

Draft date: 6/14/23

Virtual Meeting

EXAMINATION OVERSIGHT (E) TASK FORCE

Monday, July 24, 2023

2:00 – 3:00 p.m. ET / 1:00 – 2:00 p.m. CT / 12:00 – 1:00 p.m. MT / 11:00 a.m. – 12:00 p.m. PT

ROLL CALL

Ohio, Chair	Idaho	Mississippi	Oregon
District of Columbia, Vice Chair	Indiana	Missouri	Pennsylvania
Alabama	Iowa	Montana	Rhode Island
Alaska	Kansas	Nebraska	South Carolina
California	Kentucky	New Hampshire	South Dakota
Colorado	Louisiana	New Jersey	Texas
Connecticut	Massachusetts	New Mexico	Virginia
Delaware	Michigan	North Dakota	Washington
Florida	Minnesota	Oklahoma	Wisconsin

NAIC Support Staff: Bailey Henning

AGENDA

1. Consider Adoption of its Fall National Meeting Minutes Attachment A
—*Dwight Radel (OH)*
2. Consider Adoption of its Working Group Reports Attachment B
—*Dwight Radel (OH)*
 - A. Electronic Workpaper (E) Working Group—*Laura Clements (CA)*
 - B. Financial Analysis Solvency Tools (E) Working Group—*Greg Chew (VA)*
 - C. Financial Examiners Coordination (E) Working Group—*Cindy Andersen (IL)*
 - D. Financial Examiners Handbook (E) Technical Group—*Eli Snowbarger (OK)*
 - E. Information Technology (IT) Examination (E) Working Group
—*Jerry Ehlers (IN)*
3. Discuss Any Other Matters Brought Before the Task Force— *Dwight Radel (OH)*
4. Adjournment

Draft Pending Adoption

Draft: 12/22/22

Examination Oversight (E) Task Force
Tampa, Florida
December 14, 2022

The Examination Oversight (E) Task Force met in Tampa, FL, Dec. 14, 2022. The following Task Force members participated: Amy L. Beard, Chair, represented by Roy Eft (IN); Karima M. Woods, Vice Chair, represented by N. Kevin Brown (DC); Mark Fowler represented by Sheila Travis (AL); Alan McClain represented by Chris Erwin (AR); Ricardo Lara represented by Susan Bernard (CA); Michael Conway represented by Keith Warburton (CO); Andrew N. Mais represented by William Arfanis (CT); Trinidad Navarro represented by Rylynn Brown (DE); Dean L. Cameron represented by Eric Fletcher (ID); Doug Ommen represented by Daniel Mathis (IA); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Ron Kreiter (KY); James J. Donelon represented by Melissa Gibson (LA); Gary D. Anderson represented by John Turchi (MA); Anita G. Fox represented by Judy Weaver (MI); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Debbie Doggett (MO); Troy Downing represented by Erin Snyder (MT); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); Chris Nicolopoulos represented by Pat Gosselin (NH); Marlene Caride represented by John Sirovetz (NJ); Judith L. French represented by Dwight Radel (OH); Glen Mulready represented by Ryan Rowe (OK); Elizabeth Kelleher Dwyer represented by John Tudino (RI); Michael Wise represented by Tom Baldwin (SC); Larry D. Deiter represented by Johanna Nickelson (SD); Scott A. White represented Doug Stolte (VA); Nathan Houdek represented by Amy Malm (WI); and Jeff Rude represented by Doug Melvin (WY).

1. Adopted its Sept. 30 and Summer National Meeting Minutes

Eft said the Task Force conducted an e-vote that concluded Sept. 30 to adopted its 2023 proposed charges and revisions to the Information Technology (IT) Examination (E) Working Group's 2023 proposed charges to encourage coordination with the Cybersecurity (H) Working Group to monitor cybersecurity trends and develop guidance as necessary.

The Task Force also met Dec. 5 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss open exams that are past the 22-month deadline.

Radel made a motion, seconded by Travis, to adopt the Task Force's Sept. 30 (Attachment One) and Aug. 11 (see *NAIC Proceedings – Summer 2022, Examination Oversight (E) Task Force*) minutes. The motion passed unanimously.

