

Date: 10/5/20

*Conference Call*

**FINANCIAL CONDITION (E) COMMITTEE**  
**Tuesday, October 27, 2020**  
**11:00 a.m. ET / 10:00 a.m. CT / 9:00 a.m. MT / 8:00 a.m. PT**

**ROLL CALL**

Scott White, Chair	Virginia	Mike Chaney	Mississippi
Eric A. Cioppa, Vice Chair	Maine	Marlene Caride	New Jersey
Michael Conway	Colorado	Russell Toal	New Mexico
David Altmaier	Florida	Raymond G. Farmer	South Carolina
Colin M. Hayashida	Hawaii	Doug Slape	Texas
Robert H. Muriel	Illinois	James A. Dodrill	West Virginia
Stephen W. Robertson	Indiana	Jeff Rude	Wyoming
Grace Arnold	Minnesota		

NAIC Support Staff: Dan Daveline/Julie Gann/Bruce Jenson

**AGENDA**

1. Consider Adoption of its 2021 Charges Attachment A
  - Memorandum to the Valuation of Securities (E) Task Force Attachment B  
—*Commissioner Scott A. White (VA)*
2. Discuss Any Other Matters Brought Before the Committee—*Commissioner Scott White (VA)*
3. Adjournment

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**2021 Proposed Charges****FINANCIAL CONDITION (E) COMMITTEE**

The mission of the Financial Condition (E) Committee is to be the central forum and coordinator of solvency-related considerations of the NAIC relating to accounting practices and procedures; blanks; valuation of securities; financial analysis and solvency; multistate examinations and examiner and analysis training; and issues concerning insurer insolvencies and insolvency guarantees. In addition, the Committee interacts with the technical task forces.

**Ongoing Support of NAIC Programs, Products or Services****1. The Financial Condition (E) Committee will:**

- A. Monitor all of the changes to the annual/quarterly financial statement blanks and instructions, risk-based capital (RBC) formulas, *Financial Condition Examiners Handbook*, *Accounting Practices and Procedures Manual* (AP&P Manual), *Financial Analysis Handbook*, *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), NAIC model laws, NAIC accreditation standards, and other NAIC publications.
- B. Appoint and oversee the activities of the following: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Risk Retention Group (E) Task Force; and Valuation of Securities (E) Task Force.

~~C. Recommend salary rate adjustments for examiners.~~

~~D.C.~~ Oversee a process to address financial issues that may compromise the consistency and uniformity of the U.S. solvency framework, referring valuation and other issues to the appropriate committees as needed.

~~E.D.~~ Use the Risk-Focused Surveillance (E) Working Group to address specific industry concerns regarding regulatory redundancy, and review any issues industry subsequently escalates to the Committee.

**2. The Financial Analysis (E) Working Group will:**

- A. Analyze nationally significant insurers and groups that exhibit characteristics of trending toward or being financially troubled; determine if appropriate action is being taken.
- B. Interact with domiciliary regulators and lead states to assist and advise as to what might be the most appropriate regulatory strategies, methods and action(s).
- C. Support, encourage, promote and coordinate multistate efforts in addressing solvency problems, including identifying adverse industry trends.
- D. Increase information-sharing and coordination between state regulators and federal authorities, including through representation of state regulators in national bodies with responsibilities for system-wide oversight.

**3. The Group Capital Calculation (E) Working Group will:**

~~A. Continually review and monitor the effectiveness of the group capital calculation (GCC), and consider revisions, as necessary, to maintain the effectiveness of its objective under the U.S. solvency system.~~

~~A. Construct a U.S. group capital calculation (GCC) using a RBC aggregation methodology. Complete by the 2020 Summer National Meeting.~~

~~B. Develop Provide direction to the Group Solvency Issues (E) Working Group on appropriate changes to existing authority or existing regulatory guidance related to the GCC. Complete by the 2021 Summer National Meeting.~~

~~C. Liaise, as necessary, with the International Insurance Relations (G) Committee on international group capital developments, and consider input from participation of U.S. state insurance regulators in the International Association of Insurance Supervisors (IAIS) monitoring process.~~

~~D. Continually review and monitor the effectiveness of the GCC and consider revisions, as necessary, to maintain the effectiveness of its objective under U.S. solvency system.~~

**4. The Group Solvency Issues (E) Working Group will:**

A. Continue to develop potential enhancements to the current regulatory solvency system as it relates to group solvency-related issues.

B. Critically review and provide input and drafting to the ~~International Association of Insurance Supervisors (IAIS)~~, Insurance Groups Working Group or on other IAIS material dealing with group supervision issues.

