

Draft date: 10/9/24

Virtual Meeting
(in lieu of meeting at the 2024 Fall National Meeting)

EXAMINATION OVERSIGHT (E) TASK FORCE

Tuesday, November 12, 2024

3:00 – 3:30 p.m. ET / 2:00 – 2:30 p.m. CT / 1:00 – 1:30 p.m. MT / 12:00 – 12:30 p.m. PT

ROLL CALL

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

NAIC Support Staff: Bailey Henning

AGENDA

1. Consider Adoption of its Sept. 25 and Summer National Meeting Minutes Attachment One
—*Dwight Radel (OH)*
2. Consider Adoption of its Working Group Reports Attachment Two
— *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 – *Ber Vang (CA)*
3. Discuss Any Other Matters Brought Before the Task Force
—*Dwight Radel (OH)*
4. Adjournment

Draft: 10/2/24

Examination Oversight (E) Task Force
E-Vote
September 25, 2024

The Examination Oversight (E) Task Force conducted an e-vote that concluded Sept. 25, 2024. The following Task Force members participated: Judith L. French, Chair, represented by Dwight Radel (OH); Karima M. Woods, Vice Chair, represented by N. Kevin Brown (DC); Mark Fowler represented by Sheila Travis (AL); Ricardo Lara represented by Laura Clements (CA); Michael Conway represented by Carol Matthews (CO); Andrew N. Mais represented by William Arfanis (CT); Trinidad Navarro represented by Rylynn Brown (DE); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Jeff Gaither (KY); Kevin P. Beagan represented by John Turchi (MA); Anita G. Fox represented by Robert Lamberjack (MI); Chlora Lindley-Myers represented by Shannon Schmoeger (MO); Mike Chaney represented by Mark Cooley (MS); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Andrea Johnson (NE); D.J. Bettencourt represented by Doug Bartlett (NH); Scott Kipper (NV); Larry D. Deiter represented by Johanna Nickelson (SD); Cassie Brown represented by Shawn Frederick (TX); Scott A. White represented by Doug Stolte (VA); Mike Kreidler represented by John Haworth (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its 2025 Proposed Charges

The Task Force conducted an e-vote to consider adoption of its 2025 proposed charges, which remained unchanged from the Task Force's 2024 charges (**Attachment XX**). The motion passed.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/E Cmte/EOTF/1 – EOTF E-Vote Minutes 2024_Final

Draft Pending Adoption

Draft: 8/6/24

Examination Oversight (E) Task Force
Virtual Meeting (*in lieu of meeting at the Summer National meeting*)
July 25, 2024

The Examination Oversight (E) Task Force met July 25, 2024. The following Task Force members participated: Judith L. French, Chair, represented by Dwight Radel (OH); Karima M. Woods, Vice Chair, represented by N. Kevin Brown (DC); Lori K. Wing-Heir represented by David Phifer (AK); Mark Fowler, represented by Blase Abreo (AL); Barbara D. Richardson represented by David Lee (AZ); Ricardo Lara represented by Laura Clements (CA); Michael Conway represented by Rolf Kaumann and Carol Matthews (CO); Andrew N. Mais represented by Michael Shanahan (CT); Trinidad Navarro represented by Rylynn Brown (DE); Michael Yaworsky represented by Chad Mason (FL); Doug Ommen represented by Daniel Mathis (IA); Dean L. Cameron represented by Eric Fletcher (ID); Amy L. Beard represented by Jerry Ehlers and Roy Eft (IN); Vicki Schmidt represented by Levi Nwasoria (KS); Sharon P. Clark represented by Vicki Lloyd (KY); Timothy J. Temple represented by Melissa Gibson (LA); Kevin P. Beagan represented by James A. McCarthy (MA); Anita G. Fox represented by Judy Weaver (MI); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Shannon Schmoeger (MO); Mike Chaney represented by Mark Cooley (MS); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Andrea Johnson (NE); D.J. Bettencourt represented by Doug Bartlett (NH); Justin Zimmerman represented by David Wolf (NJ); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman (PA); Carter Lawrence represented by Daniel Clements (TN); Cassie Brown represented by Shawn Frederick (TX); Scott A. White represented by Jennifer Blizzard (VA); Mike Kreidler represented by Tarik Subbagh (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its 2023 Fall National Meeting Minutes

Kaumann made a motion, seconded by Orth, to adopt the Task Force's Nov. 15, 2023, minutes (*see NAIC Proceedings – Fall 2023, Examination Oversight (E) Task Force*). The motion passed unanimously.

