and current events is critical to properly planning an examination. At the conclusion of Phase 2, the examiner should document results of the planning process through the completion of an exam planning memorandum. See Exhibit I – Examination Planning Memorandum for additional guidance regarding the topics that should be included in this memo. Planning documentation including the planning memo should be reviewed and approved by both the chief examiner (or designee) and the examiner-in-charge prior to the performance of control (Phase 3) test work.

If it is determined that certain detail procedures will be necessary for an identified risk, regardless of the risk mitigation strategies/controls that may or may not be in place, the examiner should consider completing the residual risk assessment for the particular identified risk in order to begin testing expeditiously. Generally, these would be risks that are material and have a high inherent risk which may require time-consuming procedures to be performed, regardless of the controls that may be in place. In order to accomplish this, the examiner should document the rationale for such decision in the exam planning memorandum. Approval of the memo should be received from the chief examiner, or designee, prior to detail test work. At the same time, as the examination procedures are being performed, risk mitigation strategies/controls may still continue to be evaluated in order to determine the final residual risk assessment and the additional examination procedures that may need to be performed.

In Phase 3, the examination team will identify and evaluate the risk management strategies and controls related to these inherent risks.

## PHASE 3 – IDENTIFY AND EVALUATE RISK MITIGATION STRATEGIES (CONTROLS)

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### B. Evaluating Risk Mitigation Strategies/Controls

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#### Risks Other Than Financial Reporting

Other-than-financial reporting risks are often associated with a qualitative aspect of a company, such as the adequacy of certain strategies or contractual duties used to carry out the company's operations or the possibility of some future event. As implied by the name, these types of risks may not have a direct financial impact to the company at the time of the examination; however, if management is not properly monitoring the risk, it could lead to a deficiency at some point in the future. Due to the nature of this type of risk, and the fact that a company may only have a strategy in place to monitor the risk—rather than a systematic, periodic measurement of the risk—the examiner's evaluation of the risk may require a greater emphasis on the testing of mitigation strategies in place. Because testing risk mitigation strategies/controls over risks other than financial reporting may provide the greatest evidence that a risk is ultimately mitigated, the examiner should consider:

1. The extent to which an insurer is able to manage all the risks inherent in its significant business activities and other major activities and, in particular, its ability to identify, assess and manage these risks.
2. The adequacy of the qualitative and quantitative assumptions implicit in the risk management process.
3. Whether risk policies, guidelines and limits at the insurer are appropriate and consistent with its significant business activities, management experience level and overall financial strength.
4. Whether the management information system and other forms of communication are consistent with the level of business activity and the complexity of products offered at the insurer, and whether such systems provide sufficient support to accurately monitor risk exposure and compliance with established limits.
5. The ability of management to recognize and accommodate new risks that may arise from the changing environment and to identify and address risks not readily quantified in a risk management process.

Additionally, with many other than financial reporting risks, the timing of the risk mitigation strategy may affect the nature of testing performed. When testing financial reporting risks, it is typically expected that the risk mitigation strategy be tested at the "as-of" date; however, for many other-than-financial reporting risks, it may be more appropriate to test the current practice. For example, it may be more appropriate to review a company's current investment strategy in order to determine its long-term adequacy, rather than the investment strategy in place at the "as-of" date. Further, there are circumstances when reviewing both time periods may be beneficial. Using the example above, it may be appropriate to review the investment strategy in place at the "as-of" date to gain assurance of the appropriateness of the strategy and its effect on the balance sheet at the "as-of" date, as well as the current investment strategy.

Results of the testing should be documented in the ~~rRisk aAssessment Matrix (or similar documentation)~~ and should assist the examiner in determining an overall risk rating.

#### Financial Reporting Risks

Factors that should be considered during the testing of controls over financial reporting risk include whether the controls are (1) operating as expected; (2) being applied consistently throughout the entire period of reliance; (3) being performed on a timely basis; (4) encompassing all transactions; and (5) identifying errors.

Consideration should be given to work performed by external auditors to minimize work performed by the examiner. If external audit workpapers are utilized, testing may also be performed by the examiner to further substantiate whether controls are adequate and operating effectively. This can be achieved by retesting the work performed by the external auditors, performing original testing, or a combination thereof. There is no retesting requirement of auditors' workpapers and the extent of any retesting performed should be based on the amount of reliance the examiner is placing on the auditors' workpapers. Examiners should refer to the Examination Sampling guidance located in Section 1 of this Handbook for assistance with determining sample sizes.

#### Reliance on Control Testing Performed in Prior Years

An examiner may be able to rely on control testing performed in a prior period, whether that testing is documented in internal or external audit workpapers. Some auditors perform control testing on a cyclical basis and, as a result, the same controls are not always tested every year. In addition, internal audit work is often performed on a rotational basis and key activity controls may not be tested every year.

If an examiner plans to utilize control testing documentation from a year prior to the current examination as-of date, the examiner should obtain evidence that the control has not changed subsequent to the prior period testing. The more reliance that is placed on the prior period testing documentation received from external/internal auditors, the more examination evidence should be obtained. Verification that controls have not changed should be obtained by a combination of inquiry, observation, reperformance and examination of documents, and should be clearly documented in the examination workpapers. If controls have significantly changed since the prior period, the examiner should not utilize the prior period workpapers for that area as examination evidence.

**Risk Mitigation Strategies/Controls Ratings** – Once the examiner has completed the testing of internal controls, the examiner should determine an overall risk mitigation strategy/control rating. Regardless of the number of controls that exist for an inherent risk, only one overall rating should be assigned. The Risk Mitigation Strategy/Control Assessment ratings to be indicated in the **Risk Assessment Matrix (or similar documentation)** for other than financial reporting risks and financial reporting risks are:

- **Strong Risk Management** indicates that management effectively identifies and controls all material types of risk posed by the relevant activity. Management participates in managing the insurer's risks and ensures that appropriate policies and limits exist. The board of directors understands and reviews the policies and limits and requires that significant exceptions are reported by management to the board. Policies and limits are supported by risk monitoring procedures, reports and management information systems that provide accurate, timely and necessary information and analyses to make timely and appropriate decisions to changing conditions. Internal controls and audit processes and procedures are appropriate to the size and activities of the insurer. There are few exceptions to established policies and procedures, and none of these exceptions would likely lead to a material loss to the company. For financial reporting risks, this could be evidenced, in part, by few or no control deficiencies (see definitions in Phase 4).
- **Moderate Risk Management** indicates that the insurer's risk management processes, although largely effective, might be lacking to some modest degree. It reflects an ability to cope successfully with existing and foreseeable exposures that may arise in carrying out the insurer's business plan. Although the insurer may have some minor risk management weaknesses, these problems have been recognized and are being

addressed. Overall, board oversight, management policies and limits, risk monitoring procedures, reports and management information systems are considered effective in maintaining a safe and sound managed company where the potential for economic loss does not appear significant. Risks are generally being controlled in a manner that does not require above-normal supervisory monitoring. For financial reporting risks, this could be evidenced, in part, by the existence of control deficiencies that are not considered to be significant or material weaknesses (see definitions in Phase 4).

- **Weak Risk Management** indicates risk management processes that are lacking in important ways and, therefore, are a cause for above-normal supervisory attention. Active participation in the oversight, establishment of pertinent policies and the provision of appropriate direction (and evaluation of performance) is lacking from senior management. The internal control system may be lacking in important respects, particularly as indicated by continued control exceptions or by the failure to adhere to written policies and procedures. The deficiencies associated in these systems could have a significant adverse impact on the potential for economic loss; the reputation of the insurer in the marketplace; or could lead to a material misstatement of its financial statements if corrective actions are not taken promptly by management. For financial reporting risks, this could be evidenced, in part, by the existence of significant control deficiencies and/or material weaknesses (see definitions in Phase 4).

In the event that an examiner has difficulty choosing between two ratings, the examiner may consider the strength of an insurer's overall corporate governance to help reach a decision. For example, if an examiner is wavering between moderate and strong control ratings after considering the nature of the controls in place and the evidence obtained through testing, an effective overall corporate governance environment should encourage the examiner to assess the rating as strong. Conversely, if the corporate governance at the insurer is in many ways ineffective, the examiner may choose to assess the rating as moderate. However, corporate governance practices cannot fully mitigate an individual risk unless they are directly related. If an examiner chooses to utilize overall corporate governance considerations to assist with the assessment of risk management, then he or she must document the rationale for that decision within the risk assessment ~~matrix~~. This documentation may contain references to specific items identified during the assessment of corporate governance completed as part of Phase 1.

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#### D. Examiner Use of Sarbanes-Oxley Documentation

The Public Company Accounting Oversight Board (PCAOB) is a private-sector, non-profit corporation, created by the federal Sarbanes-Oxley Act of 2002 (SOX), to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports. The overriding goal of the U.S. Congress and the PCAOB is the reliability of the company's financial statements. To achieve reliable financial statements, the PCAOB has indicated that internal controls must be in place for public companies to ensure that:

- Records are accurate and fairly reflect transactions in and dispositions of a company's assets.
- Records of transactions are sufficient to prepare financial statements in accordance with generally accepted accounting principles.
- Receipts and expenditures are made only as authorized by management and directors.
- Steps are in place to prevent or detect theft, unauthorized use or disposition of the company's assets of a value that could have a material affect on the financial statement.

SOX requires management of public companies to make an assertion as to the adequacy of their financial reporting controls. As such, management is required to issue formal, risk-based assessments of the effectiveness of their financial reporting controls. In addition, the external auditor of public companies must attest and provide an opinion on the reliability of management's assertion of the adequacy of the financial reporting controls. ~~Any available SOX information available, either from public companies required to comply with SOX, or companies electing to voluntarily comply, as a result of these control testing activities related to the Act should be utilized in completing the is financial reporting risks section of the Risk Assessment Matrix (or similar documentation).~~ Leveraging the significant SOX-driven financial reporting control assessment activities in companies should facilitate the similar risk assessment process for regulatory purposes.

The PCAOB adopted standards for auditors to use when assessing whether managers of a public company have accurately reported on the company's internal controls. These audit standards drive the work performed by the auditor, as well as the company, and benefit the examiner in their risk assessment of the company. Documentation should be included in the public company's external audit workpapers to support the requirements of SOX and the PCAOB. Examiners should plan to utilize this information and seek this documentation when reviewing external audit workpapers. The following section outlines the key areas of documentation that will be of assistance to the examiner.