C. Continually review and monitor the effectiveness of the *Insurance Holding Company System Regulatory Act* (#440) and the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450), and consider revisions as necessary to maintain effective oversight of insurance groups

**FINANCIAL CONDITION (E) COMMITTEE (continued)**

- D. Assess the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), and make recommendations on its implementation in a manner appropriate for the U.S.
5. The **Own Risk and Solvency Assessment (ORSA) Implementation (E) Subgroup** of the Group Solvency Issues (E) Working Group will:
- Continue to provide and enhance an enterprise risk management (ERM) education program for regulators in support of the ~~Own Risk and Solvency Assessment (ORSA)~~ implementation.
  - Continually review and monitor the effectiveness of the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505) and its corresponding *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual*; consider revisions as necessary.
6. The **Mortgage Guaranty Insurance (E) Working Group** will:
- Develop changes to the *Mortgage Guaranty Insurance Model Act* (#630) and other areas of the solvency regulation of mortgage guaranty insurers, including, but not limited to, revisions to *Statement of Statutory Accounting Principles (SSAP) No. 58—Mortgage Guaranty Insurance*, and develop an extensive mortgage guaranty supplemental filing. ~~Oversee the work of the consultant on the testing and finalization of proposed risk based mortgage guaranty capital model and~~ finalize Model #630 by the 2021<sup>10</sup> Spring National Meeting.
7. The **NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group** will:
- Continually review the *Annual Financial Reporting Model Regulation* (#205) and its corresponding implementation guide; revise as appropriate.
  - Address financial solvency issues by working with the ~~American Institute of Certified Public Accountants (AICPA)~~ and responding to AICPA exposure drafts.
  - Monitor the federal Sarbanes-Oxley Act, as well as rules and regulations promulgated by the U.S. Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB) and other financial services regulatory entities.
  - Review annually the premium threshold amount included in Section 16 of Model #205, with the general intent that those insurers subject to the Section 16 requirements would capture at least approximately 90% of industry premium and/or in response to any future regulatory or market developments.
8. The **National Treatment and Coordination (E) Working Group** will:
- Increase utilization and implementation of the *Company Licensing Best Practices Handbook*.
  - Encourage synergies between corporate changes/amendments and rate and form filing review and approval to improve efficiency.
  - Continue to monitor the usage and make necessary enhancements to the Form A Database.
  - ~~D.~~ Maintain educational courses in the existing NAIC Insurance Regulator Professional Designation Program for company licensing regulators.
  - ~~D-E.~~ Make necessary enhancements to promote electronic submission of all company licensing applications.
9. The **Biographical Third-Party Review (E) Subgroup** of the National Treatment and Coordination (E) Working Group will:
- Increase the uniformity of the third-party vendors that prepare background investigative reports to those state insurance departments that require them. Reduce the inefficiency of applications by developing procedures and approval processes.
  - Monitor the ongoing adherence of background investigation reports and third-party vendors.
  - Encourage uniformity of requirements in relation to individuals' fitness and propriety and the company's responsibility in notifying state insurance departments of concerns or changes to key individuals.
10. The **Restructuring Mechanisms (E) Working Group** will:
- Evaluate and prepare a ~~White-white Paper-paper~~ that:
    - Addresses the perceived need for restructuring statutes and the issues those statutes are designed to remedy. Also, consider alternatives that insurers are currently employing to achieve similar results.
    - Summarizes the existing state restructuring statutes.
    - Addresses the legal issues posed by an ~~Order-order~~ of a ~~Court-court~~ (or approval by an insurance department) in one state affecting the policyholders of other states.

**FINANCIAL CONDITION (E) COMMITTEE (continued)**

4. Considers the impact that a restructuring might have on ~~Guaranty-guaranty a~~Associations and policyholders that had ~~Guaranty-guaranty Fund-fund~~ protection prior to the restructuring. Complete by the 2021~~20~~ Summer National Meeting.
  - B. Identifies and addresses the legal issues associated with restructuring using a protected cell. Complete by the 2021~~20~~ Summer National Meeting.
  - C. Consider requesting approval from the Executive (EX) Committee on developing changes to specific NAIC models as a result of findings from the development of the ~~White-white Paperpaper~~. Complete by the 2021~~20~~ ~~SummerFall~~ National Meeting.
  
11. The **Restructuring Mechanisms (E) Subgroup of the Restructuring Mechanisms (E) Working Group** will:
  - A. Develop best practices to be used in considering the approval of proposed restructuring transactions, including, among other things, the expected level of reserves and capital expected after the transfer along with the adequacy of long-term liquidity needs, ~~and also.~~ Also develop best practices to be used in monitoring the companies after the transaction is completed. Once completed, recommend to the Financial Regulation Standards and Accreditation (F) Committee for ~~their-its~~ consideration. Complete by the 2021~~20~~ Summer National Meeting.
  - B. Consider the need to make changes to the RBC formula to better assess the minimum surplus requirements for companies in runoff. Complete by the 2021~~20~~ Fall National Meeting.
  - C. Review the various restructuring mechanisms and develop, if deemed needed, protected cell accounting and reporting requirements for referring to the Statutory Accounting Principles (E) Working Group. Complete by the 2021~~20~~ Fall National Meeting.
  