2. Adopted the Reports of its Working Groups

A. Electronic Workpaper (E) Working Group

Laura Clements provided the report of the Electronic Workpaper (E) Working Group. She said that the Working Group has not met in open session yet this year. However, it held a series of monthly virtual sessions through April to provide ongoing updates on the TeamMate+ Transition and cover emerging questions as states worked through implementation. She provided updated statistics related to the TeamMate+ transition and noted that the Working Group will begin developing best practices going forward as departments gain experience working in the application.

B. Financial Analysis Solvency Tools (E) Working Group

Chew provided the report of the Financial Analysis Solvency Tools (E) Working Group. He stated that the Working Group met July 16 and adopted guidance in the *Financial Analysis Handbook* related to affiliated investment management services and agreements.

The Working Group exposed the following draft revisions for a 30-day public comment period ending Aug. 15:

- Guidance regarding Form A and disclaimer of affiliation applications.
- Guidance regarding the property/casualty (P/C) insurers catastrophe reinsurance program.

Draft Pending Adoption

- Guidance regarding the Own Risk and Solvency Assessment (ORSA) guidance related to Form F.
- Guidance regarding pricing and underwriting risks of health insurers.

The Working group also exposed revisions to the credit risk repository within the *Financial Analysis Handbook* for a 45-day public comment period ending Aug. 30.

C. Financial Examiners Coordination (E) Working Group

Radel provided the report of the Financial Examiners Coordination (E) Working Group. He stated that the group met on March 13 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.

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

Vang provided the report of the Information Technology (IT) Examination (E) Working Group. He said the Working Group met May 9 to discuss a referral from the Cybersecurity (H) Working Group that requested consideration of adding or revising the IT review guidance within the *Financial Condition Examiners Handbook* to better prioritize cybersecurity risks. The Working Group formed a Cybersecurity Drafting Group, which met June 17 and decided to use the new National Institute of Standards and Technology (NIST) Cybersecurity Framework (CSF) 2.0 to update handbook guidance. He said Exhibit C will be reviewed for areas that may be reduced or removed as a part of this project as well. NAIC staff have completed the initial gap analysis, and a Drafting Group meeting is scheduled for Aug. 5 to review and determine the next steps for drafting updated guidance.

Eft made a motion, seconded by Malm, to adopt the reports of the Electronic Workpaper (E) Working Group, the Financial Analysis Solvency Tools (E) Working Group, including its July 16 minutes (Attachment One), the Financial Examiners Coordination (E) Working Group, and the Information Technology (IT) Examination (E) Working Group, including its May 9 minutes (Attachment Two).

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2024_2Summer/EOTF/EOTF Minutes 7.25.24 - Final.docx



Virtual Meeting

FINANCIAL ANALYSIS SOLVENCY TOOLS (E) WORKING GROUP

Thursday, November 7, 2024

11:00 a.m. – 12:00 p.m. ET / 10:00 – 11:00 a.m. CT / 9:00 – 10:00 a.m. MT / 8:00 – 9:00 a.m. PT

Summary Report

The Financial Analysis Solvency Tools (E) Working Group met on Nov. 7, 2024. During the meeting, the Working Group:

1. Adopted the minutes from its Sept. 26, 2024 meeting, which included the following action:
 - a. Adopted revisions to the *Financial Analysis Handbook* (Handbook) related to Property/Casualty Catastrophe Reinsurance Program, Credit Risk Assessment, Health Affordable Care Act Market Risks, Disclaimer of Control/Affiliation, and Own Risk and Solvency Assessment and Form F Exemptions. These revisions incorporated feedback from the 45-day public comment period ending Aug. 30.
 - b. Exposed draft Handbook guidance on Recovery and Resolution Planning, Surplus Notes, Capital Maintenance Agreements, and Merged Branded Risk Guidance and Repositories for a 30-day public comment period ending Oct. 28.
2. Adopted revisions to the Handbook related to Surplus Notes and Recovery and Resolution Planning, incorporating feedback from the public comment period.
3. Adopted revisions to the Handbook related to Capital Maintenance Agreements, Insurers in Run-Off, and Merged Branded Risk Guidance and Repositories.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2024_Fall/EOTF