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## PHASE 4 – DETERMINE RESIDUAL RISK

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### Financial Reporting Risk:

Financial reporting residual risk is the risk remaining after taking into account the controls established to achieve certain objectives in the financial reporting function or process. This residual risk may be the result of:

- A control deficiency, which exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
- A significant deficiency, which is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- A material weakness, which is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented, or detected and corrected on a timely basis.

Determining residual risk is the key to determining where the risks lie in an insurer's business. Once the riskier activities are identified, the examiner will use these results as the foundation to determine the extent and nature of testing in Phase 5.

### Residual Risk Assessment Ratings

The overall residual risk assessment ratings ~~should be documented as are~~ High, Moderate, ~~and or~~ Low. ~~and should be documented in the Risk Assessment Matrix.~~

**High Residual Risk** – This risk rating generally would be assigned to an activity where the risk management process does not significantly mitigate the high inherent risk of the activity. Thus, the activity could potentially result in a financial loss that would have a significant adverse impact on the organization's overall condition, even in some cases where the processes are considered strong. For financial reporting risk, the existence of control deficiencies and/or material weaknesses could indicate a high residual risk. However, the lack of control deficiencies and/or material weaknesses does not exclude a residual risk determination of high. In cases where management appears to have an insufficient understanding of the risk and/or capacity (lack of timely and accurate information or analysis) to anticipate and respond to changing conditions, the examiner may need to re-evaluate their determination of the inherent risk and the residual risk.

**Moderate Residual Risk** – This risk rating generally would be assigned to an activity having moderate inherent risk where the risk management processes do not appropriately mitigate the risk. However, a strong risk management process may reduce the risks of an inherently high-risk activity so that any potential financial loss from the activity would have only a moderate, short-term, adverse impact on the financial condition of the organization. For financial reporting risk, this could be evidenced, in part, by the existence of control deficiencies, which are typically not considered to be significant or material weaknesses. In cases where management appears to have an insufficient understanding of the risk and/or capacity (lack of timely and accurate information or analysis) to anticipate and respond to changing conditions, the examiner may need to re-evaluate their determination of the inherent risk and the residual risk.

**Low Residual Risk** – This risk rating generally would be assigned to an activity that has low inherent risks. An activity with moderate inherent risk may be assessed as low residual risk where internal controls and risk management processes are strong and effectively mitigate much of the risk. After considering risk management controls, any potential financial loss from the activity would have minimal impact on the financial strength of the organization. For financial reporting, this could be evidenced, in part, by few or no control deficiencies.

**Illustration of the Calculated Residual Risk Assessment**

The following calculation should be used as a guide to determine calculated residual risk using the already determined assessments of inherent risk and risk controls. The Residual Risk Calculation is laid out left to right in a linear fashion. An examiner starts with the column on the left by identifying the level of assessed inherent risk as determined in Phase 2 (high, moderate, or low). Next, the examiner identifies the strength of risk controls as determined in Phase 3 (strong, moderate, or weak). The point where the inherent risk assessment and strength of risk controls intersect, results in the calculated residual risk. For example, if inherent risk was assessed as low and risk controls were assessed as strong, then the residual risk would be low. The calculated residual risk is recorded in the **rRisk aAssessment Matrix** and utilized to design appropriate examination procedures in Phase 5. This calculation is not intended to force artificial limitations on the examiner and does permit the examiner to utilize professional judgment and experience with the insurer in determining whether the calculated residual risk is appropriate. The examiner is able to record a different level of residual risk (judgmental residual risk) in the **rRisk Aassessment Matrix** from what is calculated below and use that assessment when designing examination procedures.

		<b>Control Assessment</b>		
		<b>Strong Risk Controls</b>	<b>Moderate Risk Controls</b>	<b>Weak Risk Controls</b>
<b>Inherent Risk Assessment</b>	<b>High</b>	Moderate or High	Moderate or High	High
	<b>Moderate</b>	Low or Moderate	Moderate	Moderate*
	<b>Low</b>	Low	Low	Low*

\* If, based on an assessment of weak risk controls, the examiner feels that the residual risk assessment should be higher than the calculated result; the examiner should consider revising the initial assessment of inherent risk and then recalculating residual risk.

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## PHASE 5 – ESTABLISH/CONDUCT DETAIL EXAMINATION PROCEDURES

This section of the Handbook addresses the following subjects:

- A. Establish/Conduct Detail Examination Procedures
- B. Risks Other Than Financial Reporting
- C. Financial Reporting Risks
- D. Examination Considerations
- E. Analytical Review Procedures as Substantive Tests

### A. Establish/Conduct Detail Examination Procedures

The ~~rRisk aAssessment process documentation, whether maintained in the Risk Assessment Matrix (Exhibit K); TeamMate+, or another format, Matrix (Exhibit K) is intended to be an all-encompassing documentation tool should incorporating the risk assessment identification, control assessment, examination procedures and results. At the beginning of Phase 5, the rRisk aAssessment process Matrix (or similar documentation) has been completed for each identified risk up to the residual risk section assessment. from left to right up to the residual risk assessment column for each risk identified.~~ At this juncture, after completion of the risk assessment ~~matrix~~ for each risk identified, the nature and extent of testing can be determined and the examination procedures designed accordingly. Examination procedures selected from those procedures set forth in this Handbook, as well as any other procedures warranted for a particular examination, may be imported into the relevant section of the ~~rRisk aAssessment documentation Matrix (or similar documentation)~~. ~~It is also acceptable to document the examination procedures performed in a separate workpaper and to provide a workpaper reference in the appropriate section of the Risk Assessment Matrix (or similar documentation).~~ Prior to the performance of Phase 5 test work, planned detail examination procedures should be approved and signed-off on by the chief examiner (or designee) and the examiner-in-charge. Results of the completed examination procedures and, where applicable, the disposition of the ~~certain~~ results (i.e., finding and errors), should be documented in the ~~rRisk aAssessment Matrix (or similar documentation)~~. As discussed in Phase 4, there are three levels of residual risk: high, moderate and low. The following chart indicates the type and amount of testing necessary at each level:

High Residual Risk	Detail procedures required.
Moderate Residual Risk	Fewer detail procedures performed (i.e., tests of details of transactions), including more utilization of analytical procedures.
Low Residual Risk	Limited or no detail procedures performed, which may be limited to analytical procedures.

Although test work in Phase 5 is generally not required for low residual risks, there are certain situations where some detail tests are necessary to address such risks. For instance, if an examiner deems a low inherent risk to be significant enough to include ~~on in~~ the risk ~~matrix assessment~~ in Phase 2 and either does not perform control testing or assesses controls as weak in Phase 3, a minimum amount of detail testing should be performed (e.g., analytic procedures) in Phase 5.

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## EXAMINATION REPOSITORY – CAPITAL AND SURPLUS

### Own Risk and Solvency Assessment (ORSA)

During the review of the ORSA filing (if applicable), the examiner may identify risks and controls that are relevant to be considered when ~~creating~~ performing the Capital and Surplus Key Activity ~~Matrix~~ risk assessment. Additionally, examiners may perform test procedures related to the information contained within the ORSA filing that provides evidence regarding the sufficiency of an insurer's capital and surplus. Examiners are encouraged to leverage the information contained within the ORSA, and associated test procedures, when ~~populating~~ completing the Key Activity risk Matrix Assessment.

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

- Capital Notes and Interest Thereon
- Aggregate Write-ins for Special Surplus Funds
- Common Capital Stock
- Preferred Capital Stock
- Aggregate Write-ins for Other than Special Surplus Funds
- Surplus Notes
- Gross Paid-in and Contributed Surplus
- Unassigned Funds (Surplus)
- Treasury Stock

### Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to other liabilities and surplus, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

- No. 41 — Surplus Notes
- No. 72 — Surplus and Quasi-reorganizations

† Risks identified with this symbol may warrant additional procedures or consideration at the head of the internationally active insurance group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

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**EXHIBIT A**

**EXAMINATION PLANNING PROCEDURES CHECKLIST**

COMPANY NAME \_\_\_\_\_

PERIOD OF EXAMINATION \_\_\_\_\_

The following checklist details the components of Phase 1 and Phase 2, as well as other information that should be considered during the planning process. Narrative guidance is provided within Section 2 of this Handbook to aid examiners in understanding the risk-focused surveillance process.

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**Part 5: Consideration of Prospective Risk Indications of Solvency Concerns**

1. Based on the preliminary analytical review, input from the analyst and the knowledge and understanding of the company, identify prospective risks that may indicate potential future solvency concerns for the company.
  
2. Determine where the prospective risks identified will be addressed. For broad prospective risks that impact more than one key functional activity, post the risks to Exhibit V – Overarching Prospective Risk Assessment for review. For risks that are directly associated with a particular key activity, ~~post the risk to include them in~~ that activity’s risk ~~matrix assessment~~ for review.

**Phase 2 – Identify and Assess Inherent Risk in Activities**

1. Identify and assess inherent risks for key activities ~~using a within the risk assessment, matrix or similar tool.~~ Consider both financial reporting risks and other than financial reporting risks in this process.
  
2. Ensure that each inherent risk identified should be associated with at least one of the nine branded risk classifications identified in Exhibit L – Branded Risk Classification.
  
3. Complete Exhibit CC – Issue/Risk Tracking Template by verifying that each item has been linked to a risk statement ~~on a key activity within the matrix risk assessment~~ or Exhibit V – Overarching Prospective Risk Assessment or by documenting that additional work is not deemed necessary.
  
4. Complete Exhibit DD – Critical Risk Categories to determine whether all relevant critical risk categories have been included/considered ~~on in~~ a risk ~~matrix assessment~~. In situations where a particular critical risk category is not addressed by at least one risk statement, the exam team should explain, in the planning memorandum, the rationale for why a critical risk category is not considered applicable to the company under exam.


- 5. Complete the planning process, including Exhibit I – Examination Planning Memorandum.
- 6. Obtain the chief examiner’s or designee’s approval of planning documentation, including Exhibit I – Examination Planning Memorandum, before control and detail test work is performed.