12. The **Risk-Focused Surveillance (E) Working Group** will:
  - A. Continually review the effectiveness of risk-focused surveillance, and develop enhancements to processes as necessary.
  - B. Continually review regulatory redundancy issues identified by interested parties, and provide recommendations to other NAIC committee groups to address as needed.
  - C. Oversee and monitor the Peer Review Program to encourage consistent and effective risk-focused surveillance processes.
  - D. Continually maintain and update standardized job descriptions/requirements and salary range recommendations for common solvency monitoring positions to assist insurance departments in attracting and maintaining suitable staff.
  
13. The **Valuation Analysis (E) Working Group** will:
  - A. Respond to states in a confidential forum regarding questions and issues arising during the course of annual principle-based reserving (PBR) reviews or PBR examination and which also may include consideration of asset adequacy analysis questions and issues.
  - B. Work with NAIC resources to assist in prioritizing and responding to issues and questions regarding PBR and asset adequacy analysis including actuarial guidelines or other requirements making use of or relating to PBR, such as *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38), *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued Under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation* (AG 48), and the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787).
  - C. Develop and implement a plan with NAIC resources to identify outliers/concerns regarding PBR/asset adequacy analysis.
  - D. Refer questions/issues as appropriate to the Life Actuarial (A) Task Force that may require consideration of changes/interpretations to be provided in the *Valuation Manual*.
  - E. Assist NAIC resources in development of a standard asset/liability model portfolio used to calibrate company— PBR models.
  - F. Make referrals as appropriate to the Financial Analysis (E) Working Group.
  - G. Perform other work to carry out the Valuation Analysis (E) Working Group procedures.

NAIC Support Staff: Dan Daveline/Julie Gann/Bruce Jenson

**2021 Proposed Charges****ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE**

The mission of the Accounting Practices and Procedures (E) Task Force is to identify, investigate and develop solutions to accounting problems with the ultimate goal of guiding insurers in properly accounting for various aspects of their operations; modify the *Accounting Practices and Procedures Manual* (AP&P Manual) to reflect changes necessitated by Task Force action; and study innovative insurer accounting practices that affect the ability of state insurance regulators to determine the true financial condition of insurers.

**Ongoing Support of NAIC Programs, Products or Services**

1. The **Accounting Practices and Procedures (E) Task Force** will:
  - A. Oversee the activities of the Blanks (E) Working Group and the Statutory Accounting Principles (E) Working Group.
2. The **Blanks (E) Working Group** will:
  - A. Consider improvements and revisions to the various annual/quarterly statement blanks to:
    1. Conform these blanks to changes made in other areas of the NAIC to promote uniformity in reporting of financial information by insurers.
    2. Develop reporting formats for other entities subject to the jurisdiction of state insurance departments.
    3. Conform the various NAIC blanks and instructions to adopted NAIC policy.
    4. Oversee the development of additional reporting formats within the existing annual financial statements as needs are identified.
  - B. Continue to monitor state filing checklists to maintain current filing requirements.
  - C. Continue to monitor and improve the quality of financial data filed by insurance companies by recommending improved or additional language for the *Annual Statement Instructions*.
  - D. Continue to monitor and review all proposals necessary for the implementation of statutory accounting guidance to ensure proper implementation of any action taken by the Accounting Practices and Procedures (E) Task Force affecting annual financial statements and/or instructions.
  - E. Continue to coordinate with other task forces of the NAIC to ensure proper implementation of reporting and instructions changes as proposed by these task forces.
  - F. Coordinate with the Life Actuarial (A) Task Force to use any special reports developed and avoid duplication of reporting.
  - G. Review requests for investment schedule blanks and instructions changes in connection with the work being performed by the Capital Adequacy (E) Task Force and its Investment Risk-Based Capital (E) Working-working Groupsgroups.
  - H. Review changes requested by the Valuation of Securities (E) Task Force relating to its work on other invested assets reporting for technical consistency within the investment reporting schedules and instructions.
3. The **Statutory Accounting Principles (E) Working Group** will:
  - A. Maintain codified statutory accounting principles by providing periodic updates to the guidance that address new statutory issues and new generally accepted accounting principles (GAAP) pronouncements. Provide authoritative responses to questions of application and clarifications for existing statutory accounting principles. Report all actions and provide updates to the Accounting Practices and Procedures (E) Task Force.
  - B. At the discretion of the Working Group chair, develop comments on exposed GAAP and International Financial Reporting Standards (IFRS) pronouncements affecting financial accounting and reporting. Any comments are subject to review and approval by the chairs of the Accounting Practices and Procedures (E) Task Force and the Financial Condition (E) Committee.
  - C. Coordinate with the Life Actuarial (A) Task Force on changes to the ~~*Accounting Practices and Procedures Manual*~~ (AP&P Manual) related to the *Valuation Manual* VM-A, Requirements, and VM-C, Actuarial Guidelines, as well as other *Valuation Manual* requirements. This process will include the receipt of periodic reports on changes to the *Valuation Manual* on items that require coordination.

**ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE (*continued*)**

- D. Obtain, analyze and review information on permitted practices, prescribed practices or other accounting treatments suggesting that issues or trends occurring within the industry may compromise the consistency and uniformity of statutory accounting, including, but not limited to, activities conducted by insurers for which there is currently no statutory accounting guidance or where the states have prescribed statutory accounting that differs from the guidance issued by the NAIC. Use this information to consider possible changes to statutory accounting.
- ~~E. Review and possibly modify Schedule F and any corresponding annual financial statement pages to determine how best to reflect the expected changes to the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786). Give due consideration to alternatives, including whether an allowance for doubtful accounts is appropriate. Complete by the 2020 Fall National Meeting.~~

NAIC Support Staff: Robin Marcotte

**2021 Proposed Charges****CAPITAL ADEQUACY (E) TASK FORCE**

The mission of the Capital Adequacy (E) Task Force is to evaluate and recommend appropriate refinements to capital requirements for all types of insurers.

**Ongoing Support of NAIC Programs, Products or Services****1. The Capital Adequacy (E) Task Force will:**

A. Evaluate emerging “risk” issues for referral to the risk-based capital (RBC) working groups/subgroups for certain issues involving more than one RBC formula. Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.

B. Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).

~~B.C. Evaluate relevant historical data and apply defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to the current asset risk structure and factors in each of the risk-based capital (RBC) formulas.~~

**2. The Health Risk-Based Capital (E) Working Group, Life Risk-Based Capital (E) Working Group and Property and Casualty Risk-Based Capital (E) Working Group will:**

A. Evaluate refinements to the existing NAIC ~~risk-based capital (RBC)~~ formulas implemented in the prior year. Forward the final version of the structure of the current year life and fraternal, property/casualty (P/C), and health RBC formulas to the Financial Condition (E) Committee by June.

B. Consider improvements and revisions to the various RBC blanks to: 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity; and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified. Any proposal that affects the RBC structure must be adopted no later than April 30 in the year of the change, and adopted changes will be forwarded to the Financial Condition (E) Committee by the next scheduled meeting or conference call. Any adoptions made to the annual financial statement blanks or statutory accounting principles that affect an RBC change adopted by April 30 and results in an amended change may be considered by July 30 for those exceptions where the Capital Adequacy (E) Task Force votes to pursue by super-majority (two-thirds) consent of members present, no later than June 30 for the current reporting year.

C. Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the revised *Accounting Practices and Procedures Manual* (AP&P Manual) to ensure that model laws, publications, formulas, analysis tools, etc., supported by the Task Force continue to meet regulatory objectives.

D. Review the effectiveness of the NAIC’s RBC policies and procedures as they affect the accuracy, audit ability, timeliness of reporting access to RBC results and comparability between the RBC formulas. Report on data quality problems in the prior year RBC filings at the summer and fall national meetings.

~~**3. The Investment Risk-Based Capital (E) Working Group will:**~~

~~A. Evaluate relevant historical data and apply defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to the current asset risk structure and factors in each of the risk-based capital (RBC) formulas and delivering those recommendations to the Capital Adequacy (E) Task Force.~~

~~**4.3. The Variable Annuities Capital and Reserve (E/A) Subgroup, a joint subgroup of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force, will:**~~

~~A. Monitor the impact of the changes to the variable annuities reserve framework and RBC calculation, and determine if additional revisions need to be made.~~

~~B. Develop and recommend appropriate changes including those to improve accuracy and clarity of variable annuity (VA) capital and reserve requirements.~~



**CAPITAL ADEQUACY (E) TASK FORCE (continued)**

~~5.4.~~ The **Longevity Risk (E/A) Subgroup**, a joint subgroup of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force, will:

A. Provide recommendations for recognizing longevity risk in statutory reserves and/or risk based capital (RBC), as appropriate. Complete by the 2020 Spring National Meeting. For the appropriate treatment of longevity risk transfers by the new longevity factors.

~~6.5.~~ The Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group will:

- A. Recalculate the premium risk factors on an ex-catastrophe basis, if needed.
- B. Continue to update the U.S. and non-U.S. catastrophe event list.
- C. Continue to evaluate the need for exemption criteria for insurers with minimal risk.
- D. Evaluate the ~~risk based capital (RBC)~~ results inclusive of a catastrophe risk charge.
- E. Refine instructions for the catastrophe risk charge.
- F. Continue to evaluate any necessary refinements to the catastrophe risk formula.
- G. Evaluate other catastrophe risks for possible inclusion in the charge.