2. Adopted the Reports of its Working Groups

a. Electronic Workpaper (E) Working Group

Bernard provided the report of the Electronic Workpaper (E) Working Group. She stated that the Working Group met Dec. 6, Oct. 6, and Sept. 14 in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) of the NAIC Policy Statement on Open Meetings, to continue work on its goals. She said the Working Group has continued to oversee and receive updates on the transition of the state insurance regulators' work paper documentation application. She said that training for the new application is expected to begin in January 2023 in conjunction with the release of the master copy of the database for state use. She encouraged state insurance regulators who wish to follow the progress of the transition to request to be added as an interested state insurance regulator.

Draft Pending Adoption

b. Financial Analysis Solvency Tools (E) Working Group

Weaver provided the report of the Financial Analysis Solvency Tools (E) Working Group. She stated that the Working Group met Dec. 6 and Oct. 20 to adopt revisions to the *Financial Analysis Handbook* on the following topics:

- Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame): Revisions incorporate the relevant ComFrame elements into the analysis process.
- Terrorism reinsurance: Terrorism reinsurance guidance was removed from the *Solvency Monitoring Risk Alert* and incorporated into the Pricing/Underwriting Risk Repository – Property/Casualty (P/C).
- Affiliated agents: Revisions to the Credit Risk Repository include information about the fiduciary responsibility of agents and brokers for trust accounts, as well as procedures that the analyst could consider if there are concerns in this area.
- Monitoring of startup insurers: Revisions to the Strategic Risk Repository include additional considerations for analysts, such as obtaining a five-year business plan and projections from the insurer and assessing future capital funding, growth expectations, and profitability.
- Redomestication communication: Revisions to the Introduction – Interstate Communication and Cooperation section encourage state insurance regulator communication before a priority insurer is approved for redomestication.
- Intercompany pooling arrangements: Revisions expand the use of a combined risk assessment and/or Insurer Profile Summary (IPS) to all pool participants, even those domiciled in other states. The work would be completed by the domestic state of the pool lead, and other states that intend to rely on the work will have 30 days to review and accept it as satisfying all requirements for conducting a legal entity analysis.
- Holding company analysis: Revisions no longer require a separate analysis worksheet or checklist for the lead and non-lead state where the review of Form F and the Corporate Governance Annual Disclosure (CGAD) is filed on a group basis.
- Investments involving related parties: A new procedure was added in the Credit, Market, Liquidity, and Operational Risk Repositories for identifying material exposure to investments involving related parties along with qualitative procedures related to expertise, fee structure, and investment policies.
- Branded risk assessment, insurer priority rating, and health plan star ratings: Revisions to the risk assessment clarify guidance regarding how the three branded risk assessment levels are defined. A new procedure in the Reputational Risk Repository for health insurers was added to assess the impact of the rating or changes in the rating on the insurer’s reputation and strategic plans going forward.
- *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53): New guidance on complex assets was included in the Reserving Risk Repository – Life/Accident and Health (A&H)/Fraternal. New guidance was also included in the Statement of Actuarial Opinion Worksheet – Life/A&H/Fraternal regarding assumptions and sensitivity testing, asset adequacy testing (AAT) on high-yielding complex assets, and whether concerns exist in meeting asset adequacy requirements. Revisions also include a footnote explaining that additional guidance may be added in the future, as this is a new reporting requirement for annual 2022.

c. Financial Examiners Coordination (E) Working Group

Andersen provided the report of the Financial Examiners Coordination (E) Working Group. She stated that the Working Group met Dec. 12 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss reports on group coordination.

Draft Pending Adoption

d. Financial Examiners Handbook (E) Technical Group

Bernard provided the report of the Financial Examiners Handbook (E) Technical Group. She stated that the Technical Group conducted an e-vote that concluded Nov. 15 and met Oct. 5 to adopt revisions to the *Financial Condition Examiners Handbook* on the following topics:

- Revisions incorporate relevant elements from the ComFrame into the exam process.
- Revisions to the Capital & Surplus examination repository integrate the updated Own Risk and Summary Assessment (ORSA) guidance, including capital model review procedures, more directly into the exam process.
- Additional guidance addresses regulatory concerns arising from the Financial Analysis (E) Working Group, including:
 - Terrorism reinsurance – Guidance in this area was added that was previously maintained in the Solvency Monitoring Risk Alert.
 - Uncollected premiums and agent balances – Guidance emphasizes the importance of understanding and evaluating affiliated relationships in monitoring the services provided by and receivable balances due from key agents and producers.
 - Monitoring of startup insurers – Guidance was added to evaluate the reasonableness of an insurer’s business plan, projections, and strategy, and specifically, the projected timeline to profitability and the level of funding needed to meet targets.
- Revisions related to private equity (PE) issues are intended to assist examiners in evaluating related party investment holdings, as well as asset adequacy of complex investments.
- Revisions to Exhibit E clarify expectations surrounding audit awareness letters.

