

EXAMINATION OVERSIGHT (E) TASK FORCE

Examination Oversight (E) Task Force July 31, 2025, Minutes

Information Technology (IT) Examination (E) Working Group March 3, 2025, Minutes (Attachment One)

Financial Examiners Handbook (E) Technical Group July 7, 2025, Minutes (Attachment Two)

Coordination Guidance Handbook Proposal (Attachment Two-A)

Examiner-in-charge's (EIC's) Responsibilities (Attachment Two-B)

Financial Examiners Handbook (E) Technical Group March 31, 2025, Minutes (Attachment Three)

RFSWG Referral & Revisions - Contractor Oversight (Attachment Three-A)

Examination Oversight (E) Task Force
Virtual Meeting
July 31, 2025

The Examination Oversight (E) Task Force met July 31, 2025. The following Task Force member 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 Blasé Abreo (AL); Ricardo Lara represented by Laura Clements and Ber Vang (CA); Andrew N. Mais represented by William Arfanis (CT); Trinidad Navarro represented by Rylynn Brown (DE); Michael Yaworsky represented by Chad Mason (FL); Holly W. Lambert represented by Roy Eft (IN); Doug Ommen represented by Daniel Mathis (IA); Sharon P. Clark represented by Vicki Lloyd (KY); Timothy J. Temple represented by Melissa Gibson (LA); Michael T. Caljouw represented by John Turchi (MA); Anita G. Fox represented by Kristin Hynes (MI); Grace Arnold represented by Kathleen Orth (MN); Angela L. Nelson represented by Shannon Schmoeger (MO); Mike Chaney represented by Mark Cooley (MS); Eric Dunning represented by Tadd Wegner (NE); Jon Godfread represented by Matt Fischer (ND); Glen Mulready represented by Eli Snowbarger (OK); TK Keen represented by Teresa Borrowman (OR); Elizabeth Kelleher Dwyer represented by John Tudino (RI); Michael Wise represented by Linda Haralson (SC); Larry D. Deiter represented by Johanna Nickelson (SD); Scott A. White represented by Jennifer Blizzard (VA); and Patty Kuderer represented by Tarik Subbagh (WA).

1. Adopted its 2024 Fall National Meeting Minutes

Orth made a motion, seconded by Clements, to adopt the Task Force's Nov. 12, 2024, minutes (*see NAIC Proceedings – Fall 2024, Examination Oversight (E) Task Force*). The motion passed unanimously.

2. Adopted the Reports of its Working Groups

Wheatley noted that the Financial Examiners Coordination (E) Working Group met March 13 in regulator-only session pursuant paragraph 3 of the NAIC Policy Statement on Open Meetings. Additionally, the Electronic Workpaper (E) Working Group met April 10, and the Financial Analysis Solvency Tools Working Group met July 15 in regulator-only session pursuant to paragraph 4 of the NAIC Policy Statement on Open Meetings.

A. Information Technology (IT) Examination (E) Working Group

Vang provided the report for the IT Examination (E) Working Group. He stated that the Working Group met March 3 to discuss forming a drafting group to develop a framework to separate IT general control (ITGC) work from cyber-risk assessment work following last year's gap analysis work. The drafting group has completed the framework, and it will meet July 31 to provide an overview of and consider exposing the framework document for a public comment period. He said the framework document lays out a new seven step process for IT examination and will create a new Exhibit C Part 3 for cyber-risk security.

B. Financial Examiners Handbook (E) Technical Group

Snowbarger provided the report of the Financial Examiners Handbook (E) Technical Group. He stated that the Technical Group met July 7 and March 31 to adopt revisions to the *Financial Condition Examiners Handbook* (Handbook) on the following topics:

- Revisions to Section 1-3 in response to a Risk-Focused Surveillance (E) Working Group referral to provide state insurance regulators with additional guidance regarding standards and expectations for state insurance departments' use of contractors on an examination.
- Revisions to Section 1-1 related to the timing of the Financial Exam Electronic Tracking System (FEETS) group exam call. These edits require the FEETS call to occur at least 90 days before the anticipated start

date of the exam and emphasize that the informal notification regarding an updated coordinated exam should still occur at least six months prior to the “as-of” date of the exam.

- Revisions to Section 1-2 to update the examiner in charge’s (EIC’s) responsibilities ensuring that the prospective nature of the exam remain consistent with the other positions listed in the Handbook.

Subbagh made a motion, seconded by Eft, to adopt the reports of the Financial Examiners Coordination (E) Working Group, the Electronic Workpaper (E) Working Group, the Financial Analysis Solvency Tools (E) Working Group, the Information Technology Examination (E) Working Group, including its March 3 minutes (Attachment One); and the Financial Examiners Handbook (E) Technical Group, including its July 7 (Attachment Two) and March 31 minutes (Attachment Three). The motion passed unanimously.