NAIC Support Staff: Jane Barr/Lou Felice

**2021 Proposed Charges****EXAMINATION OVERSIGHT (E) TASK FORCE**

The mission of the Examination Oversight (E) Task Force is to monitor, develop and implement tools for the risk-focused surveillance process. For financial examinations and analysis, this includes maintenance of the *Financial Condition Examiners Handbook* and the *Financial Analysis Handbook* to provide guidance to examiners and analysts using a risk-focused approach to solvency regulation and to encourage effective communication and coordination between examiners, analysts and other regulators. In addition, the mission of the Task Force is to: monitor and refine regulatory tools of the risk-focused surveillance process, including Financial Analysis Solvency Tools (FAST) such as company profiles and the FAST ratio scoring system; oversee financial examiner and analyst use of electronic software tools; monitor the progress of coordination efforts among the states in conducting examinations and the sharing of information necessary to solvency monitoring; establish procedures for the flow of information between the states about troubled companies; maintain an effective approach to the review of information technology (IT) general controls; and monitor the timeliness of financial examinations.

**Ongoing Support of NAIC Programs, Products or Services**

1. The **Examination Oversight (E) Task Force** will:
  - A. Accomplish its mission using the following groups:
    - ~~B.1.~~ Electronic Workpaper (E) Working Group.
    - ~~C.2.~~ Financial Analysis Solvency Tools (E) Working Group.
    - ~~D.3.~~ Financial Examiners Coordination (E) Working Group.
    - ~~E.4.~~ Financial Examiners Handbook (E) Technical Group.
    - ~~F.5.~~ Information Technology (IT) Examination (E) Working Group.
2. The **Electronic Workpaper (E) Working Group** will:
  - A. Monitor and support the state insurance departments in using electronic workpaper software tools to conduct and document solvency monitoring activities.
  - B. Provide ongoing oversight to the NAIC's Electronic Workpaper Hosting Project.
  - C. Develop a framework to meet the long-term hosting and software needs of state insurance regulators in using electronic workpapers to conduct and document solvency monitoring activities. Ensure that solutions developed consider various state insurance regulator uses, as appropriate.
3. The **Financial Analysis Solvency Tools (E) Working Group** will:
  - A. Provide ongoing maintenance and enhancements to the *Financial Analysis Handbook* and related applications for changes to the NAIC annual/quarterly financial statement blanks, as well as enhancements developed to assist in the risk-focused analysis and monitoring of the financial condition of insurance companies and groups. Monitor the coordination of analysis activities of holding company groups, and coordinate and analyze input received from other state regulators.
  - B. Provide ongoing development maintenance and enhancements to the automated financial solvency tools developed to assist in conducting risk-focused analysis and monitoring the financial condition of insurance companies and groups. Prioritize and perform analysis to ensure that the tools remain reliable and accurate.
  - C. Coordinate with the Financial Examiners Handbook (E) Technical Group and the Risk-Focused Surveillance (E) Working Group, as appropriate, to develop and maintain guidance in order to provide effective solvency monitoring.
  - D. Adjust the *Financial Analysis Handbook* and current financial analysis solvency tools for life insurance companies based on any recommendations as requested from the Life Actuarial (A) Task Force to incorporate principle-based reserving (PBR) changes.

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

4. The **Financial Examiners Coordination (E) Working Group** will:
  - A. Develop enhancements that encourage the coordination of examination activities ~~with regard to~~regarding holding company groups.
  - B. Promote coordination by assisting and advising domiciliary regulators and exam coordinating states as to what might be the most appropriate regulatory strategies, methods and actions regarding financial examinations of holding company groups.
  - C. Facilitate communication among regulators regarding common practices and issues arising from coordinating examination efforts.
  - D. Provide ongoing maintenance and enhancements to the Financial Examination Electronic Tracking System (FEETS).
  
5. The **Financial Examiners Handbook (E) Technical Group** will:
  - A. Continually review the *Financial Condition Examiners Handbook* and revise, as appropriate.
  - B. Coordinate with the Risk-Focused Surveillance (E) Working Group to monitor the implementation of the risk-assessment process by developing additional guidance and exhibits within the *Financial Condition Examiners Handbook*, including consideration of potential redundancies affected by the examination process, corporate governance and other guidance as needed to assist examiners in completing financial condition examinations.
  - C. Coordinate with the Financial ~~Analysis-Examiners~~ Handbook (E) Working Group and the Risk-Focused Surveillance (E) Working Group, as appropriate, to develop and maintain guidance in order to provide effective solvency monitoring.
  - D. Coordinate with the IT Examination (E) Working Group and the Financial Examiners Coordination (E) Working Group to maintain specialized areas of guidance within the *Financial Condition Examiners Handbook* related to the charges of these specific working groups.
  - E. Adjust the *Financial Condition Examiners Handbook* based upon any recommendations as requested from the Life Actuarial (A) Task Force to incorporate ~~principle-based reserving (PBR)~~ changes.
  