Draft: 10/2/24

Financial Analysis Solvency Tools (E) Working Group
Virtual Meeting
September 26, 2024

The Financial Analysis Solvency Tools (E) Working Group of the Examination Oversight (E) Task Force met Sept. 26, 2024. The following Working Group members participated: Greg Chew, Chair (VA); Amy Garcia, Vice Chair (TX); Richard Russell and Todrick Burks (AL); Dave Lathrop (AZ); Kim Hudson (CA); Jack Broccoli (CT); N. Kevin Brown (DC); Amanda Denton (IN); Lynn Beckner (MD); Judy Weaver (MI); Debbie Doggett (MO); Olga Dixon (NJ); Victor Agbu (NY); Dwight Radel and Tim Biler (OH); Liz Ammerman (RI); and Kristin Forsberg (WI).

1. Adopted Revisions to the Handbook

Chew said the first item of business was to consider adopting revisions to the *Financial Analysis Handbook* (Handbook) related to three topics: 1) the property/casualty (P/C) catastrophe reinsurance program; 2) credit risk assessment; and 3) pricing and underwriting risks of health insurers. These revisions were initially discussed and exposed for comment during the Working Group's July 16 call. Chew said the Working Group did not receive any comments related to these three topics. However, during the review of the guidance on pricing and underwriting risk of health insurers and examining information from related health discussions, NAIC staff determined that it would be beneficial to include a procedure for evaluating business plans, specifically focusing on membership projections. Chew said that while business plans and projections are already standard review practices for all insurers, NAIC staff believe adding a more targeted review of enrollment expectations would be particularly valuable for new insurers entering the Affordable Care Act (ACA) market.

Hudson made a motion, seconded by Garcia, to adopt the revisions to the Handbook related to the P/C catastrophe reinsurance program (Attachment); credit risk assessment (Attachment); and pricing and underwriting risks of health insurers (Attachment). The motion passed unanimously.

2. Discussed Exposure Draft Comments and Adopted Revisions to the Handbook

Chew said the next item of business was to discuss the comments received on the exposed revisions to the Handbook related to: 1) Form A and disclaimer of control/affiliation; and 2) Own Risk and Solvency Assessment (ORSA) guidance and Form F exemptions.

A. Form A and Disclaimer of Control/Affiliation

Chew stated that the Working Group received five comment letters regarding the Form A and disclaimer of control/affiliation guidance. NAIC staff reviewed these letters and proposed edits to address the comments.

Jane Koenigsman (NAIC) explained that the majority of comments focused on the disclaimer of control/affiliation guidance. To address these concerns, NAIC staff added a note at the beginning of the Handbook chapter clarifying that the Handbook guidance does not supersede state law and regulation but is intended as additional guidance and best practices for analysts.

Next, Koenigsman addressed concerns about the Handbook's definition of control, which commenters believed conflicted with the definition in the *Insurance Holding Company System Regulatory Act* (#440). Koenigsman noted that the Handbook guidance was edited to include the definition of control from Section 1C of Model #440 and

the disclaimer of affiliation from Section 4k of Model #440. Additionally, references to control/affiliation in the Handbook guidance were revised to align directly with these definitions.

Koenigsman then discussed the added guidance on passive investors, which was included to address concerns about the applicability of the disclaimer guidance to such investors. The 30-day notice requirement for passive investors was recommended for deletion, as it was another area of concern raised by commenters. Koenigsman highlighted other, less substantive edits made to the guidance to address the comments.

Matthew Thornton (Investment Company Institute—ICI), one of the five parties who submitted comments (Attachment _), recommended revised wording for part of the added passive investors guidance. This included replacing "passingly monitoring their investment" with "their ordinary course of business" in the first paragraph. The Working Group agreed with this edit.