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

SharePoint/NAIC Support Staff Hub/Committees/E Committee/2025_2Summer/EOTF/EOTF – Meeting Minutes 7.31.25 Final

Draft date: 3/10/25

Information Technology (IT) Examination (E) Working Group
Virtual Meeting
March 3, 2025

The Information Technology (IT) Examination (E) Working Group of the Examination Oversight (E) Task Force met March 3, 2025. The following Working Group members participated: Ber Vang, Chair (CA); Shane Mead, Vice Chair (KS); Chris Erwin (AR); Ken Roulier and Michael Shanahan (CT); Ricardo Mancilla (IL); Dmitriy Valekha (MD); Kim Dobbs and Cynthia Amann (MO); Colton Schulz (ND); Andrea Johnson (NE); Eileen Fox (NY); Metty Nyangoro (OH); Eli Snowbarger (OK); and Diana Sherman (PA).

1. Discussed the 2025 Workplan for Updating IT Review Guidance Based on a Cybersecurity (H) Working Group Referral

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 drafting group determined that incorporating elements of the National Institute of Standards and Technology (NIST) Cybersecurity Framework (CSF) 2.0 would be beneficial, as it introduces concepts not currently present in the IT exam process while maintaining a structure like the existing Exhibit C.

Vang explained that due to time constraints related to incorporating changes into the *Financial Condition Examiners Handbook*, the drafting group adopted a two-step approach. In the first step, completed last year, a gap analysis was performed, and Exhibit C procedures were modified to address critical gaps between Exhibit C and NIST CSF 2.0.

The next step will involve developing a decision framework to separate IT general control procedures from those focused on cybersecurity. This decision framework will ensure that conclusions on IT general controls can be made before the end of phase two, while cybersecurity assessments may extend throughout the seven-phase examination process. Some procedures in Exhibit C will likely be removed if deemed redundant or unnecessary, though care will be taken to ensure critical procedures are retained. Additionally, the decision framework will consider whether elements of the IT general controls or cybersecurity procedures should vary based on company size, premium volume, or data sensitivity.

Bruce Jenson (NAIC) stated that last year's updates were a temporary solution, while the current effort focuses on a long-term overhaul of IT review guidance. Because the current effort is a broader project with potential impacts on the scope of IT reviews and, therefore, exam budgets, it is expected that this decision framework will first be developed and presented to the Working Group before proceeding with any revisions. This is intended to ensure a structured and transparent approach with an opportunity for public discussion and approval from the parent task force before moving forward.

Mead clarified that restructuring Exhibit C to focus specifically on IT general controls and creating a separate cybersecurity-focused review could require distinct approaches based on their different goals.

The proposed decision framework will be presented to the full Working Group and exposed for public comment before proceeding with detailed drafting and implementation. Vang encouraged IT examiners interested in participating in the drafting group to contact Topher Hughes (NAIC).

2. Received an Update from the Cybersecurity (H) Working Group on Model #668 Compliance Testing

Michael Peterson (VA) discussed a referral received by the Cybersecurity (H) Working Group from the Chief Financial Regulator Forum regarding the development of test procedures to ensure compliance with the *Insurance Data Security Model Law* (#668). The Working Group will explore whether and how these compliance procedures should be incorporated into full-scope financial condition examinations and how the resulting findings should be communicated across states. Additionally, the Working Group will consider how these compliance procedures might overlap with existing IT review procedures in financial examinations.

Peterson suggested coordinating with other NAIC working groups, including the IT Examination (E) Working Group to ensure the synchronization of test procedures and the Market Conduct Examination Guidelines (D) Working Group to address compliance testing conducted through market conduct examinations.

Having no further business, the IT Examination (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/EOTF/ITEWG Minutes 03-03-25

Draft date: 7/14/25

Financial Examiners Handbook (E) Technical Group
Virtual Meeting
July 7, 2025

The Financial Examiners Handbook (E) Technical Group of the Examination Oversight (E) Task Force met July 7, 2025. The following Technical Group members participated: Eli Snowbarger, Co-Chair (OK); John Litweiler, Co-Chair (WI); Blasé Abreo (AL); Laura Clements (CA); William Arfanis (CT); N. Kevin Brown (DC); Cindy Andersen (IL); Grace Kelly (MN); Sara McNeely (MO); Monique D. Smith (NC); Andrea Johnson (NE); Colin Wilkins (NH); Nancy Lee Chice (NJ); Zachary Wheatley (OH); Diana Sherman (PA); and Tarik Subbagh (WA).