6. The **Information Technology Examination (E) Working Group** will:
  - A. Continually review and revise, as needed, the “General Information Technology Review” and “Exhibit C— Evaluation of Controls in Information Systems” sections of the *Financial Condition Examiners Handbook*.
  - ~~B. Coordinate with the Market Conduct Examination Standards (D) Working Group to assist in the development of regulatory oversight policy with respect to cybersecurity examination issues, as requested by the Innovation and Technology (EX) Task Force.~~

NAIC Support Staff: Bailey Henning

**2021 Proposed Charges****RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE**

The mission of the Receivership and Insolvency (E) Task Force shall be administrative and substantive as it relates to issues concerning insurer insolvencies and insolvency guarantees. Such duties include, without limitation, monitoring the effectiveness and performance of state administration of receiverships and the state guaranty fund system; coordinating cooperation and communication among regulators, receivers and guaranty funds; monitoring ongoing receiverships and reporting on such receiverships to NAIC members; developing and providing educational and training programs in the area of insurer insolvencies and insolvency guarantees to regulators, professionals and consumers; developing and monitoring relevant model laws, guidelines and products; and providing resources for regulators and professionals to promote efficient operations of receiverships and guaranty funds.

**Ongoing Support of NAIC Programs, Products or Services**

1. The **Receivership and Insolvency (E) Task Force** will:
  - A. Monitor and promote efficient operations of insurance receiverships and guaranty associations.
  - B. Monitor and promote state adoption of insurance receivership and guaranty association model acts and regulations, and monitor other legislation related to insurance receiverships and guaranty associations.
  - C. Provide input and comments to the International Association of Insurance Supervisors (IAIS), the Financial Stability Board (FSB) or other related groups on issues regarding international resolution authority.
  - D. Monitor, review and provide input on federal rulemaking and studies related to insurance receiverships.
  - E. Provide ongoing review of the *Receiver's Handbook for Insurance Company Insolvencies* (Receiver's Handbook), other related NAIC publications, and the Global Receivership Information Database (GRID), and make any necessary updates.
  - F. Monitor the work of other NAIC committees, task forces and working groups to identify and address any issues that affect receivership law and/or regulatory guidance.
  - G. Perform additional work as directed by the Financial Condition (E) Committee and/or received through referral by other groups.
  
2. The **Receivership Financial Analysis (E) Working Group** will:
  - A. Monitor receiverships involving nationally significant insurers/groups to support, encourage, promote and coordinate multistate efforts in addressing problems.
  - B. Interact with the Financial Analysis (E) Working Group, domiciliary regulators, and lead states to assist and advise as to what might be the most appropriate regulatory strategies, methods and/or action(s) with regarding to-potential or pending receiverships.
  
- ~~3. The **Receivership Large Deductible Workers' Compensation (E) Working Group** will:
 
  - A. ~~Complete work based on recommendations for possible enhancements to the U.S. receivership regime, as approved and directed by the Receivership and Insolvency (E) Task Force, resulting from a study of the states' receivership laws and practices related to the receivership of insurers with significant books of large deductible workers' compensation business. Complete by the 2020 Summer National Meeting.~~~~
  
- ~~4.3.~~ The **Receivership Law (E) Working Group** will:
  - A. Review and provide recommendations on any issues identified that may affect the states' receivership and guaranty association laws; (c.g. for example, any issues that arise as a result of market conditions; insurer insolvencies; federal rulemaking and studies; or international resolution initiatives; or as a result of the work performed by or referred from other NAIC committees, task forces and/or working groups).
  - B. Discuss significant cases that may affect the administration of receiverships.
  - C. Complete work, as assigned from the Receivership and Insolvency (E) Task Force, to address recommendations from the Financial Stability (EX) Task Force's Macroprudential Initiative (MPI) referral ~~as follows:~~

**RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE** *(continued)*

- D. ~~Draft updated guidance for the Receiver's Handbook on taxes in receivership and federal releases.~~
1. ~~Complete work related to qualified financial contracts (QFCs), including 1) e~~Explore if bridge institutions could be implemented under regulatory oversight pre-receivership to address an early termination of ~~QFCs~~~~qualified financial contracts (QFCs)~~, and, if appropriate, develop applicable guidance;~~;~~ ~~2) Review~~develop enhancements to the Receiver's Handbook guidance on QFCs ~~and, if necessary, draft enhancements;~~ ~~and 3) I~~Identify related pre-receivership considerations related to QFCs and, if necessary, make referrals to other relevant groups to enhance pre-receivership planning, examination and analysis guidance.
  2. Review and provide recommendations for remedies to ensure the continuity of essential services and functions to an insurer in receivership by affiliated entities, including non-regulated entities. Among other solutions, this will encompass a review of the Insurance Holding Company System Regulatory Act (#440) and the Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (#450) to provide proposed revisions to address the continuation of essential services through affiliated intercompany agreements in a receivership.
  - ~~2.3.~~ Consult with and/or make referrals to other NAIC the Group Solvency Issues (E) wWorking gGroups, as deemed necessary as the topic relates to affiliated intercompany agreements and pre-receivership considerations. Complete by the 20210 Fall National Meeting.