EXHIBIT E

AUDIT REVIEW PROCEDURES

COMPANY NAME \_\_\_\_\_  
PERIOD OF EXAMINATION \_\_\_\_\_  
EXAMINATION FIELD DATE \_\_\_\_\_  
PREPARED BY \_\_\_\_\_  
DATE \_\_\_\_\_

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AUDIT REVIEW PROCEDURES

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8. Obtain from the external auditor a complete copy of all relevant workpapers, including work performed at the parent or holding company level, in accordance with Section 13 of the NAIC *Annual Financial Reporting Model Regulation*.

**Guidance Point:** The high-level general review of the workpapers is to assess the competency and approach of the external auditor and determine what work is available and conducted in a manner that will allow reliance by the examiner. The examiner will perform a detailed review on any workpapers related to specific control or substantive test work that may be relied upon to address specific risks identified for **matrix risk assessment** review during Phase 3 and Phase 5.

- a. Review at a high-level the workpaper index and workpapers to identify any material financial statement accounts to determine if they were appropriately reviewed by the external auditor. Consider the impact the auditor’s work will have on the identification of risks necessary for assessment by the examiner.

**Guidance Point:** Accounts that were not reviewed by the external auditor may correspond to the auditor’s completed risk assessment and methodology. The examiner should not default to the same risk assessment as the auditor without evaluating the adequacy of the auditor’s rationale.


## EXHIBIT G

### CONSIDERATION OF FRAUD

COMPANY NAME \_\_\_\_\_

PERIOD OF EXAMINATION \_\_\_\_\_

EXAMINER-IN-CHARGE \_\_\_\_\_

In accordance with the Risk-Focused examination approach, the consideration of fraud in financial condition examinations should occur throughout all phases of the examination, primarily through the identification and examination of fraud risk factors. Fraud risk factors are conditions that may indicate the occurrence of fraud, such as the insufficient review of controls, failure to respond to known accounting irregularities, extraordinary growth or profitability, threat of regulatory action, and missing accounting documentation.

In the planning phase of the examination, it is important that the exam team include a discussion of fraud in the planning meeting that takes place with the financial analyst. The analyst's review of unusual fluctuations, performance outside of the industry average, etc., can help the examiner understand the tone of the organization as a whole and identify areas that may need to be investigated further during the examination.

It is also vital that the examiner gains an understanding of the fraud assessment and procedures already completed by the external auditor and the level at which they were completed; i.e., holding company or legal entity level. The external auditors are required by AU Sec. 316—*Consideration of Fraud in a Financial Statement Audit* to perform specific procedures to ensure that the audit has been responsibly planned and performed and to obtain reasonable assurance that the financial statements are free of material misstatement. In accordance with guidance from the American Institute of Certified Public Accountants (AICPA), documentation of the auditor's consideration of fraud should be included in the external audit workpapers, which examiners review within Exhibit E – Audit Review Procedures. The examiner should utilize the external audit workpaper documentation to the fullest extent deemed reasonable if the auditor's risk assessment is at the appropriate level. However, reliance on the external audit workpapers does not preclude the examiner from identifying and inquiring about fraud risk factors noted during the examination or interviewing company management regarding the possibility of fraud or known fraud occurrences.

Parts 1-3 of this exhibit should be completed regardless of the level of reliance on the external auditor. If the examiner determines that the external audit fraud assessment and/or related procedures are not sufficient, complete, or at the correct level, they should also utilize Part 4, "Review Company Operations and Identify Fraud Risk Factors." It may also be beneficial to ~~utilize the Key Activity Risk Assessments Matrix (Exhibit K) to~~ identify and assess inherent risks, assess controls, determine residual risks, and identify test procedures within the risk assessment process for applicable fraud risk factors.

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## EXHIBIT I

### EXAMINATION PLANNING MEMORANDUM

The following is an illustration of an examination planning memorandum to assist examiners in documenting the results of the planning process at the conclusion of Phase 2. This exhibit is not intended to be all-inclusive and should be tailored to each examination. It is not necessary for every examination's planning memorandum to address each of the areas and points discussed herein. Therefore, the examiner-in-charge should use his or her judgment in determining which sections of this illustration are applicable and document any other pertinent information considered. In making these judgments, the examiner should bear in mind the purpose of the planning memorandum, which is to provide a concise summary of examination risks, significant examination activities and the overall examination approach. Where feasible, the planning memorandum should reference key documents, detail reports and information through attachment. Some items that may be attached to the planning memorandum are the preliminary analytical review, annual statement jurat page, Schedule Y and FEETS Premium Schedule.

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COMPANY NAME:

EXAMINATION DATE:

This planning memorandum is intended to document our examination plan as it relates to (Name of Insurance Company) for the period from January 1, 20XX to December 31, 20XX.

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#### **CORPORATE GOVERNANCE (Phase 1, Part 2)**

Examinations using the risk-focused examination approach promote the assessment of risk management processes other than those that result in financial statement line item verifications—including Board of Directors' effectiveness and corporate governance activities—thus providing a prospective look at the operations and quality of the risk management process. Consideration of the aforementioned factors should be given during the planning phase of an examination, as they relate directly to the company's control environment. Examiners should summarize the overall corporate governance assessment after completing a review as outlined in Exhibit M – Understanding the Corporate Governance Structure.

A specific corporate governance memorandum may be referenced that provides additional information, such as a listing of individuals (with titles) and separate assessments of management and the Board of Directors. This memo should identify the examiners' assessment of management in terms of experience of senior staff, past performance, management approach (i.e., aggressive/conservative accounting or sales practices), recent changes or turnover, overly aggressive compensation or bonus structure, appropriate reporting channels, etc.

#### Interview Results

This section should document risks, both financial reporting and other than financial reporting, that are identified by the exam team as a result of conducting interviews with company personnel. The examiner can then document whether each risk should be included in a key activity risk matrix assessment or documented using Exhibit V – Overarching Prospective Risk Assessment.

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## EXHIBIT L

### BRANDED RISK CLASSIFICATIONS

In order to assist examiners in categorizing identified risks, this exhibit links common risk areas and risk management controls to the branded risk classifications. This exhibit has been provided as a guide to the examiner and does not represent an all-inclusive list of risk areas or risk management controls that will be identified when obtaining an understanding of the insurer's operations. In addition, it should not be considered ~~to be~~ an exhaustive or definitive guide in determining the type of **branded** risk classification that would apply to each risk area, as each situation must be considered individually in the context of the insurer's environment in order to determine the appropriate branded risk classification. The nine **branded** risk classifications are to be identified in the ~~R~~**risk Assessment Matrix** for each key activity being examined. More than one of the nine **branded** risk ~~types-classifications~~ may be applicable to a particular ~~identified risk~~ **risk within a key activity; as such, more than one risk type may be listed in the Risk Assessment Matrix.** The following guidance is designed to help examiners think critically about the correlation between the nine **branded** risk classifications and various areas of the financial statements.

**1. Credit Risk – Amounts actually collected or collectible are less than those contractually due or payments are not remitted on a timely basis.**

*Risk Areas to Consider:*

- Level and trend of non-investment grade, problem, restructured, delinquent and non-performing earning assets.
- Existence of asset concentrations to include reinsurance recoverables and/or intercompany receivables.
- Strength of affiliates involved in reinsurance pooling or asset participation arrangements.
- Custodial arrangements.
- Materiality of agents' balances.
- Use of derivative or off-balance sheet transactions to mitigate credit risk (counter-party risk).
- Premium and other receivables (e.g., commissions, refunds, etc.).

*Evaluating Credit Risk Management Controls (i.e., Effectiveness):*

- Policies established by management and the board are comprehensive and define risk tolerances, asset allocations and accountabilities.
- Underwriting standards and risk identification processes are in place, and audited for compliance.
- Exceptions (particularly management overrides) to policies and/or processes are reported to the board.
- Through utilization of risk monitoring processes, problem assets (including agents' balances and affiliate receivables) are identified timely and collection steps initiated quickly.
- Custodial arrangements are reviewed periodically and compliance with investment laws and regulations is monitored and reported to management and the board.
- Reinsurers are evaluated regularly for financial strength.
- Information systems are accurate, dependable and validated.

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## EXHIBIT M

### UNDERSTANDING THE CORPORATE GOVERNANCE STRUCTURE

#### Overview

The purpose of this exhibit is to assist the examiner in documenting the understanding and assessment of an insurer's corporate governance policies and practices, including its ERM function. As insurers are expected to demonstrate different corporate governance practices in accordance with the nature and extent of their operations, examiners should not expect the practices of each individual insurer to specifically match the guidance provided in this exhibit. Therefore, the focus of an examination team's considerations in this area should be to determine whether the practices implemented by the insurer are reasonable and effective.

The examination team should first attempt to utilize information obtained through Exhibit B – Examination Planning Questionnaire, Exhibit Y – Examination Interviews and other planning sources (including information provided to the financial analyst and any other information available to the examiner) before requesting any additional information that may be necessary to gain an understanding and perform an assessment of corporate governance. A favorable overall assessment of governance does not, by itself, serve to reduce the scope or extent of examination procedures; rather, specific governance controls need to be assessed for their adequacy of the management of specific risks, in conjunction with other controls designed to manage the same.

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#### G. DOCUMENTATION

The examination team should document its understanding and assessment of the entity's governance, as well as its assessment on the related impact on the examination. This summary should include a description of any unique examination procedures, including special inquiries that are considered necessary to any significant risks identified as a result of the assessment.

~~The Risk Assessment Matrix documentation, as the central documentation tool such as the Risk Assessment Matrix, should be utilized for the identification and assessment of individual solvency risks requiring review should be documented through the risk assessment process. However, documentation on the understanding and assessment of corporate governance is at the discretion of the examiner and would not typically be presented in a risk assessment documentation. a Risk Assessment Matrix.~~ For most companies, a memorandum and/or corresponding documentation in the electronic workpapers addressing the items presented in this exhibit should provide sufficient documentation. For example, the documentation could summarize the attributes and techniques supporting the examiner's overall evaluation, any resulting examination scope implications, and the approach used to validate the more significant attributes and techniques. For smaller companies, documentation of the examination's consideration of corporate governance may be provided in the appropriate section of Exhibit I – Examination Planning Memorandum.

