Draft date: 10/10/2023

Virtual Meeting

FINANCIAL EXAMINERS HANDBOOK (E) TECHNICAL GROUP
Monday, November 13, 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

Eli Snowbarger, Co-Chair	Oklahoma	Shannon Schmoeger	Missouri
John Litweiler, Co-Chair	Wisconsin	Lindsay Crawford	Nebraska
Blase Abreo	Alabama	Colin Wilkins	New Hampshire
Laura Clements	California	Nancy Lee Chice	New Jersey
William Arfanis	Connecticut	Tracy Snow	Ohio
N. Kevin Brown	District of Columbia	Shannon Hopkins/Diana Sherman	Pennsylvania
Cindy Andersen	Illinois		
Grace Kelly	Minnesota	Tarik Subbagh	Washington

NAIC Support Staff: Bailey Henning/Elise Klebba

AGENDA

1. Consider Adoption of August 24, 2023 Financial Examiners Handbook (E) Technical Group Meeting Minutes – *John Litweiler (WI)* — Attachment 1

2. Consider Adoption of Handbook Guidance – *Eli Snowbarger (OK)*
   a. Risk-Focused Surveillance (E) Working Group Referral Revisions Related to Peer Review Takeaways — Attachment 2

   b. Climate and Resiliency (EX) Task Force Referral Revisions — Attachment 3
      - United Healthcare Comments — Attachment 3-A
      - National Association of Mutual Insurance Companies Comments — Attachment 3-B

   c. Financial Analysis (E) Working Group Referral Revisions Related to Considerations of Strategic and Operational Risks of Health Insurers — Attachment 4
      - United Healthcare Comments — Attachment 4-A
      - Americas Health Insurers Plans Comments — Attachment 4-B

3. Discuss Any Other Matters Brought Before the Technical Group – *John Litweiler (WI)*

4. Adjournment

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Draft: 8/30/23

Financial Examiners Handbook (E) Technical Group
Virtual Meeting
August 24, 2023

The Financial Examiners Handbook (E) Technical Group of the Examination Oversight (E) Task Force met Aug. 24, 2023. 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); Cindy Andersen (IL); Grace Kelly (MN); Shannon Schmoeger (MO); Lindsay Crawford (NE); Nancy Lee Chice (NJ); and Diana Sherman (PA).

1. Adopted Handbook Guidance

   A. Exhibit G – Consideration of Fraud

Snowbarger introduced the first set of proposed revisions related to Exhibit G and corresponding guidance. Exhibit G and related references throughout the *Financial Condition Examiners Handbook* (Handbook) were updated to align the exhibit with the risk-focused exam approach and clarify which parts of the exhibit should be completed in varying circumstances. He mentioned that there were no comments received on these proposed revisions during the exposure period.

   B. Receivership Law (E) Working Group Referral

The next set of revisions was in response to the Receivership Law (E) Working Group referral. Snowbarger noted that Section 1-3 of the Handbook was updated to reference the memorandum of understanding, which is an optional tool for state insurance regulators that can be utilized to facilitate transitional planning and preparation, communication, and information sharing in a pre-liquidation situation. He said there were no comments received on these proposed revisions during the exposure period.

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

Finally, Snowbarger introduced revisions to the Handbook regarding affiliated service agreements. He mentioned that the Risk-Focused Surveillance (E) Working Group finalized revisions at the Summer National Meeting after a lengthy review process with multiple comment periods. As such, the Working Group suggests that these edits are considered for adoption without an additional exposure period or any significant modification.

Arfanis made a motion, seconded by Litweiler, to adopt the guidance related to Exhibit G, the memorandum of understanding, and affiliated service agreements. The motion passed unanimously.

2. Exposed Handbook Guidance

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

Litweiler said the first set of revisions to consider for exposure relate to a referral received from the Risk-Focused Surveillance (E) Working Group regarding takeaways from the examination peer review session held in May. He noted that additional guidance was added in the following areas: communicating with the analyst, status updates, and emerging risks identified during the examination.

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Litweiler mentioned that an agenda topic was added to Exhibit D – Planning Meeting with the Analyst to clarify the expectations of the department analyst throughout the examination. This includes participating in certain exam activities, monitoring the status of the exam, and communicating new information about the company. He emphasized that these revisions are not intended to require an additional level of participation by the analyst throughout the exam but are instead intended to ensure that the examiners and analysts communicate with each other and come to a consensus regarding each other's responsibilities to one another through the examination.

Additionally, revisions note that if an independent contractor is leading the examination, it may be appropriate for the department designee to lead the discussion of certain agenda items. Because the planning meeting template is also included in the *Financial Analysis Handbook*, a similar referral was sent to the Financial Analysis Solvency Tools (E) Working Group for consideration.

Finally, Litweiler noted that updates were made to the sound practices document in response to the last referral item of emerging risks identified during the examination. He said the revisions include considerations for when a risk not present at the balance sheet date arises during fieldwork (phase 5) or wrap-up (phases 6–7). Because the sound practices document does not constitute authoritative guidance or add required procedures, those revisions will not be subjected to exposure and public comment.

B. Climate and Resiliency (EX) Task Force Referral

Litweiler introduced the next set of proposed revisions to consider for exposure, which were developed in response to a referral from the Climate and Resiliency (EX) Task Force in the spring of 2022. He noted that revisions were made to numerous areas of the Handbook to further integrate consideration of climate change risks into the financial examination process. He asked Elise Klebba (NAIC) to give an overview of the revisions.