Thornton also recommended revising the last sentence in the second paragraph from "if the investment includes prohibitions on board representation and prohibitions on proxy solicitations" to "any special rights beyond those that typically attached to the relevant securities." Thornton stated that generally shareholders may have rights to do things like put forward board members, and passive investors generally don't do that. Chew clarified that the intent of the statement was to provide further evidence of no control, while the suggested edit seemed to imply control. Bruce Jenson (NAIC) explained that the guidance aims to clarify situations where a passive investor owns more than 10% of the voting rights, determining what might still allow them to receive a disclaimer of control. In such cases, regulators would generally expect passive investors to potentially relinquish some of their ordinary investor rights to demonstrate that they will not exercise any control, such as board seats or proxy voting. Given these comments, Thornton supported the guidance as is and agreed with all other edits.

The other four parties that submitted comments, the American Council of Life Insurers (ACLI) (Attachment _), the National Alliance of Life Companies (NALC) (Attachment _), the Securities Industry and Financial Markets Association (SIFMA) (Attachment _), and Capital Group (Attachment _), had no further comments.

With no additional comments from Working Group members, interested state insurance regulators, or interested parties on the edits made to the guidance, including the additional edits recommended by Thornton, Chew asked if Working Group members were comfortable adopting the edits or preferred to re-expose them for another 30-day comment period.

Garcia made a motion, seconded by Hudson, to adopt the revisions to the Handbook related to Form A and disclaimer of control/affiliation (Attachment _). The motion passed unanimously.

B. ORSA Guidance

Chew said the next set of exposed revisions pertained to the ORSA guidance within Section VI.I.—Group-Wide Supervision of the Handbook. The Working Group received comments from UnitedHealthcare (UHC).

Jeff Martin (UHC) indicated that he understood the revisions were intended to align with the *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual* (ORSA Guidance Manual) and therefore supported the proposed changes to the Handbook.

Since no additional revisions were deemed necessary based on UHC's comment letter (Attachment _), Chew requested a motion to adopt the changes.

Russell made a motion, seconded by Broccoli, to adopt the revisions to the Handbook related to the ORSA guidance (Attachment 1). The motion passed unanimously.

3. Exposed Draft Revisions to the Handbook

Chew announced that the next item on the agenda was to consider exposing revisions to three specific areas of the Handbook: 1) recovery and resolution planning; 2) surplus notes and capital maintenance agreements; and 3) merged guidance and repositories for market, pricing/underwriting, reputational, and strategic risk categories.

A. Recovery and Resolution Planning

Chew said the first set of revisions stemmed from a referral by the Group Solvency Issues (E) Working Group (Attachment 2). The Group Solvency Issues (E) Working Group identified that the supervisory plan guidance in the Handbook contained limited information on recovery and resolution planning. The International Association of Insurance Supervisors (IAIS) was nearing completion of its revisions to Insurance Core Principles (ICP) 12 (Exit from the Market and Resolution) and 16 (Enterprise Risk Management for Solvency Purposes), which address recovery and resolution planning for internationally active insurance groups. The IAIS is expected to adopt these ICP revisions in December. Chew noted that the proposed Handbook revisions from the Group Solvency Issues (E) Working Group aimed to align with the current ICP revisions and the U.S. practice on recovery plan expectations, whereby US group-wide supervisors would consider the ORSA and other available information when determining a recovery plan requirement. Given the anticipated adoption of the ICPs in December, NAIC staff will continue to monitor the IAIS's work. While no substantive changes are expected, any minor editorial edits will be incorporated before publishing the Handbook.

B. Surplus Notes and Capital Maintenance Agreements

Chew said the proposed guidance on surplus notes and capital maintenance agreements was recommended by the drafting group formed at the Working Group's July 16 meeting to address the referral from the Risk-Focused Surveillance (E) Working Group.

Ralph Villegas (NAIC) summarized the proposed revisions, including recommended new procedures for analysts to consider when reviewing applications for capital or surplus notes. These procedures involved assessing the purpose and impact of the transaction on the insurer, verifying compliance with statutory accounting principles (SAPs), and other guidance recommended by the drafting group. Villegas also outlined new procedures recommended by the drafting group regarding analysts' consideration of parental guarantees and capital maintenance agreements as part of their Form A review. This included specific information such agreements should contain and their potential impact on the insurer, especially in cases where the insurer may heavily rely on capital support.