1. Adopted Handbook Guidance

A. FEETS Group Exam Call Timing

Litweiler introduced the first revision to the *Financial Condition Examiners Handbook* (Handbook) regarding the timing of the Financial Exam Electronic Tracking System (FEETS) group exam call on coordinated exams. He mentioned that the Financial Examiners Coordination (E) Working Group discussed this proposal during its March 17 meeting. The Working Group's consensus was that the guidance should require the FEETS call to occur 90 days before the anticipated start date. The Working Group also recommended emphasizing the informal notification that is already included in the guidance, which requires lead state or exam facilitators to provide an informal notification of the upcoming examination to other states with companies in the group, and the companies themselves, at least six months prior to the examination's as-of date.

B. EIC Responsibilities

Litweiler introduced the second revision to the Handbook regarding the responsibilities of various examiner positions. The proposed revisions show that the examiner-in-charge's (EIC's) responsibilities include ensuring that the prospective nature of the exam remains consistent with the other positions listed in that section and other areas of the Handbook.

Smith made a motion, seconded by Andersen, to adopt the revisions related to the timing of group exam FEETS calls (Attachment Two-A) and EIC responsibilities (Attachment Two-B) for inclusion in the Handbook. The motion passed unanimously.

2. Exposed Handbook Guidance

A. Exam Planning Procedure Updates

Snowbarger introduced proposed revisions resulting from discussions at 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

Snowbarger shared the next set of revisions 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 information on the CAT interrogatory already included within the *Financial Analysis Handbook*.

C. Exhibit Q: Review and Approval Summary Updates

Snowbarger 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.

The Technical Group agreed to expose the revisions for a 30-day public comment period ending Aug. 6.

3. Discussed its 2025 Project Listing

A. Summary Review Memorandum

Litweiler introduced the Technical Group's 2025 project listing and discussed the first item on the list, pertaining to the summary review memorandum (SRM). He stated that during the Technical Group's last meeting, it was noted that some existing sound practices may be beneficial to include within the guidance. After mapping the sound practices to the Handbook guidance, it was determined that the sound practice concepts are already captured in the existing Handbook guidance. Currently, no further updates to the guidance are deemed necessary.

B. Risk Matrix Verbiage

Litweiler discussed the second item on the project listing, which was related to the risk matrix verbiage throughout the Handbook. Given the transition to TeamMate+, standalone risk matrices will likely begin to be phased out as more states document the risk assessment through the application. NAIC staff plan to begin drafting revisions to clarify that the risk assessment is the requirement, rather than Exhibit K, the risk matrix itself. The Technical Group will discuss proposed revisions later in the summer or early fall.

C. AI in Examinations

Litweiler discussed a new addition to the Technical Group's project listing, pertaining to the use of artificial intelligence (AI) in exams, particularly in terms of user review and confidentiality. NAIC staff plan to begin drafting these revisions later this summer or in the early fall to present to the Technical Group for consideration.

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2025 Summer/EOTF

I. EXAMINATION OVERVIEW

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D. Coordination of Holding Company Group Exams

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Responsibilities of the Lead State

The primary purpose of the Lead State is to promote the coordination of exams for all entities within the group. In achieving this goal, the Lead State should fulfill the following responsibilities:

1. Develop, maintain, and communicate group coordination plan:

The Lead State should actively encourage all states within the group to participate in coordinated group examinations when possible. To help facilitate participation by all states, the Lead State should develop, maintain, and communicate a group coordination plan, using Exhibit Z, Part Two-A, or a similar document. The group coordination plan may include, but is not limited to, information about potential subgroups, anticipated examination schedule, primary location of fieldwork, etc. The Lead State should also consider whether other entities that do not share a group code should be involved in the coordinated examination. For example, there may be entities that share services or other financial relationships with the entities in the group but are not under common control or do not have an assigned NAIC cocode; i.e., captive insurance companies or other risk-bearing entities, warranties, etc. Consideration of whether these entities may benefit from involvement and/or awareness of the coordinated examination should be documented in the coordination plan, when appropriate. Such a plan would allow ample time for the states to make the necessary arrangements to participate in future coordinated efforts.

The frequency at which the coordination plan is updated and communicated to domestic regulators within the group may vary based on the size and complexity of the group. At a minimum, the group coordination plan should be updated and communicated at least four months prior to the “as-of” date of an expected examination. However, updates should be made and appropriately communicated based on relevant changes to the group and/or examination schedule.

The Lead State should be prepared to discuss relevant information pertaining to the group coordination plan and the status of coordination efforts with the NAIC Financial Examiners Coordination (E) Working Group as requested. If selected, the Lead State would be required to present such information to the Financial Examiners Coordination (E) Working Group at an NAIC national meeting.