Specific findings or concerns related to an insurer's corporate governance practices should be accumulated for inclusion in a management letter (or similar document) to provide feedback and recommendations to the insurer. In addition, the examination should utilize Exhibit AA – Summary Review Memorandum (or a similar document) to summarize its understanding and assessment of the insurer's overall corporate governance framework, as well as the maturity and reliability of its ERM function, to ensure appropriate communication back to the financial analyst.

EXHIBIT Q

REVIEW AND APPROVAL SUMMARY (RAS) FOR EXAMINATIONS

NAME OF COMPANY \_\_\_\_\_

EXAMINATION DATE \_\_\_\_\_

EXAMINER-IN-CHARGE \_\_\_\_\_

SUPERVISING EXAMINER \_\_\_\_\_

	Performed By	Date
<b>Detailed Review (usually performed by the examiner-in-charge)</b>		
1. I have read the Examination Planning Memorandum, risk matrices assessments, and examination program insofar as they relate to the areas of the examination I reviewed.		
2. I have reviewed all workpapers and I am satisfied that the planned procedures were performed, results of work were adequately documented, and procedures performed were sufficient considering the results obtained and any changes in conditions occurring since the procedures were planned.		
3. I have verified that all known significant solvency risks have been addressed and each critical risk category has been appropriately considered.		
4. I have compared the accounts in the general ledger trial balance or examination workpapers with the summarizations, classifications, and descriptions of them in the annual financial statement.		
5. I am satisfied that the examination was conducted in accordance with appropriate professional standards, department policies and the procedures set forth in the <i>Financial Condition Examiners Handbook</i> .		
6. I have documented the results of the on-site examination and shared them with the assigned analyst. (Results may be documented through the use of Exhibit AA – Summary Review Memorandum (SRM). The SRM should include discussion of potential ongoing or future solvency concerns the insurer may face, the insurer’s corporate governance and a summary, by branded risk classification, of examination adjustments, other examination findings, management letter comments and other residual risks or concerns the examiner may want to communicate to department personnel.)		
7. I have collaborated with the analyst in developing the prioritization level and supervisory plan.		

<b>General Review (usually performed by the chief examiner or designee)</b>		
1. I have reviewed the Examination Planning Memorandum, risk <del>matrices</del> assessments and examination program.		
2. I have reviewed the workpapers for this examination and I am satisfied that the planned procedures were performed, results of work were adequately documented, procedures performed were sufficient, each known significant solvency risk was addressed and each critical risk category was appropriately considered.		
3. I am satisfied that the examination was conducted in accordance with appropriate professional standards, department policies and the procedures set forth in the Financial Condition Examiners Handbook.		
4. I have reviewed the documented results of the examination that were shared with the assigned analyst, and I am satisfied that the examination results were adequately communicated.		
5. I have reviewed the prioritization level and supervisory plan prepared or updated at the conclusion of the examination and concur with the results.		
6. I have reviewed the Report of Examination, and I am satisfied that it was prepared in conformity with statutory accounting principles as prescribed in the <i>Accounting Practices and Procedures Manual</i> or as permitted by the department.		

**Note:** Completion of procedures should be indicated by dating and initialing the space provided. Any exceptions (e.g., Not Applicable) should be explained either in this RAS or in an attached memorandum.

## EXHIBIT V – OVERARCHING PROSPECTIVE RISK ASSESSMENT

### Background

The concept of risk on a risk-focused examination encompasses not only risks as of the examination date, but also risks that extend or commence during the time in which the examination was conducted, as well as risks that are anticipated to arise or extend past the point of examination completion. As such, consideration of prospective risks (including moderate or high residual risks existing at the balance sheet date that will impact future operations, risks anticipated to arise due to assessments of company management and/or operations, or risks associated with future business plans of the company) is an intrinsic element of a risk-focused examination and should occur throughout all phases of the examination process.

### Use of this Exhibit

In completing this exhibit and documenting the examiner's consideration of prospective risks throughout the examination process, the examiner should conduct an evaluation and, if possible, conduct examination procedures on the noted prospective insolvency risks to assess the degree of risk present and recommend future monitoring. Throughout the examination process and at the conclusion of the exam, the examiner should communicate with the department's financial analysts to keep them informed of the identified prospective risks and examiner assessments. The branded risk classifications, risk assessment level and trend and associated rationale should be used to summarize prospective risks identified for communication to the analyst via Exhibit AA—Summary Review Memorandum. This communication should include relevant details obtained during the examination that will enhance the ongoing monitoring of the company.

In conducting examinations of insurers that are part of a holding company group, it is important to note that many prospective risks may occur at the holding company level. The exam team should seek to coordinate the identification and assessment of prospective risk in accordance with the exam coordination framework and lead state approach outlined in Section 1 of this Handbook. Where possible, in a coordinated examination, the lead state's work on prospective risk should be utilized to prevent duplication of effort and to leverage examination efficiencies.

The consideration of prospective risks should occur throughout each phase of the examination process. If the examiner identifies a prospective risk that relates to one specific key activity of the company, this prospective risk should be documented in the corresponding risk [matrix assessment](#) for that key activity and treated similarly to other identified risks. However, if the examiner identifies an overarching prospective risk (a prospective risk that does not relate to a specific key activity, or relates to more than one key activity), the examiner should utilize this exhibit to document the investigation of the overarching prospective risks. Individual risks should either be addressed on Exhibit V or [in a key activity matrix risk assessment](#), but not both.

By the end of Phase 1, the examiner should have a preliminary listing of overarching prospective risks included on Exhibit V – Overarching Prospective Risk Assessment. By the end of Phase 2, the list of risks on Exhibit V should be updated to include all significant overarching prospective risks identified on Exhibit CC – Issue/Risk Tracking Template.

Prospective risks may continue to be identified beyond Phase 1 and Phase 2, but all significant overarching prospective risks identified during later phases of the exam should continue to be documented and investigated on Exhibit V, regardless of the phase in which the risk was identified.

The investigation of prospective risks on Exhibit V should be completed by the end of Phase 5. It is not required that the various steps to investigate prospective risks on Exhibit V directly coincide with the seven-

phase exam approach, but it is recommended that examiners complete each step of Exhibit V as early in the exam as practical to ensure each risk identified is sufficiently tested and reviewed.

**Exhibit V, Part One – Overarching Prospective Risk Testing Template**


Examiners should use this worksheet to document a review and investigation of overarching prospective risks throughout the examination. Examiners may also use the examples provided on the template as a guide to assist in determining the nature and extent of the prospective risk review to be performed. **Please Note:** The risk mitigation strategies identified in the template are only examples, and the examiner should be aware that the insurer might use other strategies to mitigate the identified risk. Instructions for completing and documenting a review of prospective risk within the template are as follows:

Template Column	Instructions for Completing
Overarching Prospective Risk Identified	Based on the knowledge and understanding of the company obtained during the planning stages of the exam, document any overarching prospective risks identified.
Branded Risk Classification	For each identified risk, document the associated branded risk classification(s) from the following list: Credit (CR), Legal (LG), Liquidity (LQ), Market (MK), Operational (OP), Pricing/Underwriting (PR/UW), Reputation (RP), Reserving (RV), and Strategic (ST).
Risk Mitigation Strategies	Identify risk mitigation strategies in place at the insurer (if any) to address the prospective risk.
Investigate Risk Exposure	Test the mitigation strategies identified by management. Consider both the design and operating effectiveness of the mitigation strategies as part of the procedures performed. Provide corroborating evidence and documentation to support the procedures performed.  Perform additional independent testing, if necessary, to further understand or address the risk. Testing may include evaluation of the company's historical trends, stress testing of company exposures, or other additional procedures specifically tailored by the examiner based on the company's risk. Attach and reference supporting workpapers.
Risk Assessment Level	Document the risk assessment level of the identified risk considering the test procedures performed; (i.e., Significant, Moderate, or Minimal). Refer to Exhibit AA—Summary Review Memorandum for guidance on determining an appropriate risk assessment level.
Trend	Document the trend level of the identified risk considering the test procedures performed to indicate the direction the risk is moving; (i.e., Increasing, Static, or Decreasing). Refer to Exhibit AA—Summary Review Memorandum for guidance on determining an appropriate trend level.
Rationale	Document the rationale for the trend and level of concern.
Communicate Findings to Financial Analysis	Document specific information to be communicated to the department analyst. Information should include specific procedures for continual monitoring, specific documents to obtain from the company, expected timelines for follow-up, and contact information.

**Exhibit V, Part Two – Common Areas of Concern**

Exhibit V, Part Two may be used as a reference guide to assist in identifying categories of prospective risk that may be relevant for review and inclusion on the Exhibit V, Part One. Note: examiners are not required to identify a risk from each category listed or provide a rationale for not identifying risks from the common areas of concern.

PART ONE – OVERARCHING PROSPECTIVE RISK TESTING TEMPLATE


Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
<p>Example Prospective Risk 1:</p> <p>The company may experience rating agency downgrades, causing the company to be unable to sell its products.</p>	<p>ST RP</p>	<p>The company has processes in place to monitor and manage its financial performance in accordance with metrics considered significant by rating agencies.</p> <p>The company utilizes modeling to determine its economic and rating agency capital needs.</p>	<p>Reviewed financial reports for evidence of monitoring of rating agency performance measures and management review, noting that the company appears to be meeting its benchmarks</p> <p>See:  <b>Financial Reports</b> (See-wp A-F-4)</p> <p>Obtained and reviewed the economic capital calculation at 12/31/XX, noting that rating agency considerations are included in the process and that the company appears to hold capital in excess</p>	Moderate	Static	<p>The company has product lines sensitive to a ratings decrease; however, it appears the company has appropriate controls and strategies in place to maintain strong ratings.</p>	<p>If a future rating downgrade occurs the DOI should meet to determine an appropriate course of action (e.g., limited scope exam).</p>

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Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
Example Prospective Risk 2: Mergers, acquisitions and business divestitures are not successfully executed, resulting in excessive cost and/or regulatory concerns.	LG ST	Mergers and acquisitions are part of the company's growth strategy and incorporated into its 3-year strategic plan.  The company has a defined due diligence process which includes detailed procedures for mergers & acquisitions, and business divestitures. The process is reviewed annually, making changes as needed, and approved by the Board of Directors and senior management.  The company has a mergers and acquisitions steering committee that meets quarterly to review analyses and forecasts prepared for planned and/or in-process mergers/acquisitions/divestitures.	of the calculated amount. See <b>Capital Calculation A-1-5</b> for more information.  Obtained the most recent strategic plan and verified that it discussed the company's plan for future mergers and acquisitions to support its strategic goals.  Reviewed minutes from the 20XX annual Board of Directors meeting, noting that the mergers & acquisitions process was reviewed and approved by the Board of Directors and Management. <b>(See-wp)</b>	Moderate	Increasing	Although the company is actively involved with merger and acquisition activities, the exam team verified that this activity is part of its strategic plan and that an effective due diligence process is in place. However, given the significance of the last transaction and the stage of implementation	The exam team is comfortable with the Company's abilities with regard to mergers and acquisitions. However, if the analyst identifies changes to the Company's strategic business plan, the DOI should meet to discuss whether the changes warrant action before the next examination date.