Klebba said risks, potential controls, and potential procedures to consider were added and/or updated within the following repositories: Investments, Reinsurance Assuming, Reinsurance Ceding, and Underwriting. The Investment Repository revisions were made to consider the impact of climate change risks on an insurer's investment portfolio and strategy. Next, minor edits to the Reinsurance Assuming Repository were made to include risk exposures and the monitoring of established risk limits using catastrophe models. Klebba noted that the bulk of the edits were made to the Reinsurance Ceding Repository to consider the risk of inadequate catastrophic reinsurance protection. She gave a couple of examples of potential controls and potential procedures that were added to this repository. Finally, the underwriting repository was updated to consider the use of catastrophe models and/or scenario analysis to help establish appropriate catastrophic risk exposure limits.

Next, Klebba addressed the changes to the planning procedures. She mentioned that the planning checklist (Exhibit A) and planning questionnaire (Exhibit B) revisions show some documents that can be obtained during planning or have already been filed with the department, like the climate-related disclosures, to help the examiner understand the company's potential exposure.

Klebba noted that the one new requirement from these revisions is on the planning memo (Exhibit I), which was expanded to incorporate how climate-related risks are expected to be considered in the exam instead of creating a new critical risk category, as the referral suggested. However, climate-related risks are relevant to a few existing critical risk categories, so minor edits were made to those categories within Exhibit DD.

Lastly, Klebba mentioned that there were multiple potential interview questions added to Exhibit Y that may be applicable in this area. She reiterated that overall, the edits just provide direction on potentially relevant risks and procedures in this area, along with potential interview questions and documents that could be obtained to

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understand the company's potential exposure further. Again, she emphasized that the only new requirement in these revisions is documenting climate-related risks within the planning memo (Exhibit I), if applicable.

Arfanis mentioned that in one of the edits within the Investments Repository, the NAIC Climate Disclosure Survey is referenced to better understand how the insurer has considered the impact of climate change risks on its investment portfolio. He also suggested adding the Task Force on Climate-Related Financial Disclosures to this procedure. Klebba stated that she would make a note to include that small edit on the document sent out for exposure.

As there were no objections, the Technical Group exposed the revisions for a 30-day public comment period ending Sept. 25.

3. <u>Discussed the 2023 Project Listing</u>

Snowbarger stated that the next agenda item was to discuss the 2023 project listing. He said aside from the few items that were just exposed, the Technical Group has formed a drafting group to address the Financial Analysis (E) Working Group referral received earlier this year pertaining to strategic and operational risks faced by health insurers.

Snowbarger noted that the drafting group met Aug. 21 to discuss how to best integrate guidance into the Handbook relating to these risks. The drafting group expects to have proposed revisions available to be considered for exposure on the next Technical Group call.

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

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

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

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

Date: June 13, 2023

RE: May 2023 Examination Peer Review Takeaways

In May 2023, the Risk-Focused Surveillance (E) Working Group oversaw a Financial Examination Peer Review session, focused on contractor oversight. Each participating jurisdiction sent the individual acting as department designee on the submitted examination, as well as a representative from the contract firm who participated in the examination. Participants represented 5 jurisdictions and 5 contract firms. During the session, a couple of issues were identified that might be appropriate for consideration of additions to the NAIC's *Financial Condition Examiners Handbook* (Handbook). The topics discussed, as well as other relevant considerations, are outlined below.

Communicating with the Analyst – While coordination and communication between the exam team and department analyst has continued to improve over time, the peer reviewers found that additional guidance could help clarify the role and expectations of the department analyst throughout the examination. To address this concern, we propose adding an agenda topic to *Exhibit D – Planning Meeting with the Analyst* to discuss expectations for the analyst in participating in certain exam activities, monitoring the status of the exam, and communicating new information about the company (e.g., quarterly results, new Form D filings) arising during the examination. Furthermore, when the examination is being led by an independent contractor, we recommend that the department designee lead this planning meeting discussion topic.

Note, because Exhibit D – Planning Meeting with the Analyst is included within the Financial Analysis Handbook under the name of "Template for Planning Meeting with Financial Examiner", a similar referral has been sent to the Financial Analysis Solvency Tools (E) Working Group for consideration. See Attachment A for proposed edits to the exhibit.

Status Updates – In several of the examination files reviewed, peer reviewers noted a change in the planned approach for certain risks that were presented in the planning memorandum that was approved by the department designee. As a means to clearly document the rationale for the change, as well as to evidence review and approval of the change by the department designee, we propose adding a new required element for inclusion in examination status reports to discuss any significant additions or deviations from the initial approach documented at the end of examination planning.

Emerging Risks Identified During Examination – In a couple of the examination files reviewed, peer reviewers noted circumstances in which new risks occurring after the balance sheet date were identified during examination fieldwork but not tested during the examination. While such risks could reasonably be

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considered subsequent events under the current guidance, peer reviewers noted that conducting a review of such risks could provide a greater understanding of the insurer's current exposures and mitigation strategies, as well as provide valuable information for the department to consider in its ongoing monitoring of the insurer's solvency. How these risks or issues are treated could depend on the nature of the issue itself, its significance/materiality, and at what point in the examination it was discovered. For example, it may be appropriate to add a risk to a key activity matrix or Exhibit V. Given the importance of assessing risks in real time as they emerge, we recommend that the Technical Group consider the development of additional guidance in this area that encourages the incorporation of key risks emerging after the balance sheet date into the exam process, to the extent practicable (i.e., if identified prior to Phases 6-7).

If there are any questions regarding this referral, please feel free to contact me or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification. Thank you for your consideration of this request.

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EXHIBIT D
PLANNING MEETING WITH THE FINANCIAL ANALYST

Overview

This document is intended as an optional tool highlighting items that may be discussed during a planning meeting with the assigned financial analyst in support of the financial exam process. This meeting should ensure that the examiner both understands the company that will be examined and also receives details on work that has already been performed in supervising the company's operations. An effective exchange of information will promote efficiencies in the financial examination process by allowing the examiner to leverage the knowledge and work performed by the financial analyst. It may also prove useful to supplement this meeting with a discussion of the Exam Planning Questionnaire (Exhibit B) so that the analyst can review during the discussion to highlight or indicate if a document being requested has been obtained and/or reviewed by the department. Although this exhibit focuses on discussions with the assigned analyst, it may be appropriate to incorporate this discussion into a broader planning meeting with members of department management and representatives from other areas of the department. However, if such an approach is taken, it should not reduce or diminish the level of discussion between the analyst and the examiner.