2. Monitor the status of examination activities:

The Lead State is expected to be aware of the progress of all ongoing exams performed on all entities within the group. The Lead State should also be aware of the significant results of all recently completed exams. If consistent problems are identified during examination efforts, the Lead State may need to become involved in addressing the issues at the group level.

3. Identify subgroups, when appropriate:

In situations where it is not feasible for all legal entities within a group to be examined at one time, it is the Lead State's responsibility to determine subgroups for ongoing examination purposes. The Lead State should consider company input—i.e., Exhibit Z, Part One—as well as input from other domestic regulators within the group when making this decision. The use of subgroups should be reflected in the group coordination plan; i.e., Exhibit Z, Part Two-A.

4. Schedule the coordinated examination:

For each holding company group, consideration should be given to the priority of each entity within the group when determining the frequency at which group examinations should be performed. The Lead State should obtain input from all of the key domestic regulators within a group (or subset of companies) before determining the “as-of” date for the next examination. This input may be obtained through the use of a supervisory college, conference calls conducted through the financial analysis process, or other meetings to discuss the financial regulation of a particular group.

In addition to basing the frequency of full-scope group examinations on the financial strength of the group, regulators should consider performing limited-scope exams when specific concerns arise with the holding company group and/or conducting interim work to address areas considered inherently risky. Whenever conclusions are reached regarding the scheduling of full or limited-scope group examinations, prompt notification should be provided to all states with domestics in the group (or subset of companies) to enable all domestic states the opportunity to participate in the group examination.

The group examination schedule should not preempt consideration of a state’s prioritization schedule or postpone examinations of troubled companies, nor should it interfere with the state’s obligation to conduct a full scope examination of its domestic insurance companies in accordance with state statutes. However, states should remain flexible and attempt to coordinate, when appropriate, to ensure an effective and efficient examination. In some circumstances, this may necessitate accelerating the examination schedule of one or multiple legal entities in the group in order to synchronize the examination schedule.

5. Notify others of an upcoming examination (informal notification):

The Lead State should notify other states that have domestics in the group of the exam well in advance of significant planning work to allow them the opportunity to participate on the examination. Advance notification should also be extended to the companies that will be examined as part of the group examination to allow them to prepare. **The informal notification to the other state regulators and the companies should occur at least six months prior to the “as-of” date (e.g., 12/31/20xx) of the examination.**

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6. Call group examination(s) in FEETS (formal notification):

The chief examiner of the Lead State or designee is responsible for placing the group examination call in the Financial Exam Electronic Tracking System (FEETS) to simultaneously examine the entire group (or subset) of insurance companies involved in an insurance holding company group. When calling the group examination(s), the Lead State should indicate (by “inviting”) which legal entities in the group will be examined together.

o Timing of the group exam call:

In most circumstances, the formal calling of the group examination in FEETS should occur at least 90 days before the anticipated start date of the group examination by the Lead State. The timing difference between the informal notification and the calling in FEETS allows the Lead State time to determine specific attributes of the group exam, such as the primary contact person and the anticipated start date of the exam that may not be known six months before the “as-of” date.

If an exam is scheduled due to specific concerns with a group of companies that do not allow the exam to be called in FEETS at least 90 days before the anticipated start date, the Lead State should document an explanation for inclusion in the group exam workpapers and notify other state insurance regulators as soon as possible.

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Responsibilities of States Participating in a Coordinated Exam

In general, the role of each participating state that is not the Exam Facilitator is to pledge some level of cooperation and coordination with other states and to give support and recognition to the Exam Facilitator. In order to be considered a participating state, a state must demonstrate active involvement throughout the duration of the coordinated examination. This can be accomplished in a number of specific ways, as described below:

Indicate willingness to participate in the coordinated examination

1. Respond to informal and formal notifications of anticipated coordinated exam:

When planning a coordinated examination, the Lead State (or Exam Facilitator, if different) will typically issue an informal notification of an upcoming examination several months in advance of the planned examination “as-of” date. Participating states are encouraged to respond to the informal notification in a timely manner to allow the Lead State/Exam Facilitator to adequately plan for the coordinated examination. Each participating state is encouraged to be flexible when attempting to coordinate and should consider the long-term benefits of coordination.

The Lead State (or Exam Facilitator, if different) will also issue a formal notification (sent via email by FEETS) of an upcoming coordinated examination at least 90 days prior to the anticipated start examination “as-of” date. The participating state(s) should respond to the Exam Facilitator within 30 days of receiving the email notification regarding the calling of a group examination.