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Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
			<p><b>B-2-2) See:  Company BOD Minutes</b></p> <p>The exam team also obtained documentation from the company's most recent acquisition of XLX Corporation and confirmed that the due diligence process outlined in the M&amp;A policy was followed. <del>(see additional detail regarding documents reviewed at B-2-PRG)</del></p> <p>Reviewed minutes from Q1 and Q3 M&amp;A steering committee meetings and verified that financial details regarding the</p>			ion, trend is rated as increasing.	

Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
Example Prospective Risk 3: The company is developing new products and may experience issues in pricing, underwriting, and reserving.	PR/UW	Company analysts perform significant research regarding current market conditions and demands, product mix and profitability, and other product/market characteristics on a regular basis. Reports summarizing the findings are generated monthly.  The company has a group of individuals from departments across the company (legal, actuarial, marketing, financial, etc.) that compose an ad-hoc group specifically charged with product development. This group has significant experience in developing, marketing and pricing new products.	anticipated acquisition of FLH insurance company were discussed. See: <a href="#">M&amp;A Steering Committee Minutes</a> <a href="#">see-wps B-2-3 and B-2-4</a> .  Reviewed the monthly market conditions report, noting that the company has compiled detailed industry information regarding similar products and pricing, market demand, customer location, etc. <a href="#">see A-2-1</a> . See <a href="#">Market Conditions Report</a>  Reviewed the qualifications and background of the employees	Minimal	Static	The company has a verified history of successful product launches and its process for considering and launching products going forward is fully vetted throughout the company.	The analyst will be asked to monitor financial ratios related to new lines of business and report any significant deviations to the exam unit.

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Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
		<p>Issuance of new products requires input and approval from the board of directors. There is a special subcommittee that meets on a quarterly basis to discuss company strategy and new product development</p>	<p>within the product development "team," noting that all members have extensive experience in the many aspects of product development. Further, noted that this group maintains an action plan, approved by the board of directors, which details key procedures and areas of research necessary for product development, as well as a description of the various levels of review that occur throughout the product development process</p> <p>See:  <a href="#">Employee</a></p>				

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Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
Example Prospective Risk 4: The company may experience	ST PR/UW	As the company underwrites primarily in hurricane-prone geographies, it runs both short- and medium-term climate scenarios that include additional frequency and severity of hurricanes to	<del>Qualifications (see A-2-9):</del> Obtained meeting minutes from the committee of the board of directors demonstrating discussion of potential new products, considerations for pricing, and board approval for the issuance of the new product <del>see A-2-4</del> . Board meeting materials were also reviewed <del>See: [redacted]</del> <del>Company BOD Minutes (A-2-5):</del> Obtained the insurer's ORSA and details of the climate scenarios used to stress the underwriting	Moderate	Increasing	Increase in frequency and/or severity of natural hazards due to climate	The analyst should review the ORSA summary report to understand how the company

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Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
increased frequency and/or severity of natural hazards due to climate change risk in future years, affecting its ability to achieve its long-term business strategy.  Note: Only P/C insurers.		estimate their potential impacts. The results of the short-term scenarios are presented in the ORSA report. The medium-term scenarios are projected over a 5-to-10-year event horizon and indicate a potentially significant increase in loss costs that would require changes to the underwriting/reinsurance strategy or require additional capital. The company is currently evaluating the impact on its long-term business strategy and plans to present recommendations to its board of directors at the next annual meeting.	results and the capital in section III of the ORSA. See: <a href="#">ORSA Summary Report (refer to A-1-2)</a>  Reviewed the results of medium-term climate stress scenarios noting material increases in loss costs for hurricane events across the various scenarios (refer to <a href="#">A-2-3</a> )			change risk may reduce underwriting profit and may create a need for additional capital. However, the company runs climate scenarios to simulate the underwriting and capital impact of climate change	manages the short-term impacts of climate change risks through the use of climate scenarios quantifying the impact to underwriting, reinsurance, and capital. The analyst should request a copy of recommendations for the board of directors on the impact of climate scenarios on the company's long-term business strategy. In addition, the analyst should request updated medium-term climate scenario results from the company annually to track

Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
<p>Example Prospective Risk #5:</p> <p>The company's executive compensation plans include incentives based on financial metrics that may encourage riskier decision-making.</p>	OP	<p>The Board of Directors reviews and approves executive compensation plans, including any incentive plans. Incentive plans and variable compensation practices are intended to emphasize long-term financial goals and avoid excessive focus on short-term growth and performance.</p> <p>The Company pays out incentive compensation based on the achievement of performance goals and maintains a claw back policy that allows the Company to recover incentive compensation in the event that financial statements must be restated.</p>	<p>Obtained the board minutes to ensure board review and approval of the executive compensation plan structure, which incorporates some long-term goals. However, much of the incentive compensation continues to be based on short-term growth and performance goals. <del>Refer to A-4-2) See: [redacted] Company BOD Minutes.</del></p> <p>Obtained and reviewed detailed support for incentive payment calculations,</p>	Moderate	Increasing	<p>The Company's executive compensation on plan has been reviewed and approved by the Board; however, the incentives are largely dependent upon some metrics (i.e., annual premium growth) that have the potential to encourage excessive risk-taking by executives.</p>	<p>changes in estimated future exposures.</p> <p>The analyst should continue to monitor fluctuations in the company's general expenses, as well as the overall expense ratio and profitability to identify potential issues regarding the executive compensation structure.</p> <p>Review the Corporate Governance Annual Disclosure (CGAD) for information referring to the executive compensation practices and follow up on any</p>

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Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
			verifying the accuracy of calculations in accordance with the written plan. Also reviewed and verified the Company's claw back policy. <i>See: <b>Payment Incentive Calculations (Refer to A-4-5);</b></i>				changes identified.

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EXHIBIT CC

ISSUE/RISK TRACKING TEMPLATE

The primary goal in Phase 1 of the examination is to gain an understanding of the company being examined to enable the critical risks facing an insurer to be identified. Issues and risks can be identified from numerous sources, including the interview process, communication with analysts, a review of corporate governance information, a review of information available through the internal and external audit functions, a review of IT functions and documentation, and other assessments completed as part of Phase 1.

Exhibit CC is intended to house significant issues and risks identified during Phase 1 to ensure that they are appropriately addressed and/or considered during the examination. Examiners should use the template below, or a substantially similar document, to track the issues and risks identified, which include prospective risks. However, examiners are not expected to utilize this template to identify each and every risk that will be included ~~on~~ in a key activity ~~matrix~~ risk assessment. Instead, this template should be utilized to identify risks that could include those unique to the insurer, specific to a particular line of business/company activity or of heightened importance as determined through gaining an understanding of the company.

When using this template, the examiner should document the issue or risk identified and its source(s). If an issue or risk has multiple sources, the examiner need only list the issue or risk once on the template and should document all significant sources from which it was identified in the adjacent box. In addition, the examiner should include the area where the issue or risk is addressed (e.g., ~~on~~ in a key activity ~~risk assessment~~ matrix, on Exhibit V, etc.) and any additional information deemed necessary. Alternately, after further review, the examiner may determine that no follow-up is necessary for an issue or risk identified; in those instances, the examiner should document this conclusion on the template.

Instructions for completing and documenting the issues or risks identified within the template are as follows:

Template Column	Instructions for Completing
Issue/Risk Identified	Based on the knowledge and understanding of the company obtained during Phase 1 of the examination, document the issue/risk identified, including prospective risks.
Source(s) of Issue/Risk	Identify the source(s) of the issue/risk. Examples include but are not limited to: communication from the financial analyst, communication from other regulators (other states, federal, international, etc.), A.M. Best reports, AICPA audit alerts, review of regulatory filings, C-level interviews, review of minutes, department planning meeting notes, market conduct reports, company risk assessments, etc.
Where Addressed	Provide a reference to where the issue/risk is addressed, such as a key activity <del>matrix</del> risk assessment, Exhibit V, or other areas within the examination file.
Additional Information	If no follow-up is necessary for an issue or risk identified, briefly document this conclusion and/or provide any additional information deemed necessary to further clarify the issue/risk.

Example risks have been included below to demonstrate the level of documentation expected to be included in a tracking template.