Given the importance of the Insurer Profile Summary (IPS) in communicating the results of the Department's Financial Analyst's review of the company's operations, the planning meeting with the analyst is intended to generally follow the format of the IPS Template.

Depending on the significance of operations at the group level, the examiner should consider whether additional agenda items should be added to focus on risks posed and discussed on the Group Profile Summary that are relevant for consideration during the examination.

NOTE: The exhibit was prepared to assist examiners in obtaining a general knowledge of the company through the meeting with the analyst. The examiner leading the discussion should not rely exclusively on these topics and should tailor agenda items based on knowledge of the company and based on knowledge of work that has been performed by the department. In situations where the exam is being led by an independent contractor, ~~it may be appropriate for~~ the department may consider having the insurance department's designee lead the discussion of certain agenda items such as the role of the financial analyst in the examination.

Planning Meeting with the Financial Analyst – Agenda Items

1. **Business Summary** – Discuss a summary of the business operations and lines of business of the insurer.
    a. Discuss whether the department has received a recent business plan from the company and has identified any significant changes in strategy/operations.
    b. Discuss any recent meetings with the company and their potential impact on the examination.
    c. Discuss the corporate governance in place at the company and any recent changes or concerns identified.

2. **Regulatory Actions** – Discuss any significant recent steps taken in supervising the company, including, but not limited to:
    a. Granting of permitted practices;
    b. Identification of issues of non-compliance;
    c. Follow-up on items from the last financial examination;
    d. Review of items filed with the department for approval (e.g. – Form A, Form D, Form E, etc.); and
    e. Recent or pending regulatory actions (such as forfeitures, cease & desist orders, or restrictions on the company's writings or operations).

3. **Financial Snapshot/Overview of Financial Position** – Discuss the company's recent financial results, including, but not limited to:
    a. Changes in profitability trends;
    b. Deterioration in asset quality, liquidity, or capital adequacy;
    c. Changes in investment holdings and strategy;
    d. Changes in key annual statement balances;
    e. Changes in reinsurance balances and program structure;
    f. Significant results noted in financial analysis solvency tools; and
    g. Deterioration in reserve development trend.

4. **Branded Risk Assessments** – Discuss individual branded risk assessments with a focus on moderate and significant areas of concern. For example:
    a. Discuss a summary of detailed analysis work performed to address key issues.
    b. Discuss the status of any outstanding inquiries or requests for the company.
    c. Discuss any management representations to the department that should be verified or corroborated during the exam.
    d. Discuss any recommended exam procedures and/or follow-up on key issues.
    e. Discuss any risks assessed as "minor" which appear to be escalating.

5. **Impact of Holding Company on Insurer** – Discuss the impact of the holding company system on the domestic insurer. For example:
    a. Discuss and obtain the Group Profile Summary (GPS) and non-lead state holding company analysis work as necessary.
    b. If the lead state, discuss whether the analyst's review of the group's Corporate Governance Annual Disclosure (CGAD), if applicable, Own Risk and Solvency Assessment (ORSA) Summary Report and/or Form F reporting indicate a need for additional follow-up and review during the exam.
    c. If not the lead state, discuss whether your state's review of the following indicate a need for additional follow-up and review during the exam.
        i. As applicable, either the insurance entity's CGAD, or the lead state's review of the group's CGAD provided in the GPS and other information provided by the lead state.

   ii. The lead state's analysis of ORSA Summary Report
   iii. The lead state's analysis of the Form F provided in the GPS or other information provided by the lead state
  d. Discuss any developments or follow-up items resulting from recent supervisory college sessions.

6. **Overall Conclusion and Priority Rating** – Discuss the analyst's overall conclusion on the company's financial condition, strengths, weaknesses and priority rating assigned to the company.

7. **Supervisory Plan** – Discuss the analyst's plans for the ongoing supervision of the company, including any specific examination procedures identified.

8. **Access to Workpapers and Company Documents** – Discuss the best way that the analyst's work can be reviewed/obtained. As the number of files that examiners wish to review and obtain increases, they may consider obtaining access the analyst's workpapers and receiving specific locations (i.e. workpaper references) for all requested documents.

9. **Input from Other Areas of the Department** – Discuss whether the analyst has received recent communications from other areas of the insurance department regarding issues that could impact the financial examination including, but not limited to units in charge of:
   a. Approving rates and forms filings;
   b. Legal and administrative matters; and
   c. Market conduct examinations/filings.

10. **General Observations** – Depending on the information already provided, determine whether there are any additional topics relevant for discussion, such as:
    a. If you were going onsite to examine this company, where would you focus your time?
    b. What are your biggest concerns in terms of things that could go wrong at this company to result in a solvency concern?
    c. Are you aware of any fraud allegations or concerns at the company? Are there any fraud risk factors that the exam team should be aware of?

11. **Communication/Coordination Throughout Exam** – Discuss the role of the financial analyst in the examination, including the following:
    a. Participation in examination activities (e.g., ~~Kickoff/Exit meetings,~~ Meetings with the company, C-Level interviews)
    b. Ongoing monitoring of exam status and findings; and
    c. Responsibility to communicate new information about the company (e.g., Form D filings, quarterly analysis results/updated Insurer Profile Summary) to the examination team timely throughout the course of the exam.