C. Merged Guidance and Repositories for Market, Pricing/Underwriting, Reputational, and Strategic Risk

Chew said NAIC staff completed merging the analyst reference guide and the risk repositories for market, pricing/underwriting, reputational, and strategic risk. This was part of the long-term plan to enhance automated analysis tools. While the automated repositories will be phased out, the procedures they contain have been integrated into the reference guide. The existing guidance remains unchanged; it has simply been reorganized.

The Working Group agreed to expose the proposed revisions to the Handbook for a 30-day public comment period ending Oct. 28, covering: 1) recovery and resolution planning; 2) surplus notes and capital maintenance

agreements; and 3) merged guidance and repositories for market, pricing/underwriting, reputational, and strategic risk.

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

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Virtual Meeting

FINANCIAL EXAMINERS HANDBOOK (E) TECHNICAL GROUP

October 31, 2024

Summary Report

The Financial Examiners Handbook (E) Technical Group met Oct. 31, 2024. During this meeting, the Technical Group:

1. Adopted its Sept. 23 minutes.
2. Adopted *Financial Condition Examiners Handbook* guidance related to:
 - A. Monitoring run-off insurers.
 - B. Executive compensation.
 - C. Manual adjustments to risk-based capital (RBC).

Draft: 9/27/24

Financial Examiners Handbook (E) Technical Group
Virtual Meeting
September 23, 2024

The Financial Examiners Handbook (E) Technical Group of the Examination Oversight (E) Task Force met Sept. 23, 2024. The following Technical Group members participated: Eli Snowbarger, Co-Chair (OK); John Litweiler, Co-Chair (WI); Blase Abreo (AL); Laura Clements (CA); William Arfanis (CT); N. Kevin Brown (DC); Cindy Andersen (IL); Andrea Johnson (NE); Colin Wilkins (NH); and Nancy Lee Chice (NJ).

1. Adopted Handbook Guidance

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

Litweiler introduced revisions to the *Financial Condition Examiners Handbook* (Handbook) regarding affiliated investment management services and agreements. He mentioned that the Risk-Focused Surveillance (E) Working Group finalized revisions after a thorough review process with multiple comment periods. To ensure consistency with the related revisions referred to the Financial Analysis (E) Solvency Tools Working Group, the Risk-Focused Surveillance (E) Working Group recommended that these edits be considered for adoption without an additional exposure period or any significant modification.

Clements made a motion, seconded by Andersen, to adopt guidance related to affiliated investment management services and agreements (Attachment --). The motion passed unanimously.

2. Exposed Handbook Guidance

A. Executive Compensation

Snowbarger said the first set of revisions to consider for exposure relate to executive compensation practices. This item was added to the Technical Group's project listing as the Handbook has a lighter touch in this area than what is required by other regulatory bodies. He noted that revisions included an example prospective risk within Exhibit V and potential new interview questions in Exhibit Y to help examiners gain insight into the company's executive compensation structure and related risks.

B. Manual Adjustments to RBC

Snowbarger introduced the last set of proposed revisions to consider for exposure, which relates to validating the accuracy of manual adjustments to risk-based capital (RBC) filings by the insurer, including those related to modified coinsurance (modco) reinsurance and separate account assets. While the RBC instructions allow for manual adjustments to the formula to ensure charges for invested assets are appropriate, these adjustments are not tied to existing annual statement reporting. As such, the adjustments could be inaccurate. Revisions to an existing risk in the capital and surplus repository encourage the examiner to review the manual adjustments made to RBC for modco reinsurance and separate account assets.

As there were no objections, the Technical Group exposed the revisions for a 30-day public comment period ending Oct. 23.

3. Discussed Other Matters

Litweiler noted that the Information Technology (IT) Examination (E) Working Group is working on revisions to the guidance in Exhibit C for the IT Review to further emphasize cybersecurity risks and align it with the National Institute of Standards and Technology (NIST) Cybersecurity Framework 2.0. He encouraged attendees on the call to follow that group for further information on upcoming guidance updates in this area, as any proposed revisions developed would undergo exposure and adoption at that group without a separate exposure or adoption by the Technical Group.