Bernard mentioned that the Technical Group continues to work on Exhibit G – Fraud and anticipates revisions to be ready for exposure in early 2023.

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

Ehlers provided the report for the Information Technology (IT) Examination (E) Working Group. He stated that the Working Group met Nov. 30 and Oct. 13 to adopt revisions to the *Financial Condition Examiners Handbook* on the following topics:

- Additional guidance identifies and clarifies IT prospective risks and communicates such matters to the financial examiner. Revisions include updates to Exhibit C to provide a mechanism for clearly tracking findings and recommendations related to IT prospective risks to facilitate communication with the financial exam and analysis functions as needed.
- Additional guidance highlights areas of importance when conducting an IT review of a company that heavily outsources IT functions to third parties.
- Updates to the Exhibit C Mapping Document include a new tab that maps Service Organization Control (SOC) 2 principles to existing Exhibit C procedures.

Weaver made a motion, seconded by Bernard, to adopt reports of the Electronic Workpaper (E) Working Group, the Financial Analysis Solvency Tools (E) Working Group (Attachment Two), the Financial Examiners Coordination (E) Working Group, the Financial Examiners Handbook (E) Technical Group (Attachments Three and Four), and the IT Examination (E) Working Group (Attachment Five). The motion passed unanimously.

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

SharePoint/NAIC Support Staff Hub/Committees/E Committee/2022-3-Fall/EOTF/Minutes Draft Docs

Draft: 7/11/23

Financial Examiners Handbook (E) Technical Group
Virtual Meeting
June 20, 2023

The Financial Examiners Handbook (E) Technical Group of the Examination Oversight (E) Task Force met June 20, 2023. The following Technical Group members participated: Susan Bernard, Chair (CA); John Litweiler, Vice Chair (WI); Blase Abreo (AL); William Arfanis (CT); N. Kevin Brown (DC); Cindy Andersen (IL); Grace Kelly (MN); Shannon Schmoeger (MO); Lindsay Crawford (NE); Colin Wilkins (NH); Nancy Lee Chice (NJ); Eli Snowbarger (OK); Diana Sherman (PA); and Tarik Subbagh (WA).

1. Exposed Handbook Guidance

A. Exhibit G – Consideration of Fraud

Bernard said the first set of revisions to consider for exposure relates to Exhibit G – Consideration of Fraud and related guidance. She noted that Exhibit G is structured in a way that is more conducive to the former exam approach, similar to a financial statement audit, instead of being aligned with the present risk-focused exam approach. Additionally, some state insurance regulators have mentioned that the exhibit, as it stands now, requires very detailed and specific knowledge of various aspects of the company to complete the Fraud Risk Factors checklist portion of the exhibit.

In response, a drafting group was formed to revise Exhibit G and corresponding references. Bernard stated that the proposed revisions emphasize that state insurance regulators are encouraged to leverage the work performed by others, specifically the external auditors, to the fullest extent possible when completing this exhibit. If the certified public accountant (CPA) testing is deemed reliable, the exam team is not expected to complete the Fraud Risk Factor Checklist within the exhibit. However, if the CPA work is deemed insufficient, incomplete, or at the incorrect level—i.e., holding company or legal entity level—the exam team may use the checklist to conduct and document fraud risk factors. Bernard added that related guidance was updated to ensure consistency throughout the *Financial Condition Examiners Handbook* (Handbook).

B. Receivership Law (E) Working Group Referral

Bernard introduced the next set of proposed revisions related to a referral received late last year from the Receivership Law (E) Working Group. She noted that the Working Group adopted a template for a memorandum of understanding that can be utilized to facilitate transitional planning and preparation, communication, and information sharing in a pre-liquidation situation.

Bernard mentioned that proposed revisions add a reference to the memorandum into Sections 1–3 of the Handbook, stating that it is an optional tool available for state insurance regulator use.

As there were no objections, the Technical Group exposed the revisions for a 30-day public comment period ending July 20.