**Issue/Risk Tracking Template**

Issue/Risk Identified	Source(s) of Issue/Risk	Where Addressed	Additional Information
Example 1 – Company plans to begin writing a new line of business next year.	Issue referred from rates and forms unit (See: <a href="#">☉ Step 2 – Obtain Existing Documentation A-1-6</a> ) and brought up in C-Level interviews (See: <a href="#">☉ Step 1 – Conduct Interviews A-3-5; A-3-7</a> ).	See Exhibit V (Risk 3).	N/A
Example 2 – The percentage of the company's invested assets held in equities has increased significantly over the past two years.	Issue referred by the financial analyst (See: <a href="#">☉ Step 1 – Meet with the Financial Analyst</a> ) see <a href="#">A-1-5</a> ) and discussed in the department planning meeting (see <a href="#">A-1-12</a> See: <a href="#">☉ Step 7 – Meet With Chief Examiner</a> ).	See risk 1.1 on the Investment Risk <a href="#">Matrix Assessment</a> (See: <a href="#">☐ ☐</a> <a href="#">Investments Risk Assessment C-2-9</a> ).	N/A
Example 3 – The company's expense ratio is significantly higher than the industry average.	Issue noted during examiner's review of the AM Best report <a href="#">☐ ☐ ☐</a> (see <a href="#">A-1-7 AM Best Report Review</a> ).	Not deemed necessary.	After further discussion, it was noted that the company's historical expense ratios are higher than the industry average due to the unique coverage written by the company. As ratios have been relatively flat and the company remains profitable, no additional review is deemed necessary.
Example 4 – The company has service agreements with affiliates that may have a material impact on the insurer.	Issue noted during a planning meeting with the analyst.	See risk 1.1 on the Related Party <a href="#">Matrix Assessment</a> (See: <a href="#">☐ ☐</a> <a href="#">Related Party Risk Assessment C-3-3</a> ).	N/A

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## EXHIBIT DD



### CRITICAL RISK CATEGORIES

One of the goals of a risk-focused examination is to focus on the most critical financial solvency risks facing an insurer. To assist the examination team in meeting this goal, a list of critical risk categories has been developed for consideration in reviewing the adequacy of risk statements developed for each examination. The initial identification of risks in Phase 2 should utilize the understanding of the company gained in Phase 1, as well as a consideration of branded risk classifications, exam assertions, etc. The critical risk categories can then be used at the end of Phase 2 to ensure that the risks identified through this process cover some of the most common solvency risks identified by insurance regulators. The expectation is that each critical risk category will be addressed by at least one risk statement ~~on~~*in* a key activity ~~risk assessment matrix~~ (or Exhibit V). Alternatively, if the exam team determines that a particular category is not applicable or critical to the company being examined (i.e., the company does not have exposure in the category), an explanation may be provided within the Examination Planning Memorandum.

The critical risk categories take into consideration both financial reporting and other than financial reporting risks, which categories would be common to most insurers and the typical impact of a risk category on the current and prospective financial solvency of an insurer. Specific risk statements that are used to address the critical risk category investigation requirement should be tailored based on the company's risk profile, which may necessitate consideration of matters such as climate change, terrorism, a pandemic, cybersecurity, etc. Additional risks beyond the critical risk categories are expected to be identified and reviewed through the examination process at the discretion of each examination team as described in Section 2 of this Handbook.

To demonstrate that the examination has covered each of the relevant critical risk categories, the template below should be completed to demonstrate where in the exam file each critical risk area is addressed. This may be accomplished by providing reference to each individual risk statement that addresses each critical risk category. In situations where a particular critical risk category is not addressed by at least one risk statement, the exam team should provide reference to an explanation provided within the Examination Planning Memorandum.

#### Critical Risk Category Reporting Template

Risk Category	Description	Where Addressed
Valuation/ Impairment of Complex or Subjectively Valued Invested Assets	This category encompasses the valuation of particularly complex or subjectively valued investment holdings significant to the insurer, including assets that are hard-to-value, high-risk and/or subject to significant price variation, with a focus on current valuation. The likelihood of security impairment and determination of whether those impairments are other than temporary would also be an area to consider.	<i>Example Comment: See Risk 2.1 and Risk 3.1 <del>on</del><i>in</i> the  Investments Risk Assessment Matrix.</i>
Liquidity Considerations	This category encompasses the ability of the insurance company to meet current contractual obligations, which could include liquidating assets or obtaining adequate funding without incurring unacceptable losses. This category is most relevant for near-term cash flow needs that could impact the insurer (one to two years).	<i>Example Comment: This critical risk category was not deemed relevant. See a discussion in the  Examination Planning Memorandum EPM at A-5.3.</i>

Risk Category	Description	Where Addressed
Appropriateness of Investment Portfolio and Strategy	This category encompasses whether the insurer's investment portfolio and strategy are appropriately structured to support its ongoing business plan. Considerations may include elements of the ongoing investment strategy such as asset diversification, quality, maturities and risk/reward considerations, which could impact the insurer's vulnerability to future market fluctuations and impairments associated with various scenarios (e.g., real-estate downturn, a pandemic, significant shift in interest rates, climate change/energy transition, etc.). For long-term lines of business in particular, these considerations would address asset adequacy testing/liability matching.	<i>Example Comment: See Risk 5 and Risk 6 on  Exhibit V, Exhibit V at A.7.3.</i>
Appropriateness/Adequacy of Reinsurance Program	This category encompasses the overall reinsurance strategy of the insurer, whether the strategy is appropriate to support its ongoing business plan and whether adequate coverage is in place to address the insurer's risk exposures (e.g., catastrophe/climate risks, morbidity risk, etc.). Considerations may include the quality of reinsurance counterparties, types of coverage in place, associated limits, net retentions, concentration of reinsurance cessions, coverage periods, terms, affiliated agreements, etc.	
Reinsurance Reporting and Collectability	This category encompasses whether all reinsurance amounts are properly accounted for and reported by the insurer. Considerations may include the existence and valuation (including collectability) of reinsurance recoverable amounts and reserve credits. In addition, proper accounting and reporting/disclosure for risk transfer issues may be considered.	
Underwriting and Pricing Strategy/Quality	This category encompasses whether the insurer has appropriate underwriting, pricing and marketing practices (including premium management) to meet its financial solvency needs. Considerations may include whether the insurer has established and implemented appropriate risk exposure limits and underwriting guidelines, whether the insurer is establishing adequate rates for the risks assumed under its policies and expense structure, and whether these strategies and practices are consistently applied across the insurer's distribution channels to appropriately address exposure to a wide range of insurance risks (e.g., catastrophe/climate, pandemic, increased mortality/morbidity, etc.).	
Reserve Data	This category encompasses whether selected elements of the underlying data utilized by the actuary in reserve calculations are complete and accurate. Considerations may include claim or in-force data depending on the lines of business and reserving methodologies utilized by the insurer.	

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## GLOSSARY

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<b>Other than Financial Reporting Risk</b>	Business or strategic risk that is inherent in the insurer’s operations and that has either an immaterial impact or no impact on the current financial statements but may have a solvency impact in the future.
<b>Overall Residual Risk</b>	The extent of risk the examiner believes is retained within a specific identified risk after the consideration of risk-mitigation strategies/controls; also known as the final assessment of residual risk after considering both the calculated residual risk and judgmental residual risk.
<b>ORSA</b>	Acronym for Own Risk and Solvency Assessment which is a reporting requirement for insurers above a specified premium threshold and includes the insurer’s assessment of its risk management framework, company risks and capital needs. See Section 1, Part XI.
<b>Participating State</b>	A state that does not lead, but participates in a group examination.
<b>Planning Materiality (PM)</b>	The examiner’s judgment of materiality made during initial planning. It is used in developing the overall scope of the examination procedures.
<b>Preventive Controls</b>	Controls designed to prevent risks from occurring in a process.
<b>Prioritization</b>	Based on multiple applications (e.g., exam results, financial analysis), a qualitative and quantitative system of ranking insurers for the purpose of determining the nature and extent of solvency monitoring to be performed. For example, insurers with a higher priority may be examined more frequently and earlier in a particular cycle.
<b>Professional Judgment</b>	The ability and willingness to assess gathered information and make objective judgments on the basis of well-supported reasons. Also known as <i>Critical Thinking</i> .
<b>Prospective Risk</b>	The risk associated with whether an insurer’s current condition or processes provide indications of future solvency concerns.
<b>Review and Approval Summary</b>	A form that documents the performance of review requirements by the examiner-in-charge and other supervisory examiners. See Exhibit Q.
<b>Risk Assessment Matrix Documentation</b>	<del>A tool developed to serve as the central location (lead sheet) for the documentation of risk assessment and testing conclusions, whether maintained in the Risk Assessment Matrix (Exhibit K), electronic workpaper application, or another format. See Exhibit K.</del>
<b>Risk-Management Program</b>	The procedures by which an insurer identifies, controls, monitors, evaluates and responds to its risks on an ongoing basis.
<b>Risk-Mitigation Strategies</b>	Procedures and policies that are utilized by insurers to mitigate inherent risk in key activities. This term is normally used when referring to Other than Financial Reporting risks. Generally, the term Internal Controls is used when referring to Financial Reporting risks.
<b>Risk Statement</b>	A statement associated with a key activity within the <del>r</del> Risk <del>a</del> Assessment <del>M</del> atrix describing an inherent risk identified by an examiner. This statement considers the answer to the question, “What could go wrong?” and is stated negatively.
<b>Risk-Based Capital (RBC)</b>	The minimum capital requirement an insurer must maintain. The calculation of RBC results in various Action and Control levels for insurer ratio results that fall within a certain percentage range.
<b>Risk-Focused Surveillance Approach</b>	A process of identifying significant risks, assessing and analyzing those risks, documenting the results of the analysis, and developing recommendations for how the analysis can be applied to the ongoing monitoring of the insurer.
<b>Sarbanes-Oxley Act of 2002</b>	A federal act that requires the external auditor to attest to management’s assertion of adequate financial reporting internal controls.

Draft: 10/15/25

Financial Examiners Handbook (E) Technical Group  
Virtual Meeting  
October 14, 2025

The Financial Examiners Handbook (E) Technical Group of the Examination Oversight (E) Task Force met Oct. 14, 2025. The following Technical Group members participated: Eli Snowbarger, Co-Chair (OK); John Litweiler, Co-Chair (WI); Shelia Travis (AL); Laura Clements (CA); William Arfanis (CT); N. Kevin Brown (DC); Cindy Andersen (IL); Grace Kelly (MN); Shannon Schmoeger (MO); Monique D. Smith (NC); Andrea Johnson (NE); Colin Wilkins (NH); Nancy Lee Chice (NJ); Zachary Wheatley (OH); and Tarik Subbagh (WA).

1. Adopted Handbook Guidance

A. Exam Planning Procedure Updates

Litweiler introduced the first revision to the *Financial Condition Examiners Handbook* (Handbook) regarding examination planning procedures as a result of the discussions in the most recent exam peer review. He stated that participants proposed simplifying and consolidating steps in Exhibit A: Examination Planning Procedures Checklist. The first revision combines steps one (meet with the financial analyst) with steps six and seven (meet with other department personnel), as those steps typically happen concurrently. The next revision combines step four (information technology [IT] risks) into a single step, similar to step 16. The last revision deletes step five, which instructs examiners to update the Insurer Profile Summary (IPS), as peer reviewers felt significant findings are commonly presented through the status updates, of which the analyst is often a recipient. The corresponding narrative guidance in Section 2, Phase 1, for updating the IPS was also deleted.