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

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Draft: 11/1/24

Information Technology (IT) Examination (E) Working Group
Virtual Meeting
October 31, 2024

The Information Technology (IT) Examination (E) Working Group of the Examination Oversight (E) Task Force met Oct. 31, 2024. The following Working Group members participated: Ber Vang, Chair (CA); Shane Mead, Vice Chair (KS); Blase Abreo (AL); Mel Anderson (AR); Michael Shanahan (CT); Ginny Godek (IL); Dmitriy Valekha (MD); Kim Dobbs and Cynthia Amann (MO); Colton Schulz (ND); Andrea Johnson (NE); Eileen Fox (NY); Metty Nyangoro (OH); and Eli Snowbarger (OK).

1. Adopted its Oct. 10 Minutes

The Working Group met Oct. 10. During this meeting, the Working Group took the following action: 1) discussed current and plans for updating IT review guidance based on a Cybersecurity (H) Working Group referral; and 2) exposed revisions to Exhibit C, Part 2 for a 14-day public comment period ending Oct. 24.

Schulz made a motion, seconded by Amann, to adopt the Working Group's Oct. 10 minutes (Attachment 1). The motion passed unanimously.

2. Adopted Revisions to Exhibit C, Part 2

Topher Hughes (NAIC) stated that Missouri and Kansas submitted comments during the exposure period, recommending multiple edits throughout Exhibit C, Part 2 that were deemed non-substantive and, therefore, incorporated into the draft included in the meeting materials (Attachment 2).

Hughes stated that the Working Group also received a comment letter from the National Association of Mutual Insurance Companies (NAMIC) (Attachment 3) during the exposure period. In its letter, NAMIC provided comments on the proposed revisions to APO 10, APO 12, and APO 14 within Exhibit C, Part 2. Hughes noted that NAMIC's suggested edits to APO 10 were also considered non-substantive and similarly incorporated into the draft included in the meeting materials.

For APO 12, Colleen Scheele (NAMIC) said that the proposed language "information sharing forums" was otherwise undefined and vague regarding how often a company should assess these risks.

Bruce Jenson (NAIC) stated that the phrase "information sharing forums" was specifically used to address a perceived gap from the National Institute of Standards and Technology (NIST) Cybersecurity Framework (CSF) 2.0. After discussion, Scheele asked if the Working Group would accept changing the language to "periodically assessing" to better indicate the expectation of the frequency of checking. Vang stated that this sounded like a fair revision.

For APO 14, Scheele stated that data practices are a very important piece of the risk management puzzle, but NAMIC believes the draft may be better served by focusing on material financial risks to solvency, such as in the *Insurance Data Security Model Law* (#668). Scheele stated that the Working Group should wait for other NAIC groups charged with overseeing and monitoring data privacy and cybersecurity issues to reach a consensus on data governance and hygiene to avoid potential conflicts.

Dobbs stated that data security is not a new concept for IT security and that IT examiners already ask questions of insurance companies concerning data security when appropriate. Dobbs also stated that many small- and medium-sized insurers have gone out of business following a data breach, an example of why data security is a solvency concern. Amann added that the Cybersecurity (H) Working Group issued the referral because it believes it is important to provide insurance-specific guidance sooner rather than later. Amann stated other regulatory bodies already have similar guidance available and emphasized the importance of moving forward with this guidance as the insurance industry is seeing the consequences of data breaches and bad cyber hygiene practices. As the work of the Privacy Protections (H) Working Group is likely to continue for several more years, the Working Group should not wait to issue guidance in this area.

Schulz said that groups like the Privacy Protections (H) Working Group would likely develop more prescriptive guidance that would then be applied to insurers at the state level, whereas Exhibit C would be customized to the size and needs of the individual company by IT examiners.