X. REPORTING EXAMINATION PROGRESS AND FINDINGS

This section provides some general guidelines on procedures in reporting examination progress and findings. The discussion here is divided as follows:

A. Interim Reporting to Chief Examiner
B. Interim Reporting by Examiners to their Respective Zones
C. The Report of a Full-Scope Examination
D. The Management Letter
E. The Report of a Limited-Scope Examination
F. Discussion of Report Findings with Company Officials
G. Preparation of Reports and Draft Reports for Participating Examiners
H. Coordination and Distribution of the Examination Report of a Multi-State Insurer and the Resolution of Report Conflicts
I. Timeliness of Examination Reports
J. Post-Examination Follow-Up Procedures

A. Interim Reporting to Chief Examiner

At intervals during the examination, not less than monthly, the examiner-in-charge should address a memorandum to the chief examiner (or designee) setting forth:

1. A status report of the examination, including, at a minimum, the following:

a. A clear explanation of the examination's progress, broken down by phase/key activity.
b. A summary of time incurred by examiners, including budget, actual and time remaining to complete.
c. A summary of unusual problems, any significant issues identified throughout the examination and the examiner-in-charge's proposed resolution.
d. Proposed changes to the approved budget.
e. Any significant additions or deviations from the initial examination approach documented in planning, including the rationale for such changes.

2. Other requirements as may be set forth by each state's chief examiner.

B. Interim Reporting by Examiners to Their Respective Zones

The requirement of periodic status reports and their confidentiality will be determined on a zone basis.

If the zone determines that the examiner representing the zone is required to prepare and submit status reports on the progress of the examination, the following guidance is suggested. The reports shall include information on the progress made in addressing the concerns expressed by the zone when the examiner was assigned to the examination, any significant issues disclosed and proposed resolutions. The examiner-in-charge should be given the opportunity to comment and sign the status reports; however, the signature of the examiner-in-charge does not necessarily convey agreement with the information disclosed in the status report. The responsibility for requiring the zone examiner to prepare and submit periodic status reports rests with each individual zone. Other states in the zone may request copies of the status reports from the zone secretary. However, the states should be aware that the issues disclosed in the status reports are preliminary in nature, and should not take action based on the preliminary findings.

DETAIL ELIMINATED TO CONSERVE SPACE

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Susan Bernard, Chair of the Financial Examiners Handbook (E) Technical Group

FROM: Commissioner Birrane, Co-Chair of the Climate Resiliency (EX) Task Force leading the Solvency Workstream

DATE: May 23, 2022

RE: Referral on Proposed Climate Risk Enhancements

The NAIC's Climate Resiliency (EX) Task Force is charged with evaluating financial regulatory approaches to climate risk and resiliency in coordination with other relevant committees, task forces and working groups, including those under the Financial Condition (E) Committee. As part of its efforts to address this charge, the Task Force designated a Solvency Workstream to explore potential enhancements to existing solvency monitoring processes in this area.

During 2021, the Solvency Workstream held a series of public panels on various climate solvency related topics which included among other things, a high-level summary of existing regulatory tools in the space. Near the end of 2021, the Solvency Workstream released a series of questions intended to solicit input on potential enhancements to the existing regulatory tools. As a result of comments received, and a general support for enhancements to the NAIC's *Financial Condition Examiners Handbook*, the following list of proposed enhancements to the NAIC's *Financial Condition Examiners Handbook* is being referred to the Technical Group to consider.

<u>Financial Condition Examiners Handbook</u>

Planning Phase of the Examination:

- Exhibit B – Exam Planning Questionnaire: Consider updating the information requested at the onset of an exam to gain an understanding of the insurer's exposure to and management of climate change risks
- Exhibit Y – Examination Interviews: Consider additional sample interview questions related to climate change risks for the various "C-Level" executive and board member positions
- Implement a means to ensure that climate-related risks are considered as part of every financial condition examination, which may be achieved through the addition of "Climate Change" as a new critical risk category in Exhibit DD

Fieldwork Phase of the Examination:

- Investments Repository: Consider enhancements to repository risks to encourage consideration of both energy transition and physical risks on an insurer's investment portfolio and strategy (generally related to all lines of insurance)
- Underwriting Repository: Consider enhancements to existing repository risks to encourage consideration of both energy transition and physical risks in underwriting processes, as well as a new risk focused on the medium and longer-term impacts of climate change on the insurer's prospective underwriting and business strategy (generally related to Property and Casualty lines of insurance)
- Reinsurance Assuming Repository (Only Applicable to Assuming Reinsurers): Consider enhancements to repository risks to address the extent to which reinsurers are measuring and monitoring their exposure to climate change risks and using that information to set risk exposure limits and make retrocession decisions
- Reinsurance Ceding Repository: Consider enhancements to repository risks to address how the insurer has integrated climate change assumptions into its catastrophic modelling processes and how the results of modelling are used in making reinsurance coverage decisions

The proposed enhancements are presented as high-level principles for the Technical Group to consider and develop as appropriate for inclusion in the Handbook. In addition to these high-level principles, attached are comments received from the New York Department of Financial Services, American Property Casualty Insurance Association, American Council of Life Insurers and Public Citizen. If there are any questions regarding the proposed referral, please feel free to contact me or NAIC staff (Dan Daveline at ddaveline@naic.org) for clarification. Thank you for your consideration of this request.

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III. GENERAL EXAMINATION CONSIDERATIONS

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

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

DETAIL ELIMINATED TO CONSERVE SPACE

D. Business Continuity

Reviewing an insurer's business continuity plan is an established part of Financial Condition Examinations through testing and review performed in conjunction with the completion of the Information Technology Review. However, natural disasters, terrorism concerns and new business practices have led to a heightened need for management to plan for the prospective risks associated with business continuity including the risk to the financial solvency of the insurer. As such, business continuity planning has expanded beyond its initial information systems focus of disaster recovery plans to encompass issues such as the impact of a wide range of relevant natural and man-made disasters on company operations. Such issues might include but are not limited to: ~~like~~ terrorism, climate change, a pandemic, fraud, fire, loss of utility services, personnel losses and new laws and regulations. Therefore, it is important that an insurer's business continuity plan be considered throughout all aspects of the examination and not just in the context of a review of the insurer's information systems.