Note: If a state plans to examine a legal entity that belongs to a holding company group, it should first contact the Lead State to determine whether a coordinated examination is planned or should be considered.

2. Call individual exam(s) in FEETS and link to the group exam:

If the state(s) plan to participate in the coordinated examination, it should call an individual exam in FEETS for each domestic legal entity that will be examined as part of the coordinated examination. Each applicable individual examination should also be linked to the group examination in FEETS.

II. EXAMINATION PERSONNEL

Text Eliminated to Conserve Space

E. General Salary Guidelines

The compensation guidelines in this section of the Handbook were developed in recognition of the importance of compensation, particularly as it affects an Insurance Department's ability to hire and retain well-qualified employees. The guidelines were developed based on surveys of examiner pay across Insurance Departments, as well as external comparisons to other similar professions, including other financial regulators, internal auditors and external auditors. In using the information below, the following are brief descriptions of the associated positions listed:

Financial Examiner

Financial Examiners are responsible for performing tasks in accordance with the Risk-Focused Examination approach under the supervision of the Examiner-In-Charge (EIC). The Financial Examiner is responsible for investigating and analyzing insurance company risks, policies, procedures and controls in an attempt to assist the Insurance Department in its responsibility to assess and monitor the current financial condition and prospective financial solvency of insurance companies.

Senior Financial Examiner

Senior Financial Examiners are responsible for performing tasks in accordance with the Risk-Focused Examination approach under the supervision of the EIC. The Senior Financial Examiner is responsible for investigating and analyzing insurance company risks, policies, procedures, and controls in an attempt to assist the Insurance Department in its responsibility to assess and monitor the current financial condition and prospective financial solvency of insurance companies. Senior Financial Examiners may also be asked to provide guidance and support to Financial Examiners and assist in all areas of examinations, as requested.

Examiner-In-Charge (EIC)

EIC's are responsible for the execution of the Risk-Focused Examination approach. The EIC is responsible for ensuring that the exam approach is appropriately designed to investigate and analyze insurance company risks, policies, procedures, and controls in an attempt to assist the Insurance Department in its responsibility to assess and monitor the current financial condition and **prospective** financial solvency of insurance companies. The EIC provides guidance to Financial Examiners and Senior Financial Examiners, conducts detailed reviews of examiner work, and ensures a proper flow of communication with company management and Department officials, as appropriate.

Supervising & Assistant Chief Examiner

A Supervising or Assistant Chief Examiner is responsible for supervising EICs on examinations. This person provides input on technical matters, acts as a reviewer of the work performed by the EIC and ensures that examination work is an appropriate execution of the Risk-Focused Examination approach.

Chief Examiner

This position is responsible for the overall examination of staff performance and development, the ongoing scheduling of financial examinations, and general communications regarding the examinations of regulated entities. This position should work under the general direction of a Commissioner or Deputy Commissioner, and it should oversee a consistent Risk-Focused Examination process across the Department.

Draft date: 4/8/25

Financial Examiners Handbook (E) Technical Group
Virtual Meeting
March 31, 2025

The Financial Examiners Handbook (E) Technical Group met March 31, 2025. The following Technical Group members participated: Eli Snowbarger, Co-Chair (OK); John Litweiler, Co-Chair (WI); Blasé Abreo (AL); Laura Clements (CA); William Arfanis (CT); N. Kevin Brown (DC); Shannon Schmoeger (MO); Monique D. Smith (NC); Andrea Johnson (NE); Colin Wilkins (NH); Nancy Lee Chice (NJ); Zachary Wheatley (OH); Diana Sherman (PA); and Tarik Subbagh (WA).

1. Adopted Handbook Guidance

A. Risk-Focused Surveillance (E) Working Group Referral

Litweiler introduced revisions to the *Financial Condition Examiners Handbook* (Handbook) regarding standards and expectations for state insurance departments' use of contractors on an examination. He mentioned that the revisions have been subject to a public comment period at the Risk-Focused Surveillance (E) Working Group. The Working Group recommended that these edits be considered for adoption without an additional exposure period or significant modification to ensure consistency with related revisions to the *Financial Analysis Handbook* and Accreditation Review Team Guidelines.

Clements made a motion, seconded by Sherman, to adopt guidance related to the standards and expectations for state insurance departments in their use of contractors on an examination (Attachment Three-A). The motion passed unanimously.

2. Discussed its 2025 Project Listing

Snowbarger introduced the Technical Group's 2025 project listing. The first item on the list is to consider potential updates to the summary review memorandum (SRM) guidance. He noted that this project was a result of feedback received from recent examination peer review sessions and accreditation team member training. Since there is limited narrative guidance in this area, the quality of SRMs can vary greatly.