Schulz made a motion, seconded by Dobbs, to adopt the proposed edits to Exhibit C, Part 2, including the modification to the language in APO 12. The motion passed unanimously.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/EOTF/ITEWG Minutes 10-31-24

Draft: 10/11/24

Information Technology (IT) Examination (E) Working Group
Virtual Meeting
October 10, 2024

The Information Technology (IT) Examination (E) Working Group of the Examination Oversight (E) Task Force met Oct. 10, 2024. The following Working Group members participated: Ber Vang, Chair (CA); Shane Mead, Vice Chair (KS); Blase Abreo (AL); Mel Anderson (AR); Michael Shanahan (CT); Ginny Godek (IL); Jerry Ehlers (IN); Dmitriy Valekha (MD); Kim Dobbs and Cynthia Amann (MO); Colton Schulz (ND); Andrea Johnson (NE); Eileen Fox (NY); Metty Nyangoro (OH); and Eli Snowbarger (OK).

1. Discuss Current and Future Plans for Updating IT Review Guidance Based on Cybersecurity (H) Working Group Referral

Vang stated that the drafting group activities since the last meeting address the referral from the Cybersecurity (H) Working Group. The referral requested that the IT Examination (E) Working Group review the IT exam process and evaluate if there would be a benefit to making the process more cybersecurity-focused. The referral suggested several frameworks and documents that could be useful in addressing the request, including the cybersecurity performance goals (CPGs) of the Cybersecurity and Infrastructure Security Agency (CISA), the Cybersecurity Framework (CSF) 2.0 of the National Institute of Standards and Technology (NIST), or the benchmarks of the Center for Internet Security (CIS).

The drafting group determined that there could be a benefit to enhancing the cybersecurity procedures in Exhibit C. After evaluating several sources of guidance, the drafting group decided to incorporate updates based on the NIST CSF 2.0. The drafting group selected the NIST CSF 2.0 because NIST was introducing concepts not currently in the IT exam process while also being in a format similar to the current Exhibit C.

Vang explained that due to time constraints for incorporating changes into the *Financial Condition Examiners Handbook* before the end of this year, the drafting group chose to take a two-step approach to these changes. In the first step, the drafting group performed a gap analysis, and Exhibit C procedures have been modified to address critical gaps between the current Exhibit C and the NIST CSF 2.0.

In the next step, which is anticipated to extend well into 2025, the drafting group will separate procedures needed to establish the reliability of IT general controls from those needed to examine cybersecurity. Care will be taken to ensure findings concerning IT general controls can be made before the end of phase 2, while it is possible that a finding on cybersecurity matters may take place later in the exam process. It is foreseen that some current procedures from Exhibit C will also be eliminated during this process, as they will be found redundant or otherwise no longer needed. It is important that the resulting IT general controls and cybersecurity reviews remain right-sized for examination purposes.

2. Exposed Revisions to Exhibit C, Part 2

Vang explained that the drafting group had divided into two subgroups. Subgroup 1 addressed the Govern and Protect functions of CSF 2.0 while Subgroup 2 addressed Identify, Detect, Respond, and Recover.

Mead provided examples of proposed changes made by Subgroup 1 to address the Govern and Protect functions of CSF 2.0. There were numerous small edits made to add emphasis to cybersecurity. One example is in APO 01.01-

01.02, where the phrase “including cybersecurity” was added to the common control, and a new possible test procedure was added to review and assess the adequacy of cybersecurity staffing and/or resources. Additionally, Mead highlighted larger changes made to APO 10, BAI 03.07-03.08, BAI 10.01-10.05, and DSS 05.06. Mead also noted that Subgroup 1 proposed adding part of APO 14, based on APO 14.01 and APO 14.08-14.09, to better address data protection and retention.

Vang then addressed the changes proposed by Subgroup 2. Vang highlighted larger proposed edits to DSS 02.01, DSS 05.07, and MEA 02.01, while noting that Subgroup 2 proposed adding controls based on DSS 02.05 to better address the recovery process following an incident.

Colleen Scheele (NAMIC) asked about the addition of APO 14, concerning the data life cycle. Mead stated that the NIST CSF 2.0 had controls in it that dealt with items not previously in Exhibit C and that the Subgroup considered trying to fit the control into DSS 05.06 but believed that APO 14 better addressed the issue, as it already dealt with the data life cycle and was the more logical solution.

There were no objections to exposing the revisions for a 14-day public comment period ending Oct. 24. Vang stated that the shortened exposure period was so that revisions could be adopted before the next NAIC national meeting and included in this year’s revisions to the *Financial Condition Examiners Handbook*.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/EOTF/ITEWG Minutes 10-10-24