NAIC Support Staff: Jane Koenigsman

**2021 Proposed Charges****REINSURANCE (E) TASK FORCE**

The mission of the Reinsurance (E) Task Force is to monitor and coordinate activities and areas of interest, ~~which that~~ overlap to some extent the charges of other NAIC groups—specifically, the International Insurance Relations (G) Committee.

**Ongoing Support of NAIC Programs, Products or Services**

1. The **Reinsurance (E) Task Force** will:
  - A. Provide a forum for the consideration of reinsurance-related issues of public policy.
  - B. Oversee the activities of the Reinsurance Financial Analysis (E) Working Group.
  - C. Oversee the activities of the Qualified Jurisdiction (E) Working Group.
  - D. Monitor the implementation of the 2011, 2016 and 2019 revisions to the *Credit for Reinsurance Model Law* (#785); and the 2011 and 2019 revisions to the *Credit for Reinsurance Model Regulation* (#786) and the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787).
  - E. Communicate and coordinate with the Federal Insurance Office (FIO), ~~and~~ other federal authorities, and international regulators and authorities on matters pertaining to reinsurance.
  - F. Consider any other issues related to the revised Model #785, Model #786 and Model #787.
  - G. Monitor the development of international principles, standards and guidance with respect to reinsurance. This includes, but is not limited to, monitoring the activities of various groups within the International Association of Insurance Supervisors (IAIS), including the Reinsurance and Other Forms of Risk Transfer Subcommittee, the Reinsurance Mutual Recognition Subgroup and the Reinsurance Transparency Group.
  - H. Consider the impact of reinsurance-related federal legislation, including, but not limited to, the federal Nonadmitted and Reinsurance Reform Act (NRA) and the Federal Insurance Office Act, and coordinate any appropriate NAIC action.
  - I. Continue to monitor the impact of reinsurance-related international agreements, including the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (EU Covered Agreement) and the “Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance” (UK Covered Agreement).
2. The **Qualified Jurisdiction (E) Working Group** will:
  - A. Maintain the *NAIC List of Qualified Jurisdictions* and the *NAIC List of Reciprocal Jurisdictions* in accordance with the *Process for Evaluating Qualified and Reciprocal Jurisdictions*.
3. The **Reinsurance Financial Analysis (E) Working Group** will:
  - A. Operate in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, and operate in open session when discussing certified reinsurance topics and policy issues, such as amendments to the Uniform Application for Certified Reinsurers.
  - B. Provide advisory support and assistance to states in the review of reinsurance collateral reduction applications. Such a process with respect to the review of applications for reinsurance collateral reduction and qualified jurisdictions should strengthen state regulation and prevent regulatory arbitrage.
  - C. Provide a forum for discussion among NAIC jurisdictions of reinsurance issues related to specific companies, entities or individuals.
  - D. Support, encourage, promote and coordinate multistate efforts in addressing issues related to certified reinsurers, including, but not limited to, multistate recognition of certified reinsurers.
  - E. Provide analytical expertise and support to the states with respect to certified reinsurers and applicants for certification.
  - F. Provide advisory support with respect to issues related to the determination of qualified jurisdictions.
  - G. Ensure the public passporting website remains current.
  - H. For reinsurers domiciled in ~~Reciprocal-reciprocal Jurisdictions~~ jurisdictions, determine the best and most effective approaches for the financial solvency surveillance to assist the states in their work to protect the interests of policyholders.
  - I. Perform a yearly due diligence review of ~~Qualified-qualified Jurisdictions~~ jurisdictions to determine whether there have been any significant changes over the prior year that might affect their status as ~~Qualified-qualified Jurisdictions~~ jurisdictions.
  - J. Consider evaluations of any additional jurisdictions for inclusion on the *NAIC List of Qualified Jurisdictions*.

Draft: 10/27/20

Adopted by the Executive (EX) Committee and Plenary, Dec. 9, 2020

Adopted by the Financial Condition (E) Committee, Oct. 27, 2020

Adopted by the Reinsurance (E) Task Force, Aug. 6, 2020

**REINSURANCE (E) TASK FORCE (continued)**

NAIC Support Staff: Jake Stultz/Dan Schelp

## **2021 Proposed Charges**

### **RISK RETENTION GROUP (E) TASK FORCE**

The mission of the Risk Retention Group (E) Task Force is to stay apprised of the work of other NAIC groups as it relates to financial solvency regulation and the NAIC Financial Regulation Standards and Accreditation Program. The Task Force may make referrals to the Financial Regulation Standards and Accreditation (F) Committee and/or other NAIC groups, as deemed appropriate.