Snowbarger suggested seeking input from department analysts when developing guidance in this area and that additional guidance and expectations for documenting holding company information within the SRM would be beneficial. Smith wondered if this project would include incorporating best practices into the guidance. Bruce Jensen (NAIC) confirmed that the project would likely include the incorporation of some of the sound practices that have been identified through peer reviews into the formal handbook guidance, but not all of them. Wilkins noted that it could also be beneficial to consider findings from accreditation reviews when developing this guidance. Elise Klebba (NAIC) agreed and said the SRM was discussed at the accreditation team member training in January 2025.

Klebba said that revisions would likely be in the narrative section of the Handbook, although revisions may also be possible in Exhibit AA. She said that this project would start by comparing the narrative guidance to the guidance in Exhibit AA and utilizing the various sources mentioned (e.g., sound practices and accreditation findings) to determine what other guidance may be helpful in this area. Arfanis clarified that NAIC staff would draft revisions and bring them to the full Technical Group once written.

The second item on the list pertains to the risk matrix verbiage throughout the Handbook. Snowbarger said risk matrices may no longer be used with the transition to TeamMate+. Therefore, the Technical Group may want to consider wording changes to align more closely with the updated process.

The last item on the project list relates to a reference to the catastrophe (CAT) interrogatories. Snowbarger noted that a reference to the CAT interrogatories on CAT risk reinsurance was included within the *Financial Analysis Handbook* but not the *Financial Condition Examiners Handbook*.

NAIC staff were directed to begin drafting edits for each project and will bring suggested revisions before the full Technical Group once drafted.

3. Exposed Handbook Revision Proposals

Litweiler mentioned that the Technical Group received two Handbook revision proposals from The INS Companies. The first proposal sought to clarify the timing of the Financial Exam Electronic Tracking System (FEETS) exam call on coordinated exams. In the existing coordinated exam guidance, the section for lead state responsibilities states that the lead state should call the group examination in FEETS at least 90 days before the anticipated start date of the group exam. However, the section for participating states' responsibilities stated that the lead state should call the exam in FEETS at least 90 days prior to the examination's as-of-date. He said that because this proposal relates to coordination guidance, the Financial Examiners Coordination (E) Working Group discussed this proposal on its March 17 call. The Financial Examiners Coordination (E) Working Group's consensus is that the guidance should state that the FEETS notification should occur 90 days before the anticipated start date. The Working Group also suggested emphasizing existing guidance associated with informal notification of an upcoming coordinated exam, indicating that informal notice should be provided to relevant states at least six months before the examination's as-of-date. He said that proposed revisions reflect the Financial Examiners Coordination (E) Working Group's feedback by indicating that the FEETS call should occur at least 90 days prior to the anticipated start date in both sections and by bolding the guidance regarding the informal notification.

The second Handbook revision proposal sought to provide consistency in the Handbook regarding responsibilities for various examiner positions. The financial examiner and senior financial examiner descriptions currently include the prospective nature of the exam, while the examiner-in-charge responsibilities do not. Litweiler said that the proposed revisions include the prospective nature of the exam for the examiner-in-charge responsibilities.

As there were no objections, the Technical Group exposed the revisions for a 30-day public comment period ending April 30.

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2025_2Summer

MEMORANDUM

TO: John Litweiler (WI), Co-Chair, Financial Examiners Handbook (E) Technical Group
Eli Snowbarger (OK), Co-Chair, Financial Examiners Handbook (E) Technical Group

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

DATE: February 26, 2025

RE: Oversight of Contractor Guidance in FCEH

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 Condition Examiners Handbook* are included in **Attachment One** of this memorandum for FEHTG consideration. Edits are proposed to section III.G. Use of Independent Contractors on Multi-State Examinations.

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 Analysis Handbook* and the Accreditation Review Team Guidelines.

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

III. GENERAL EXAMINATION CONSIDERATIONS

This section covers procedures and considerations that are important when conducting financial condition examinations. The discussion here is divided as follows:

- A. General Information Technology Review
- B. Materiality
- C. Examination Sampling
- D. Business Continuity
- E. Using the Work of a Specialist
- F. Outsourcing of Critical Functions
- G. Use of Independent Contractors on Multi-State Examinations
- H. Considerations for Insurers in Run-Off
- I. Considerations for Potentially Troubled Insurance Companies
- J. Comments and Grievance Procedures Regarding Compliance with Examination Standards

G. Use of Independent Contractors on Multi-State Examinations

When evaluating staffing needs to schedule examinations of domestic insurers licensed in multiple states, state insurance departments may find it necessary to engage an independent contractor. An independent contractor is defined as anyone employed by the state insurance department that is outside of the department's staff. Examples of independent contractors, while not inclusive, are as follows:

- Certified Public Accountants
- Contract Examiners
- Specialists

An insurance department's decision to engage an independent contractor may arise due to, among other things, insufficient examination staff or the need to meet statutory mandates. While the foregoing circumstances may lead an insurance department to contract the services of an independent contractor, the department should consider the long term effects of not maintaining an appropriate level of qualified staff. Maintaining competent examiners on examinations and during interim periods enhances the department's ability to effectively regulate domestic insurers and foreign insurers with substantial state premium writings. Through the examination process, examiners can enhance their knowledge of state laws and regulations, various types of insurance products, investment practices, loss reserving techniques, reinsurance transactions etc., that are useful in effectively and efficiently assessing a domestic company's financial condition and results of operations. This internal expertise is particularly important in handling troubled insurance companies.

The use of independent contractors requires the involvement of the state insurance department in directing and monitoring the work performed by the independent contractor. The oversight of independent contractors is primarily the responsibility of the insurance department's designee.

The role of department designee must be filled by an individual who is certified by the Society of Financial Examiners (SOFE) as a Certified Financial Examiner (CFE) or by an individual who has substantially similar experience, qualifications and background. (Include the details in examination planning memorandum.) This individual must be employed by and conducting work solely on behalf of the State Insurance Department. In general, the department designee should have an accounting, insurance, financial analysis, financial examination, information technology (IT) and/or actuarial background, and insurance backgrounds should primarily be financial in nature. College degrees should generally focus on accounting, insurance, finance, business, risk management or actuarial science. Other professional designations and credentials may also demonstrate expertise in insurance and/or financial examinations.

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 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.

2. Standards of Examination Conclusions and Reporting

- a. The insurance department's designee shall review and approve key solvency monitoring and completion documents on a timely basis, including the summary review memorandum (Exhibit AA) and evidence of interdepartmental communication of significant issues and concerns.
- b. The examination results and findings shall be reviewed for reasonableness and sufficiency, and accompanying workpapers shall be reviewed for adequacy of documentation by the insurance department's designee.
- c. The report shall be prepared by the insurance department in accordance with the Handbook and departmental policy.
- d. The report shall be signed by the examiner-in-charge (EIC). If the EIC is an independent contractor, the report shall also be signed by the insurance department's designee.
- e. The insurance department's designee shall complete the general review section of the Review and Approval Summary (Exhibit Q) to ensure an appropriate depth of review has been performed.

3. Use of a CPA on an Agreed-Upon Procedures Engagement

While not very common, the use of a CPA independent contractor in an examination may be accomplished through an "Agreed-Upon Procedures Engagement." (Only CPAs can perform an Agreed-Upon Procedures Engagement.) In addition to meeting the standards of examination planning, fieldwork, and examination reports, the following establishes guidelines for engaging a CPA to perform agreed-upon procedures.

The American Institute of Certified Public Accountants (AICPA) Statement on Standards for Attestation Engagements No. 10, *Attestation Standards: Revision and Recodification* (SSAE No. 10), sets forth the standards and provides guidance to the CPA when performing and reporting on engagements to apply agreed-upon procedures. In an agreed-upon procedures engagement, the CPA performs specific procedures on specific elements, accounts or items of a financial statement and issues a report of findings based on those procedures. The insurance department and the CPA agree upon the procedures to be performed by the CPA that the insurance department believes are appropriate. Therefore, the insurance department assumes all responsibility for the sufficiency of the procedures and the risk that those procedures might be insufficient for their purposes. Because the CPA will only report on the findings of the procedures performed, any conclusions regarding the findings, and disposition thereof, must be made by the department. Additionally, the CPA has no responsibility to determine the differences between the agreed-upon procedures to be performed and the procedures that the CPA would have determined necessary had he or she been engaged to perform another form of engagement, such as an audit under generally accepted auditing standards. The department should review SSAE No. 10, and consider the CPA's professional standards prior to engaging an accounting firm to provide this type of service.

The insurance department must attain certain standards relative to the examination report, planning and field work that are in accordance with the Handbook. These standards relate to the responsibilities of the insurance department and the utility of the examination report in achieving regulatory objectives when engaging a CPA to perform agreed-upon procedures.

4. Conflicts of Interest

Conflicts of interest may occur if an examination of a company is performed by an independent contractor who has a significant relationship with the company, its affiliates, or their management (financial or non-financial) that may impair in fact, or appearance, the independent contractor's independence. To evaluate any such conflicts of interest, the insurance department should request a disclosure letter from the independent contractor regarding their past, present or planned relationships, both financial and non-financial, with the examined company or its affiliates. The disclosure letter should discuss the nature of the services provided by the independent contractor and the amount of fees paid to the CPA-contractor by the company over the preceding five years.