For all insurers, the business continuity process consists of identifying potential threats to an organization and developing plans to provide an effective response to ensure continuation of the company's operations. The objectives of the business continuity process are to minimize financial losses; continue to serve policyholders and financial market participants; and to mitigate the negative effects disruptions can have on an insurer's strategic plans, reputation, operations, liquidity, credit ratings, market position and ability to remain in compliance with laws and regulations. The guidance below provides examiners additional information about the business continuity process a typical insurance company may use. The guidance does not create additional requirements for insurers to comply with, but should be used by examiners to assess the appropriateness of the company's business continuity process.

Some of the basic steps all insurers would expect to have in their business continuity processes consist of:

1. Understanding the Organization

   To develop an appropriate business continuity plan, an insurer must first understand its organization and the urgency with which activities and processes will need to be resumed in the event of a disruption. This step includes performing an annual business impact analysis and a risk assessment. The business impact analysis identifies, quantifies and qualifies the business impacts of a disruption to determine at what point in time the disruption exceeds the maximum allowable recovery time. This point in time is usually determined separately for each key function of the insurer. The risk assessment reviews the probability and impact of various threats to the insurers operations. This involves stress testing the insurer's business processes and business impact analysis assumptions with various threat scenarios. The results of the risk assessment should assist the insurer in refining its business impact analysis and in developing a business continuity strategy.

2. Determining Business Continuity Strategies

   Under this step in the process, the insurer determines and selects business continuity management strategies to be used to continue the organization's business activities and processes after an interruption. This step should use the outputs of step one above to determine what business continuity strategies the insurer will pursue. This includes determining how to manage the risks identified in the risk analysis process. The strategies should be determined at both the corporate and key functional level of the insurer.

3. Developing and Implementing a Business Continuity Plan

   The purpose of the business continuity plan is to identify in advance the actions necessary and the resources required to enable the insurer to manage an interruption regardless of its cause. The plan should be a formal documentation of the insurer's business continuity strategy and should be considered a "living document." Some basic elements that should be included in a business continuity plan include:

   - Crisis management and incident response
   - Roles and responsibilities within the organization
   - Recovery of all critical business functions and supporting systems
   - Alternate recovery sites
   - Communication with policyholders, employees, primary regulators and other stakeholders

   The business continuity plan should be written and should include a step-by-step framework that is easily accessible and able to be read in an emergency situation.

4. Testing and Maintenance

   A company's business continuity plan cannot be considered reliable until is has been reviewed, tested, and maintained. The testing should be based on a methodology that determines what should be tested, how often the tests should be performed, how the tests should be run and how the tests will be scored. It is recommended that key aspects of the plan be tested annually and that the test be based on clear objectives that will allow the results of the test to be scored to determine the effectiveness of the business continuity plan. In addition to testing the plan, the plan should be maintained and updated regularly to ensure that the organization remains ready to handle incidents despite internal and external changes that may affect the plan.

Examiner Review of Business Continuity Plans

Reviewing the insurer's business continuity plan is a vital part of assessing a company's prospective risk and should consider all parts of the business, including outsourced functions. When evaluating the ~~company's~~ business continuity plan, the examiner should first become familiar with the work completed on the insurer's business continuity plan during the review of the company's information systems, which may include reviewing the insurer's business continuity plan to determine any of the following:

- Whether the plan is current, based on a business impact analysis, tested periodically and developed to address all significant business activities;
- Whether the business impact analysis addresses a wide range of relevant natural and man-made disasters such as terrorism, climate change, a pandemic, fraud, fire, loss of utility services, personnel losses, new laws and regulations, etc.
- Whether the business continuity plan clearly describes senior management's roles and responsibilities associated with the declaration of an emergency and implementation of the plan;
- Whether a list of critical computer application programs, data and files has been included in the plan;

- Whether a restoration priority has been assigned to all significant business activities;
- Whether user departments have developed adequate manual processing procedures for use until the electronic data processing function can be restored;
- If copies of the plan are kept in relevant off-site locations;
- If current backup copies of programs, essential documents, records and files are stored in an off-premises location;
- Whether a written agreement or contract exists for use by IT of a specific alternate site and computer hardware to restore data processing operations after a disaster occurs; and
- Whether the business impact analysis is periodically reviewed to determine the appropriateness of maximum recovery times.

After the examiner has become familiar with the work completed on the insurer's business continuity plan during the review of the information systems, the examiner should consider what additional work should be performed to determine whether the insurer has established an appropriate business continuity plan. Examples of additional procedures that may need to be performed include the following:

- Determine if the board has established an appropriate enterprise-wide business continuity planning process and if the board reviews and approves the business continuity plan on an annual basis.
- Determine if senior management periodically reviews and prioritizes each business unit, department, and process for its critical importance and recovery prioritization.
- Determine if senior management has evaluated the adequacy of the business continuity plans of its service providers and whether the capabilities of the service provider are sufficient to meet the insurer's maximum recovery times.
- Review the business continuity plan to determine whether the plan takes into account business continuity risks not related to information technology such as public relations, human resource management and other factors.
- Perform additional procedures as necessary based on the risks of the insurer being examined.