#### **Ongoing Support of NAIC Programs, Products or Services**

1. The **Risk Retention Group (E) Task Force** will:
  - A. Monitor and evaluate the work of other NAIC committees, task forces and working groups related to risk retention groups (RRGs). Specifically, if any of these actions affect the NAIC Financial Regulation and Accreditation Standards Program, assess whether and/or how the changes should apply to RRGs and their affiliates.
  - B. Monitor and analyze federal actions, including any U.S. Government Accountability Office (GAO) reports. Consider any action necessary as a result of federal activity.
  - C. Monitor the impacts of recent tools and resources made available to domiciliary and non-domiciliary state insurance regulators pertaining to RRGs. Consider whether additional action is necessary, including educational opportunities, updating resources and further clarifications.

NAIC Support Staff: Becky Meyer/[Sara Franson](#)



## 2021 Proposed Charges

### VALUATION OF SECURITIES (E) TASK FORCE

The mission of the Valuation of Securities (E) Task Force is to provide regulatory leadership and expertise to establish and maintain all aspects of the NAIC's credit assessment process for insurer-owned securities, as well as produce insightful and actionable research and analysis regarding insurer investments.

#### Ongoing Support of NAIC Programs, Products or Services

1. The **Valuation of Securities (E) Task Force** will:
  - A. Review and monitor the operations of the NAIC Securities Valuation Office (SVO) and the NAIC Structured Securities Group (SSG) to ensure they continue to reflect regulatory objectives.
  - B. Maintain and revise the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to provide solutions to investment-related regulatory issues for existing or anticipated investments.
  - C. Monitor changes in accounting and reporting requirements resulting from the continuing maintenance of the *Accounting Practices and Procedures Manual* (AP&P Manual), as well as financial statement blanks and instructions, to ensure that the P&P Manual continues to reflect regulatory needs and objectives.
  - D. Consider whether improvements should be suggested to the measurement, reporting and evaluation of invested assets by the NAIC as the result of: 1) newly identified types of invested assets; 2) newly identified investment risks within existing invested asset types; or 3) elevated concerns regarding previously identified investment risks.
  - E. Identify potential improvements to the credit filing process, including formats and electronic system enhancements.
  - F. Provide effective direction to the NAIC's mortgage-backed securities modeling firms and consultants.
  - G. Coordinate with other NAIC working groups and task forces—including, but not limited to, the Capital Adequacy (E) Task Force, ~~the Investment Risk Based Capital (E) Working Group~~, the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group—to formulate recommendations and to make referrals to such other NAIC regulator groups to ensure expertise relative to investments, or the purpose and objective of guidance in the P&P Manual, is reflective in the guidance of such other groups and that the expertise of such other NAIC regulatory groups and the objectives of their guidance is reflected in the P&P Manual.
  - H. Identify potential improvements to the filing exempt process (the use of credit rating provider ratings to determine an NAIC designation) to ensure greater consistency, uniformity and appropriateness to achieve the NAIC's financial solvency objectives.
  - H.I. Implement policies to oversee the NAIC's staff administration of rating agency ratings used in NAIC processes, including staff's discretion over the applicability of their use in its administration of Filing Exemption.

NAIC Support Staff: Charles Therriault

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**MEMORANDUM**

**TO:** Director Robert H. Muriel (IL)  
Chair of the Valuation of Securities (E) Task Force

**FROM:** Commissioner Scott A. White (VA) and Superintendent Eric A. Cioppa (ME)  
Chair and Vice Chair of the Financial Condition (E) Committee

**DATE:** Sept. 23, 2020

**RE:** NAIC Reliance on Rating Agencies

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This memorandum is in response to a recent letter the Valuation of Securities (E) Task Force received from the American Council of Life Insurers (ACLI), the Private Placement Investors Association (PPIA), and the North American Securities Valuation Association (NASVA) regarding a Task Force exposed memorandum on “Bespoke Securities” and more generally “Reliance on CRP Ratings.”

As you may know, in February, the Financial Condition (E) Committee met to discuss its 2020 priorities, and at that time, identified the need to reduce reliance on credit ratings as one of its priorities. The Committee specifically discussed its support for the Task Force’s position that reduced reliance on credit ratings was needed in a very targeted way for bespoke securities, which are very individualized. As such, the Committee has some real concerns with the comment letter that states that Securities Valuation Office (SVO) staff should **not** have the authority to determine eligibility for Filing Exemption of an individual credit rating provider (CRP) rating on a deal-by-deal basis.

The Committee appreciates that there may be details that the Task Force needs to work through in order to put a targeted approach in place, but the Committee believes that changes need to be made to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to add this additional authority to the responsibilities of SVO staff. To that end, we are directing the Task Force to add the following to its 2021 charges:

*“The Task Force will implement policies to oversee the NAIC’s staff administration of rating agency ratings used in NAIC processes, including, staff’s discretion over the applicability of their use in its administration of Filing Exemption.”*

If you have any questions on this matter, please contact either myself, Superintendent Cioppa, or NAIC Staff Support ([ddaveline@naic.org](mailto:ddaveline@naic.org)).

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