B. Reference to CAT Reinsurance Interrogatory

Litweiler introduced the second revision to the Handbook, which was related to the new catastrophe (CAT) reinsurance program interrogatory. Revisions to the reinsurance ceding repository include the interrogatory as a source of information for catastrophic reinsurance coverage and include other potential procedures when reviewing catastrophic reinsurance coverage for reasonableness. These revisions are consistent with the information on the CAT interrogatory already included within the *Financial Analysis Handbook*.

C. Exhibit Q: Review and Approval Summary Updates

Litweiler introduced the last set of revisions related to Exhibit Q: Review and Approval Summary. Minor revisions clarify that there should be a meeting at the end of the examination to communicate exam results with the analyst.

Subbagh made a motion, seconded by Clements, to adopt the revisions related to examination planning procedures (Attachment Four-A), the reference to CAT interrogatories (Attachment Four-B), and Exhibit Q (Attachment Four-C) for inclusion in the Handbook. The motion passed unanimously.

2. Exposed Handbook Guidance

A. Revisions Regarding Use of AI in Exams

Snowbarger introduced the first set of proposed revisions related to the use of artificial intelligence (AI) in exams. Revisions were included in the introduction and Sections 1–4 of the Handbook and provide guidance on the responsible use of AI, including considerations regarding user review of AI output and confidentiality.

B. Revisions Regarding Recent Statutory Accounting Principles (E) Working Group Adoptions

Snowbarger introduced the next set of revisions, which reflect the recent Statutory Accounting Principles (E) Working Group adoptions, including updates related to modified coinsurance (modco) reinsurance and the principles-based bond definition. He stated that revisions to the capital and surplus repository enhance guidance updates made last year pertaining to the accurate calculation and reporting of risk-based capital (RBC), including any manual adjustments. Phase 5 procedures now reference the new Schedule S, Part 8, which examiners can tie out to. In addition, sample procedures were added to the reinsurance ceding repository for considerations regarding the collateral held in modco and funds withheld reinsurance agreements. Procedures include assessing the reinsurer’s investments and the credit quality of collateral assets, along with affiliate and related party considerations.

Revisions related to the principles-based bond definition are included in the investments repository. An existing risk identifier related to properly implementing and monitoring structured security transactions was revised to include the reporting element. He stated that sample procedures were added to help ensure the appropriate reporting treatment of securities under the principles-based bond definition, as there is a risk that a company could report securities as bonds on Schedule D, versus reporting them as other assets on Schedule BA, in an effort to avoid a higher RBC charge.

C. Revisions Regarding AG 55

Snowbarger shared the next set of revisions related to *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55). He stated that the revisions made to the reserves/claims handling (life) repository add sample procedures for asset adequacy testing (AAT) for certain asset-intensive reinsurance transactions in accordance with AG 55.

D. Revisions Regarding Risk Matrix Verbiage

Snowbarger introduced the last set of revisions that reflect changes to the risk matrix verbiage throughout the Handbook. Given the transition to TeamMate+, standalone risk matrices will be phased out as more states document the risk assessment through functionality within the TeamMate+ application. He stated revisions clarify that the risk assessment is the requirement, rather than Exhibit K (the risk matrix) itself. Exhibit K will remain in the Handbook, but the use of this exhibit is not required. Additionally, since automatic reference counting (ARC) references no longer exist within TeamMate+, Handbook exhibits that include examples with ARC references for illustration purposes have been updated to reflect hyperlinks to a location or document to demonstrate how references are shown in TeamMate+. This change affects Exhibits V, CC, and DD.

The Technical Group agreed to expose the revisions for a 30-day public comment period ending Nov. 13.

Having no further business, the Financial Examiners Handbook (E) Technical Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/EOTF/FEHTG Minutes 10.14.25















## PHASE 1 – UNDERSTAND THE COMPANY AND IDENTIFY KEY FUNCTIONAL ACTIVITIES TO BE REVIEWED

In Phase 1 of a risk-focused examination, key activities will be confirmed or identified using background information gathered on the company from various sources. Some of this information will already have been available in the department prior to the initial planning meeting, or can be obtained from the company's internal audit department or external auditors. A Phase 1 goal is to gather any additional or current information necessary to begin a risk-focused examination. Sources of information may include organizational charts, filings required by sections 302 and 404 of the Sarbanes-Oxley Act of 2002 (where applicable), interviews with senior management, or other publicly available information.

To ensure the appropriate risk-focused examination scope, it is important to identify the key functional activities (i.e., business activities) of the company. Information gathered by understanding the company, the company's corporate governance structure, and assessing the company's audit function will form the basis for determining key activities.

Essential to executing the risk-focused surveillance process is interviewing executive management and possibly board members of the company to identify key activities and risks. Risks identified through these interviews and each part of Phase 1 should be documented on Exhibit CC – Issue/Risk Tracking Template or a similar document to ensure they are carried through the remaining phases of the examination. Examiners and company officials should attempt to maintain an ongoing dialogue to assist the examiners in understanding the company and identifying key functional activities. It is also critical for the examination team to understand and leverage the company's risk management program; that is, how the company identifies, controls, monitors, evaluates and responds to its risks. For companies required to submit an Own Risk and Solvency Assessment (ORSA) summary report to the lead or domestic state, the report provided by the company may be a useful tool in this evaluation. The discipline and structure of risk management programs vary dramatically from company to company. "Best practices" are emerging for risk management programs and more companies are appointing chief risk managers whose responsibilities go well beyond the traditional risk management function (the buying of insurance). The Committee of Sponsoring Organizations (COSO) has published internal control standards that are widely-held, although not required, in many industries and has released an Enterprise Risk Management Integrated Framework, which is anticipated to be incorporated by several entities, as well as guidance to apply the integrated framework and internal control standards to small public companies. The examination team should evaluate the strength of the company's risk management process, which can include a "hind-sight" evaluation of why a particular negative surprise or event occurred (i.e., why was it not identified in the current risk management program of the company).

One crucial aspect to a successful planning process is the tailoring of planning procedures to the company under review. As the exam team learns about risks, subsequent planning procedures should be tailored to ensure that they provide further information on the risks already identified. For instance, if after meeting with the Department's analyst, the examination identifies a risk related to the company's planned expansion of business into new jurisdictions, subsequent procedures performed in planning—i.e., "C"-Level Interviews, review of company ERM, etc.—should be tailored to include consideration on the risk.

There are five parts to Phase 1 that are key components of performing a risk assessment, the results of which drive the direction of the risk-focused examination: (1) Understanding the Company; (2) Understanding the Corporate Governance Structure; (3) Assessing the Adequacy of the Audit Function; (4) Identifying Key Functional Activities; and (5) Consideration of Prospective Risks for Indications of Solvency Concerns. The Risk Assessment Matrix (Exhibit K), the tool developed to serve as the central location for the documentation of risk assessment and testing conclusions, should be updated with the identified key activities of the company after the examiner is able to obtain an understanding of the company and corporate governance structure. The five parts of Phase 1 are discussed as follows:

- A. Part 1: Understanding the Company
- B. Part 2: Understanding the Corporate Governance Structure
- C. Part 3: Assessing the Adequacy of the Audit Function
- D. Part 4: Identifying Key Functional Activities
- E. Part 5: Consideration of Prospective Risks for Indications of Solvency Concerns

## A. Part 1: Understanding the Company

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### **Step 4: Consideration of Information Technology Risks**

The examiner-in-charge should also become familiar with the general controls surrounding the company's IT environment. Due to technological advancement (e.g., Internet, Intranet and e-commerce), internal control risks could be more pervasive within the IT environment than in other areas within the company. IT requires more technology insight to understand how it impacts the company's operations. Properly assessing IT risk requires appropriate IT training, experience, and technological insight. The examiner-in-charge may want to consider consulting with a specialist who has experience in reviewing IT general controls.

In conducting examinations of insurers that are part of a holding company group, it is important to note that IT general controls may occur at the holding company level. The exam team should seek to coordinate the identification and assessment of prospective risk in accordance with the exam coordination framework and lead state approach outlined in Section 1 of this Handbook. Where possible, in a coordinated examination, the lead state's work on IT general controls should be utilized to prevent duplication of effort and to leverage examination efficiencies.

Section 1, Part III, A – General Information Technology Review outlines the process in which an IT control environment should be reviewed. Exhibit C, Part Two (also located in this Handbook) is one tool the IT examiner can utilize while conducting the IT review. During the IT review, the IT examiner will identify risks that are relevant to the company based on their understanding of the company.

Once risks have been identified, the examiner will request control information from the company and test the appropriate controls within the IT environment. In the event an IT specialist is utilized, communication with the examiner-in-charge is critical throughout the review of IT general controls, especially when it comes to communicating findings of the review and the impact on the financial examination. As explained in Section 1, Part III, A – General Information Technology Review, the IT specialist should determine whether the IT general controls environment is effective or ineffective. It is important for the examiner to review and understand the conclusion reached by the IT specialist in order to determine the extent of testing that may be required in later phases of the exam. If necessary, the IT specialist may need to assist in completing the work for the financial examination, such as identifying and testing IT application controls.

Consideration and review of the IT environment may be customized based on the size and complexity of the insurer under examination. For additional detail, refer to Section 1, Part III – General Examination Considerations.

### **Step 5: Update the Insurer Profile Summary**

~~Based upon the review and analysis performed up to this point, provide updates to the analyst regarding any significant initial findings for incorporation into the Insurer Profile Summary (IPS). Updates to the IPS can be suggested throughout the examination process.~~

## EXAMINATION REPOSITORY – REINSURANCE (CEDING INSURER)

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Amounts Recoverable from Reinsurers  
Funds Held by or Deposited with Reinsured Companies  
Other Amounts Receivable Under Reinsurance Contracts  
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)  
Funds Held by Company Under Reinsurance Treaties (P&C Companies)  
Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers (Life Companies)  
Provision for Reinsurance  
Contract Liabilities Not Included Elsewhere – Other Amounts Payable on Reinsurance  
Miscellaneous Liabilities – Reinsurance in Unauthorized Companies (Life Companies)  
Funds Held Under Coinsurance (Life Companies)

### Risk-Based Capital (RBC) Filing

RCAT (PR027) may be used to identify and assess the insurer's current exposure to catastrophic events at the modeled worst year in 50, 100, 250, and 500 levels on both a gross (direct and assumed) and net basis (after reinsurance).

### Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the reinsurance process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5 — Liabilities, Contingencies, and Impairments of Assets  
No. 25 — Affiliates and Other Related Parties  
No. 61 — Life, Deposit-Type and Accident and Health Reinsurance  
No. 62 — Property and Casualty Reinsurance  
No. 63 — Underwriting Pools  
No. 64 — Offsetting and Netting of Assets and Liabilities  
No. 65 — Property and Casualty Contracts

† Risks identified with this symbol may warrant additional procedures or consideration at the head of the internationally active insurance group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

\*\*\*Detail eliminated to conserve space\*\*\*

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
						<p>commission is greater than the cost to write the business.</p> <ul style="list-style-type: none"> <li>Evaluating historical performance (i.e., back testing) of reinsurance coverage provisions.</li> </ul> <p>Consider involving a reinsurance expert to review the reinsurance contracts. The review should determine that the coverages are in accordance with the net risk limits and risk appetite. In addition, review the impact of any risk-limiting provisions (e.g., sliding commissions, loss corridors, etc.) on the effectiveness of the insurer's reinsurance strategy.</p>
<p>The insurer's catastrophic reinsurance protections are inadequate. †</p> <p>Note for P/C insurers: Examiners should use information</p>	<p>ST OP</p>	<p>Other</p>	<p>AARP</p>	<p>To determine the level of catastrophic reinsurance protection, the insurer uses third-party commercial vendor catastrophe models. (Refer to the NAIC's Property/Casualty RBC Forecasting and Instructions for a list of</p>	<p>Review the PMLs for catastrophe perils and compare them to the catastrophic reinsurance structure that has been selected.</p> <p>Obtain and review the insurer's reconciliation of the modeled PMLs to the</p>	<p>Verify that what is reported in the RBC RCAT is consistent with PMLs the insurer uses for own risk assessment purposes. Discuss and/or obtain an explanation for material discrepancies.</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
<p>contained in the RCAT Attestation provided by insurers that are subject to this filing requirement.</p>				<p>approved vendors) or internally developed catastrophe models that have been compared against vendor models. The models determine gross probable maximum losses (PMLs) for catastrophe perils.</p> <ul style="list-style-type: none"> <li>Modeled results used for own risk assessment purposes are consistent with what is reported in the RBC RCAT filing.</li> </ul> <p>The insurer selects the most appropriate reinsurance strategy and structure by evaluating model results, considering capital resources, conducting cost/benefit analysis, considering broker recommendations, regulatory requirements, etc. Senior management discuss and approve the strategy and structure, including the following elements:</p> <ul style="list-style-type: none"> <li>Use of traditional and non-traditional structures (e.g.,</li> </ul>	<p>RBC RCAT filing and reported to the NAIC and discuss and/or obtain an explanation for material discrepancies.</p>	<p>Obtain information on catastrophic reinsurance coverage from <a href="#">the Interrogatory on Catastrophe Risk Reinsurance Program (PR027)</a> section of the <a href="#">RBC filing</a>, public information (10Ks, Climate Disclosure Survey, etc.) or Own Risk and Solvency Assessment (ORSA) report for internal consistency and independent validation by reconciling to source documents.</p> <p>Review the reasonableness of the catastrophic reinsurance coverage in place at the insurer by benchmarking against competitors and/or comparing against industry standards (e.g., reviewing premium retention percentages or net PMLs as a percentage of surplus against competitors). <a href="#">Consider assessing the strength and creditworthiness of reinsurers.</a> <a href="#">Identifying potential concentration</a></p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
The insurer is over-exposed to credit and liquidity risks in its use of reinsurance counterparties. †	CR LQ	Other	AARP	<p>insurance-linked securities)</p> <ul style="list-style-type: none"> <li>• Retention and reinstatement provisions, aggregate versus occurrence structures</li> <li>• Attachment and exhaustion levels</li> </ul>		<p>risk where there is heavy reliance on the reinsurer, or reviewing the reinsurance treaties to identify exclusions that may leave the insurer exposed to unexpected losses.</p> <p>Consider involving an exam actuary or reinsurance specialist in assessing the adequacy of the insurer’s catastrophic reinsurance coverage. The specialist should determine if there are retrospective provisions (such as loss limiting features) that would cause the insurer to retroactively pay a higher reinsurance premium. If this trigger is present, determine if the insurer has the financial resources to pay the higher premium.</p> <p>Based on a review of significant contracts, determine whether the insurer is properly diversified. Perform procedures to evaluate the quality of significant reinsurers</p>
				<p>The insurer has policies in place requiring utilization of multiple reinsurers to reduce concentration with any one entity.</p>	<p>Test the operating effectiveness of the insurer’s controls to track compliance with the concentration policy.</p> <p>Obtain evidence of the insurer’s process to</p>	

REVIEW AND APPROVAL SUMMARY (RAS) FOR EXAMINATIONS

NAME OF COMPANY \_\_\_\_\_

EXAMINATION DATE \_\_\_\_\_

EXAMINER-IN-CHARGE \_\_\_\_\_

SUPERVISING EXAMINER \_\_\_\_\_

	Performed By	Date
<b>Detailed Review (usually performed by the examiner-in-charge)</b>		
1. I have read the Examination Planning Memorandum, risk matrices, and examination program insofar as they relate to the areas of the examination I reviewed.		
2. I have reviewed all workpapers and I am satisfied that the planned procedures were performed, results of work were adequately documented, and procedures performed were sufficient considering the results obtained and any changes in conditions occurring since the procedures were planned.		
3. I have verified that all known significant solvency risks have been addressed and each critical risk category has been appropriately considered.		
4. I have compared the accounts in the general ledger trial balance or examination workpapers with the summarizations, classifications, and descriptions of them in the annual financial statement.		
5. I am satisfied that the examination was conducted in accordance with appropriate professional standards, department policies and the procedures set forth in the <i>Financial Condition Examiners Handbook</i> .		
6. I have documented the results of the on-site examination and <a href="#">held a meeting to</a> shared them with the assigned analyst. (Results may be documented through the use of Exhibit AA – Summary Review Memorandum (SRM). The SRM should include discussion of potential ongoing or future solvency concerns the insurer may face, the insurer’s corporate governance and a summary, by branded risk classification, of examination adjustments, other examination findings, management letter comments and other residual risks or concerns the examiner may want to communicate to department personnel.)		
7. I have collaborated with the analyst in developing the prioritization level and supervisory plan.		

<i>designee)</i>		
matrices and examination program.		
satisfied that the planned procedures were performed, results of work were adequately documented, procedures performed were sufficient, each known significant solvency risk was addressed and each critical risk category was appropriately considered.		
with appropriate professional standards, department policies and the procedures set forth in the Financial Condition Examiners Handbook.		
shared with the assigned analyst, and I am satisfied that the examination results were adequately communicated.		
or updated at the conclusion of the examination and concur with the results.		
was prepared in conformity with statutory accounting principles as prescribed in the <i>Accounting Practices and Procedures Manual</i> or as permitted by the department.		

**Note:** Completion of procedures should be indicated by dating and initialing the space provided. Any exceptions (e.g., Not Applicable) should be explained either in this RAS or in an attached memorandum.

Draft: 8/4/25

Information Technology (IT) Examination (E) Working Group  
Virtual Meeting  
July 31, 2025

The Information Technology (IT) Examination (E) Working Group of the Examination Oversight (E) Task Force met July 31, 2025. The following Working Group members participated: Ber Vang, Chair (CA); Shane Mead, Vice Chair (KS); Blase Abreo (AL); Ken Roulier and Michael Shanahan (CT); Ricardo Mancilla (IL); Dmitriy Valekha (MD); Kim Dobbs (MO); Andrea Johnson (NE); Eileen Fox (NY); and Colton Schulz (ND).

1. Exposed the Decision Framework

Vang provided an overview of the Working Group's 2024 activities associated with addressing a referral from the Cybersecurity (H) Working Group, which requested that the IT Examination (E) Working Group review the IT exam process and evaluate whether a more cybersecurity-focused approach would be beneficial. The IT Examination (E) Working Group adopted a two-step approach. The first step was completed last year, and a drafting group was formed this year for the second step, which is to separate procedures needed to establish the reliability of IT general controls (ITGC) from those needed to examine cybersecurity. This year's drafting group has created a decision framework to show how this separation will be done.

Topher Hughes (NAIC) stated that the drafting group will alter the previous six-step IT examination process, as two frameworks will be used. The COBIT 2019 framework will be used for the evaluation of ITGC, while the National Institute of Standards and Technology (NIST) Cybersecurity Framework (CSF) 2.0 will be used for the evaluation of prospective cyber risk. In the new process, steps one through three will cover ITGC, and steps four through six will cover cyber risk. A seventh step, which is general support of financial examination staff, will encompass the time frame between the end of the third step and the end of the exam.

Hughes also stated that existing processes will be split between these two frameworks, with the new cyber-risk framework becoming a new Exhibit C, Part 3. To help manage the time added by the new cybersecurity planning memo and summary memorandum, IT examiners will also be encouraged to leverage third-party work as applicable, and professional judgment will be used to evaluate the extent to which the cyber risk assessment will be needed for each individual insurer.

Vang stated that one of the main goals of the drafting group was to divide the work between ITGC and cyber risk assessment rather than continually adding to the existing IT exam process to help ensure that future IT examinations require approximately the same time as currently. Mancilla asked for clarification on the timing of the cybersecurity review during a financial exam. Vang stated that the ITGC review will need to be completed before the end of phase two of the financial exam, and that once that is done, the IT examiner may continue with the cybersecurity risk assessment. That work will need to be completed before the end of phase five of the financial exam.

There were no objections to exposing the decision framework for a 30-day public comment period ending Aug. 30. Mead thanked the members of the drafting group for their extensive efforts in developing the decision framework.

Having no further business, the IT Examination (E) Working Group adjourned.

[https://naiconline.sharepoint.com/teams/FRSExams/ITEWG/2025/7-31-2025 WG Call/ITEWG draft minutes 07-31-25.docx](https://naiconline.sharepoint.com/teams/FRSExams/ITEWG/2025/7-31-2025%20WG%20Call/ITEWG%20draft%20minutes%2007-31-25.docx)