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EXAMINATION REPOSITORY - INVESTMENTS

Annual Statement Blank Line Items

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

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

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

No. 2R Cash, Cash Equivalents, Drafts, and Short-Term Investments
No. 7 Asset Valuation Reserve and Interest Maintenance Reserve
No. 21R Other Admitted Assets
No. 23 Foreign Currency Transactions and Translations
No. 26R Bonds
No. 30R Unaffiliated Common Stock
No. 32R Preferred Stock
No. 34 Investment Income Due and Accrued
No. 37 Mortgage Loans
No. 38 Acquisition, Development and Construction Arrangements
No. 39 Reverse Mortgages
No. 40R Real Estate Investments
No. 41R Surplus Notes
No. 43R Loan-Backed and Structured Securities
No. 44 Capitalization of Interest
No. 48 Joint Ventures, Partnerships and Limited Liability Companies

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No. 49 Policy Loans
No. 56 Separate Accounts
No. 74 Insurance-Linked Securities Issued Through a Protected Cell
No. 83 Mezzanine Real Estate Loans
No. 86 Derivatives
No. 90 Impairment or Disposal of Real Estate Investments
No. 93 Low-Income Housing Tax Credit Property Investments
No. 97 Investments in Subsidiary, Controlled and Affiliated Entities
No. 103R Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

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

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer's investment portfolio and strategy are not appropriately structured to support its ongoing business plan. †	MK CR	Other	AIPS LC	The insurer has a governance structure that routinely challenges, approves and reviews its investment strategy and portfolio in conjunction with the risks facing the business. The insurer considers, current market conditions (including interest rates) and takes into account shifting markets and near-term expectations. The insurer has an investment strategy based on its tolerance for market risks (including market price volatility, securities lending and interest rate risks) with guidelines as to the quality, maturity/duration, expected rates of return, different investment structures and diversification of investments. The insurer has an investment strategy that includes a counterparty risk appetite statement, if applicable, and outlines asset allocation by asset type, credit quality, duration and liquidity, with acceptable ranges based on the different investments	Review the insurer's investment committee and governance structure related to the portfolio decisions. Consider level of expertise in relation to the complexity of the company's investment strategy, as appropriate. Review recent committee minutes for evidence of discussions related to future market expectations. Review the insurer's investment policy to determine if guidelines relating to the quality, maturity and diversification of investments in accordance with market risk factors have been included in the policy. Review how the insurer tracks performance of different asset classes, with a particular focus on market value volatility and losses/impairments.	Review recent performance and benchmark reports in comparison with the company's plan. Review the insurer's investment policy guidelines for appropriateness relating to market risks. Determine whether market risk management specific to high-risk investments is adequate by using an investment specialist. Use the I-Site+ insurer's Snapshot Investment Summary to identify high risk investments where the company's position is greater than average for its competitors in areas such as: • Bonds with call options and varied payment timing. • Foreign investments. • Hybrid capital securities. • Mezzanine loans. • Affiliated investments. • Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), asset-backed securities

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				and their specific characteristics. Correlations across different assets are considered within the strategy.		(ABS) CO/collateralized loan obligation (CLO) or similar bond collateral types. • Structured securities on negative watch.
				The insurer performs routine stress testing and/or scenario analysis that specifically takes into account recent and expected market value volatility by sector and industry in order to determine whether adjustments to the insurer's investment strategy are necessary.	Review the insurer's most recent stress testing/scenario analysis testing documentation to determine the adequacy of the insurer's analysis. Ensure inclusion of complex and volatile assets in investment policy, director review, stress testing, and asset liability matching.	Perform stress testing/scenario analysis on the insurer's investment portfolio (by using an investment specialist if necessary) to identify potential solvency risks.
				The insurer has its own process that is not solely dependent upon credit rating agencies to evaluate the credit worthiness of securities for investment purposes. The process is used prior to significant purchases and on an ongoing basis.	Review the insurer's investment policy and processes to understand the inputs into such decisions and the extent to which it requires credit analysis and is not solely reliant on credit rating agencies. Obtain evidence of the insurer's process to research the quality of the investments.	Test the insurer's investments for compliance with its corporate strategy and investment policy guidelines. ~~Consider use of an investment specialist to evaluate the company's exposure to climate change-related risk regarding its investment portfolio/strategy.~~
				~~The insurer's investment strategy considers the impact of, and market expectations for, climate change on different investments, and the investment policy includes guidelines that require~~	~~Review the company's investment strategy for consideration of climate change in different sections and asset classes.~~	

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				~~diversification to protect against the impact of climate change.~~ The insurer's/group's investment strategy establishes criteria for intra-group investments, when applicable, including: • Liquidity • Contagion or reputational risk • Valuation uncertainty • Impact on capital resources • Nature of the group (or IAIG) business • Financial condition of the legal entities within the group.	Review the insurer's/group's investment strategy to determine if guidelines relating to intra-group investments are included.	
The insurer's investment portfolio and/or strategy are exposed to a potential significant impact from transition and asset devaluation risks associated with material climate change risks.	ST MK CR	Other	AIPS	The insurer has a methodology to identify the assets in the portfolio that are exposed to transition and devaluation risks associated with material climate change risk.	Review the NAIC Climate Disclosure Survey, if available, to understand how the insurer has considered the impact of material climate change risks to its investment portfolio and the climate scenarios utilized by the insurer to analyze risks on its investments. Review the insurer's methodology to understand which assets the insurer considers exposed to transition and devaluation risks.	Compare information provided in the climate disclosure survey against the exam team's understanding of the insurer's control processes to verify and validate the completeness and accuracy of information provided in the public disclosure. Review and utilize the U.S. Insurance Industry Climate Affected Investment Analysis made available through the NAIC to identify potential exposures in the insurer's portfolio