Determining whether a potential conflict of interest exists is a matter of considerable judgment. As independent contractors could provide many different types of services (e.g., accounting, auditing, actuarial, management and tax consulting), it will be necessary to evaluate the nature of services provided and the amount of fees involved when determining whether a potential conflict of interest exists.

Additionally, if relevant, the insurance department should request and review information provided on all relationships between the contractor, the contractor's firm or any affiliates of the firm with entities that are regulated by the department for which the anticipated services of the contractor may have some impact, directly or indirectly, on the department's oversight of such entities. To the extent that other services are potentially impacted, the department should request and review information on controls put in place by the contractor to ensure that potential conflicts do not exist and/or are not created through assignment of examination work.

5. Confidentiality Protections

The state insurance department should ensure that adequate confidentiality protections are incorporated into contracts with independent contractors to ensure that confidential and proprietary information of the insurer/group shared with the contractor for purposes of conducting financial examination work is adequately protected in accordance with state law and recommended best practices. Such contracts should indicate that any non-public or proprietary information or data to which the contractor has access during financial examination work on behalf of the state insurance department may not be utilized for any other purpose. For example, such information may not be utilized to benefit consulting/advisory engagements for the contractor's other clients or otherwise to promote the contractor's business. In certain situations, state insurance departments may be required to include specific confidentiality language in the contract and/or inform the insurer prior to sharing confidential and proprietary information (e.g., ORSA, Corporate Governance Annual Disclosure) with the independent contractor. As such, state insurance departments are encouraged to review their state requirements before sharing confidential information with an independent contractor.

6. Security and Data Governance

The state insurance department should ensure that adequate security and data governance practices are in place at the independent contractor to keep all information and data reviewed or obtained during the engagement with the department confidential and maintained in a secure environment with access limited only to listed authorized personnel. Such practices should include an obligation to report any breach or unauthorized access or disclosure to the department and should include the use of secure file transfer protocol for delivering information and employ best practices for encryption and/or access to the information.

7. Maintenance of Workpapers

The insurance department should maintain, at a minimum, a complete ~~photocopied~~ set of the ~~CPA's-contractor's~~ original workpapers.

68. Independent Contractors' Immunity Privileges

When hiring independent contractors to perform all or portions of a state insurance examination, the state insurance department should consider the following items related to the independent contractor's immunity prior to finalizing an agreement.

- Review the NAIC *Model Law on Examinations* (#390), Section 8 to determine if your state has adopted these provisions in its statutes. If your state has not adopted Model #390, confirm if it has adopted similar language which grants immunity to any examiner appointed by a commissioner.
- Determine if there are any relevant court decisions or opinions, which hold that an examiner appointed by the commissioner is granted immunity from liability in the performance of his/her duties.
- Verify if independent contractors in your state are required to carry liability insurance coverage for work performed. Determine if your state provides insurance coverage to these independent contractors in the performance of their duties.

79. Controlling Exam Costs when Utilizing Independent Contractors

It is important to keep in mind that the use of independent contractors can lead to higher examination costs. It is the regulator's responsibility to appoint and monitor the independent contractor, and it is the insurer's responsibility to cooperate with the independent contractor and provide appropriate input to facilitate an efficient examination process. The insurer may provide factual input to the regulator based on observations of the independent contractor's work. High-level company monitoring of the examination process and ongoing two-way communication of problems on the examination (related to the cooperation of the insurer or the performance of the examination) can help ensure the effective use of independent contractors. If state legislation permits and circumstances are warranted, it may benefit the regulator to consider the following procurement procedures in order to control costs when utilizing an independent contractor.

- a. The regulator should have minimum qualification standards that the independent contractor should meet in order to be considered in the procurement process. The independent contractor should have the following:
 - Practical experience with the type of work that is out for bid;
 - Qualified personnel; and
 - Demonstrable success on prior contract examinations.
- b. The regulator should consider having a meeting with all qualified vendors (independent contractors) and the insurer to further explain, clarify, or identify areas of concern. This meeting should address the following:
 - A detailed description/specification of the work to be performed in terms of required outcomes. Specifications should be written to encourage, not discourage, competition consistent with seeking overall economy for the purpose intended. The goal is to invite maximum reasonable competition;
 - Concerns of the insurer, independent contractor and the department of insurance; and
 - Time frame of the bidding process.
- c. The potential independent contractor should describe their organizational and staff experience as well as past experience, which should be described in sufficient detail to demonstrate their ability to perform the functions