2. Received a Referral from the Financial Analysis (E) Working Group

The Technical Group received a referral from the Financial Analysis (E) Working Group. Litweiler said the referral suggests considering additional guidance that would encourage examiners to review strategic/operational risks

faced by health insurers during an on-site examination. He noted that some examples of these unique risks include failure to maintain an adequate federal Centers for Medicare and Medicaid Services (CMS) star rating, failure to properly identify/code member health status, failure to plan for variation in membership levels, and challenges in provider contracting. He stated that the Technical Group would like to create a drafting group to address this referral, and he directed members to contact NAIC staff to volunteer to be a part of the drafting group. Tom Finnell (America's Health Insurance Plans—AHIP) asked if industry members would be allowed to participate in this drafting group. Elise Klebba (NAIC) clarified that the drafting group is only open to state insurance regulators and contractors at the moment.

3. Received an Update on the Climate and Resiliency (EX) Task Force Referral and Proposed Revisions

Bernard said NAIC staff are in the midst of drafting revisions to multiple areas of the Handbook to further integrate the consideration of climate change risks into the financial examination process. Working revisions include the following sections of the Handbook: Investments, Reinsurance (Assuming and Ceding), Underwriting Repositories, Exhibit A (Planning Procedures), Exhibit B (Planning Questionnaire), Exhibit I (Planning Memo), Exhibit V (Prospective Risks), Exhibit Y (Interview Questions), and Exhibit DD (Critical Risk Categories). Bernard stated that revisions are anticipated to be finalized later this year, at which time they will be brought before the Technical Group to consider for exposure and adoption.

4. Discussed Other Matters

Bernard announced that she would be retiring from the California Department of Insurance (DOI). Her last day at the DOI will be June 30. As such, she announced that Snowbarger would join Litweiler as co-chair of the Technical Group for the remainder of the year.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/EOTF

Draft: 4/17/23

Information Technology (IT) Examination (E) Working Group
Virtual Meeting
April 11, 2023

The IT Examination (E) Working Group of the Examination Oversight (E) Task Force met April 11, 2023. The following Working Group members participated: Jerry Ehlers, Chair (IN); Ber Vang, Vice Chair (CA); Blase Abreo (AL); Mel Anderson (AR); William Arfanis and Michael Shanahan (CT); Ginny Godek (IL); Shane Mead (KS); Dmitriy Valekha (MD); Kim Dobbs and Cynthia Amann (MO); Colton Schulz (ND); Lindsay Crawford (NE); Eileen Fox (NY); Metty Nyangoro (OH); Eli Snowbarger (OK).

1. Discussed a Referral from the Cybersecurity (H) Working Group

Vang led the discussion on a referral received from the Cybersecurity (H) Working Group, which asks the IT Examination (E) Working Group to consider making cybersecurity a higher priority in the examination process. The Cybersecurity (H) Working Group is willing to support the IT Examination (E) Working Group, acknowledging that the project may take longer than a year. Vang presented a few options for addressing the referral, and he requested feedback from the Working Group. Those options were to: 1) enhance the current Exhibit C by interlacing additional cybersecurity procedures into existing procedures; and 2) create a separate document or appendix to Exhibit C to specifically house the cybersecurity-focused procedures.

Mead said Exhibit C already has a plethora of cybersecurity procedures. He asked the Working Group if it is sure carving out a separate cybersecurity appendix is warranted. Ehlers said he agrees that there are cybersecurity procedures in Exhibit C already, but Exhibit C was written several years ago, and bad actors are continuously creating new threats, so another look at the cybersecurity procedures may be beneficial.

Mead acknowledged the importance of a cybersecurity assessment, but he expressed his uncertainty about the approach of creating a separate evaluation document. He suggested that the Working Group could focus on strengthening the current procedures that are already present in Exhibit C instead of creating a new document.

Vang agreed with Mead's point of view, but he explained that the purpose of Exhibit C is to focus on internal controls. He added that creating a new document would help fill the gaps that are present in the current cybersecurity procedures.

Schulz said he had been following the National Institute of Standards and Technology (NIST) Cybersecurity Framework (CSF) 2.0 transition, and he pointed out the importance of governance and vendor management type risks. He also suggested that the Working Group should consider a refresh or a bolt-on approach to incorporate cybersecurity into the existing Exhibit C.