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				The insurer has a governance structure that routinely challenges, approves, and reviews its investment strategy and portfolio in conjunction with material climate change risks.	Review the insurer's investment committee and governance structure related to portfolio decisions. Consider the level of expertise in relation to the company's exposure to climate change and energy transition, as appropriate. Review recent committee minutes for evidence of discussions related to the impact of climate change and energy transition risks.	and/or compare against the insurer's stress testing/scenario analysis for reasonableness. If concerns are identified, consider the use of an investment specialist to further evaluate the company's exposure to material climate change risks in its investment portfolio and/or strategy.
				The insurer's investment policy includes guidelines and limits that require diversification to protect against the potential impacts of climate change risks.	Review investment guidelines and limits (including enforcement) to ensure that the potential impacts of climate change and energy transition risks have been mitigated.	
				The insurer conducts stress testing/scenario analysis or asset return simulations on its current and prospective asset portfolio to identify concentrations in exposure from transition and asset devaluation risks associated with material climate change risks.	Review stress testing/scenario analysis or asset return simulations conducted by the insurer on its asset portfolio and investment strategy to evaluate their completeness and reasonableness. • Ensure the company is taking steps to monitor and mitigate potentially significant concentration in exposures on an ongoing basis	

EXAMINATION REPOSITORY – REINSURANCE (ASSUMING INSURER)

Annual Statement Blank Line Items

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

Reinsurance Payable on Paid Loss and Loss Adjustment Expenses
Funds Held by the Company Under Reinsurance Treaties
Contract Liabilities Not Included Elsewhere – Other Amounts Payable on Reinsurance
Commissions and Expense Allowances Payable on Reinsurance Assumed

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

No. 5R Liabilities, Contingencies and Impairments of Assets – Revised
No. 6 Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers
No. 25 Affiliates and Other Related Parties
No. 61R Life, Deposit-Type and Accident and Health Reinsurance – Revised
No. 62R Property and Casualty Reinsurance – Revised
No. 63 Underwriting Pools
No. 64 Offsetting and Netting of Assets and Liabilities
No. 65 Property and Casualty Contracts

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

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The (re)insurer does not have or is not complying with its reinsurance underwriting strategy. †	OP ST	Other	UPSQ	The (re)insurer has a documented reinsurance underwriting strategy that indicates the type of reinsurance to be offered and the guidelines for ceding companies to meet, which is approved by the board of directors (or committee thereof). The (re)insurer has a formal process in place to review and approve reinsurance agreements for compliance with the company's documented strategy.	Review meeting minutes of the board of directors (or committee thereof) or other evidence of board involvement in the approval of the (re)insurer's reinsurance strategy. Obtain and review documented reinsurance underwriting strategy. Select a sample of new reinsurance contracts for evidence of review and approval in accordance with the insurer's process.	Review ~~assuming~~ agreements to determine whether the lines, types and limits of business assumed conform to the (re)insurer's reinsurance underwriting strategy.
The (re)insurer is not properly evaluating and monitoring the ceding insurer for compliance with guidelines outlined in the reinsurance underwriting strategy. †	OP	Other	UPSQ	Prior to entering into contracts, the (re)insurer performs due diligence on the potential ceding insurers to ensure compliance with the reinsurer's underwriting and claims practices. Throughout the term of the contract, the (re)insurer periodically reviews the underwriting practices and evaluates the underwriting and claims results of ceding insurers through analytical reviews and/or quality assurance (QA) reviews.	Obtain documentation of the (re)insurer's due diligence and consider whether the work completed is appropriate. Obtain documentation of the (re)insurer's periodic reviews of ceding insurers.	Review analytically the results of ceding insurers to evaluate their underwriting and claims practices.

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
The (re)insurer does not collect accurate and complete loss exposure data from ceding insurers~~/brokers~~ to effectively aggregate risk exposures. † (See also Examination Repository – Reserves/Claims Handling.)	OP ST	Other	UPSQ AARP RD	The (re)insurer has a process in place to review and accumulate loss exposure data reported by its ceding insurer~~/brokers~~. • The process includes consistency checks/variance analysis in reviewing reported data; and ~~The (re)insurer conducts~~, if necessary, periodic audits of ceding companies to review reported loss exposure data and other significant reporting elements.	Review and test the operating effectiveness of the (re)insurer's processes to review and accumulate loss exposure data reported by ceding insurers~~/brokers~~.	Analytically review the loss exposure data reported by ceding insurers~~/brokers~~ to identify potential inconsistencies. If deemed necessary, perform additional procedures to get comfort with the loss exposure data reported to the (re)insurer from ceding insurers~~/brokers~~.
The (re)insurer has not established ~~and maintained~~ appropriate risk exposure limits for assuming reinsurance or is not monitoring the established limits. † (Note that this risk relates only to assumed business. See Underwriting Repository for additional risks and considerations related to all writings.)	OP ST	Other	UPSQ	The (re)insurer has established and documented risk exposure limits by geography and/or line of business that have been reviewed and approved by senior management. The (re)insurer is monitoring the exposure against the limits on an ongoing basis. The (re)insurer utilizes catastrophe models to monitor its catastrophic exposure against the established limits. The (re)insurer utilizes a fully staffed, well-qualified reinsurance department that	Review documentation of risk exposure limits and evidence of senior management review/approval. Review the dashboards/reports that compare the exposure against the limits. Inquire as to how catastrophe models are used to monitor the (re)insurer's catastrophic exposure. Review the credentials, background and responsibilities of the senior	If necessary, recalculate the aggregate loss exposures by reviewing data reported by ceding insurers/brokers. Utilize audit software to review the (re)insurer's risk exposures (e.g., summarize policies by ZIP code, industry code, policy size, etc.) for compliance with insurer limits. If the (re)insurer has not identified risk exposure limits, test the risk exposures for appropriateness by considering industry standards.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				has experience in all lines of business and geographic locations served by the (re)insurer. The (re)insurer accumulates assumed loss exposure data and utilizes data models to track compliance with exposure limits established by the (re)insurer.	personnel managing the insurer's reinsurance function. Test the operating effectiveness of the (re)insurer's controls to accumulate loss exposure data and track compliance with the exposure limits by reviewing the modeling process.	