Ehlers shared that some states like New York have implemented cybersecurity models such as its Regulation 500. He stated that Indiana has implemented the NAIC *Insurance Data Security Model Law* (#668) and is beginning to use additional cybersecurity procedure steps on complex companies. However, Ehlers is not sure if a document similar to the New York Regulation 500 would work best as a separate document or included in Exhibit C and the examination report.

Ehlers believes the process of addressing cybersecurity in financial examination reports is an evolutionary process. He suggested starting by identifying what needs to be added to Exhibit C, determining that as a stand-alone item, and then integrating it into Exhibit C in the future.

Godek and Dobbs agree that Exhibit C and the work done by the examiners are substantial, and she emphasized the importance of examiner's ability to rely on the company's data. She expressed that adding cybersecurity to Exhibit C may not be necessary.

Miguel Romero (NAIC) suggested that among the options available for the state insurance regulators, the Working Group should consider redoing the exhibits used to document the IT Review and specifically focus on cybersecurity, as it is the most significant risk in today's world. He believes that the current work program does not facilitate a cohesive examination, and he suggested leveraging new resources outlined in the referral, such as the Center for Internet Security (CIS) controls or the Cybersecurity and Infrastructure Security Agency's (CISA) Cross-Sector Performance Goals, to make the program more efficient. Both the CIS and CISA resources include components that could enable state insurance regulators to more nimbly scale the extent of work performed based on the size of the company being examined.

Fox said she agrees with Romero's point that the current process needs to be reviewed to remove any unnecessary steps. She suggested coordinating with other states and reviewing the IT process to update and combine it with cybersecurity measures. She believes this will help to ensure the reliability of the information technology general controls (ITGC) before beginning Phase 2 and will help IT examiners review cybersecurity developments throughout the course of the examination.

Ehlers reiterated that the intention is not to delay the ITGC review conclusion beyond Phase 2, but it is important to assess the current and future cybersecurity weaknesses and the impact they could have on the company going forward.

Bruce Jenson (NAIC) said he agrees with Fox's suggestion, and he mentioned that it could be difficult to fully assess cybersecurity risks before beginning Phase 2.

Vang asked if the referral anticipates that an assessment of a company's cybersecurity will be expected, in addition to the assessment of IT general controls that is currently performed using Exhibit C.

Jenson suggested that the Working Group first conduct a gap analysis that compares the current Exhibit C procedures against the cybersecurity frameworks referenced in the referral (i.e., CISA, CIS, NIST).

Fox said that conducting an analysis to identify the extent of possible gaps in the current guidance would help the Working Group determine whether it would be appropriate to update Exhibit C or create a standalone document for assessing cybersecurity.

Jacob Steilen (NAIC) proposed forming a drafting group to perform the gap analysis and develop a response to the referral.

Jenson said that it may be appropriate to implement a separate approach for cybersecurity related risks. Currently, the IT review is focused on evaluating a company's IT general controls so that the financial examiner knows the extent to which company data and corresponding reports can be relied upon to support control and detail testing in later phases of the exam. On the other hand, a company's preparedness to manage cybersecurity events and attacks in the future is more of a prospective concern. Although the outcome of assessing the company's cybersecurity protocols and processes is important and relevant to the company's overall solvency, the results of that review would not likely impact the examiner's ability to test and rely on automated controls or system reports

in later phases of the exam. Therefore, it may be appropriate to allow for the conclusion on cybersecurity related risks to be finalized separately from the conclusion regarding IT general controls.

Ehlers asked Fox if she sees any additional information coming out of the New York State Department of Financial Services (NYDFS) reports on compliance with New York Regulation 500 that would not be addressed through Exhibit C procedures.

Fox replied that she has not seen any recommendations related to Regulation 500 cybersecurity events that were not covered by Exhibit C. She stated that she has not seen anything come out of any exams she has dealt with so far that should be added to Exhibit C.

Ehlers asked that Working Group members who may be familiar with the resources referenced in the referral (i.e., CISA, NIST, and CIS), share their experience and/or preference with using these frameworks that could be considered by the drafting group to bolster cybersecurity procedures.

Brian de Vallance (CIS) emphasized the importance of the federal government updating its guidance to allow CIS members to take advantage of the innovations in the world of cyber defense. He also mentioned that the CIS is a nonprofit organization that provides cybersecurity best practices and is willing to assist the Working Group as a free resource.

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

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