EXAMINATION REPOSITORY – REINSURANCE (CEDING INSURER)

Annual Statement Blank Line Items

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

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

No. 5R Liabilities, Contingencies and Impairments of Assets – Revised
No. 25 Affiliates and Other Related Parties
No. 61R Life, Deposit-Type and Accident and Health Reinsurance – Revised (*Health/Life Companies*)
No. 62R Property and Casualty Reinsurance – Revised (*P&C Companies*)
No. 63 Underwriting Pools (*Health/Life Companies*)
No. 64 Offsetting and Netting of Assets and Liabilities
No. 65 Property and Casualty Contracts (*P&C Companies*)

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

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer does not accurately identify, accumulate and track its aggregate loss exposures that may require reinsurance coverage. † (See also examination Repository – Underwriting and Examination Repository— Reinsurance Assumed)	~~ST~~OP	Other	AARP	The insurer has a risk management function in place to identify, track and monitor various loss exposures (e.g., catastrophic risk, mortality, morbidity, epidemic, etc.). The insurer has processes in place to ensure that policy information is correctly captured in the system on direct and assumed business ~~(See also Examination Repository – Underwriting).~~ (Note: This function may be outsourced to a TPA/MGA). ~~The (re)insurer has a process in place to review and accumulate loss exposure data reported by its ceding insurer/brokers for inclusion in tracking aggregate loss exposure (See also Examination Repository – Reinsurance Assumed).~~ If this process is outsourced to a third-party administrator (TPA) or managing general agent (MGA), the insurer has a process in place to ensure that the TPA/MGA correctly inputs data into	Review and test the operating effectiveness of the insurer's processes to identify, track and monitor relevant loss exposures. Test controls relating to the accuracy of policy data uploaded (by the insurer or a TPA/MGA) to the system on direct and assumed business ~~(See also Examination Repository – Underwriting~~). ~~Review and test the operating effectiveness of the (re)insurer's processes to review and accumulate loss exposure data reported by ceding insurers/brokers (See also Examination Repository – Reinsurance Assumed).~~	Select a sample of directly underwritten policies to verify that the insurer has correctly recorded loss exposure data associated with relevant policies ~~(See also Examination Repository – Underwriting).~~ Analytically review the loss exposure data reported to the company by ceding insurers/brokers on assumed business to identify potential inconsistencies ~~(See also Examination Repository – Reinsurance Assumed).~~ ~~If deemed necessary, perform additional procedures to get comfort with the loss exposure data reported to the (re)insurer from ceding insurers/brokers on assumed business (See also Examination Repository – Reinsurance Assumed).~~

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				the system. The underwriting and the reinsurance functions of the insurer have an ongoing and continuous dialogue on loss exposure that should be included in the reinsurance structure.	Review evidence of interaction between the underwriting, claims and reinsurance areas.	
The insurer has not established and maintained appropriate reinsurance levels in accordance with the company's capital level, loss exposures and underwriting risk profile. †	ST OP	Other	AARP	The insurer has a well-defined reinsurance strategy that is based on the aggregate loss exposures it faces. The strategy indicates the type of reinsurance (e.g., aggregate excess of loss, per occurrence, appropriate reinstatement, etc.) to be maintained by the organization and is approved by the board of directors (or a committee thereof). ~~The insurer has established and documented exposure limits and a risk appetite that have been reviewed and approved by senior management.~~ The insurer maintains reinsurance coverages in accordance with its~~reinsures all exposures that exceed the exposure limits and maintains coverage in accordance~~	Review meeting minutes of the board of directors (or a committee thereof) or other evidence of board involvement in the approval of the insurer's reinsurance ~~policy~~strategy. Review how aggregated/modeled loss exposures ~~data~~ are ~~is~~ utilized by the company to reach reinsurance decisions. ~~Review documentation of reinsurance coverage limits and evidence of senior management review/approval.~~ Review dashboards for actual compared to risk appetite and net risk limits. ~~Review a summary of all reinsurance contracts to~~	Review the insurer's reinsurance levels for appropriateness. Consider the results of ~~data aggregation/ models~~aggregated/modeled loss exposure to assist in this assessment. Review the insurer's reinsurance coverage as compared to the risk being retained by the insurer and benchmark against peers to ensure adequate, but not excessive, reinsurance levels. ~~Calculate the historical aggregate profitability of reinsurance.~~ ~~Review~~ Consider involving a reinsurance expert to review the reinsurance contracts. The review should ~~to~~ determine that the coverages are in accordance with the net risk limits and risk appetite. In addition, review the impact of any ~~if~~ risk-limiting

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				~~with its~~ risk appetite and net risk limits. ~~The insurer has developed formal documentation of its reinsurance structure and has established an effective, ongoing dialogue among the underwriting, claims and reinsurance areas.~~ ~~The insurer has a process in place to evaluate the effectiveness of its reinsurance coverage.~~ The insurer performs a cost/benefit analysis ~~prior to entering into reinsurance agreements~~of the overall reinsurance strategy and/or significant individual contracts.	~~ensure that the coverages match the insurer's exposure limits.~~ ~~Review evidence of interaction between the underwriting, claims and reinsurance areas.~~ ~~Review the insurer's analysis of results gross and net of reinsurance.~~ Review the insurer's cost/benefit analysis of the overall reinsurance strategy and/or significant individual contracts.	provisions (e.g., sliding commissions, loss corridors, etc.) ~~impact the~~on the effectiveness of the insurer's reinsurance strategy. Perform procedures to evaluate the cost/benefit of the insurer's overall reinsurance strategy and/or significant individual contracts by: • ~~Consider A~~Aapplying a range of scenarios to a selection of significant reinsurance contracts to test the overall performance/prospective profitability of the contract and to assess whether the ceding commission is greater than the cost to write the business. • -Evaluating historical performance (i.e., back testing) of reinsurance coverage provisions.
The insurer's catastrophic reinsurance protections are inadequate. † Note: For P&C insurers. Examiners should utilize	ST OP	Other	AARP	To determine the level of catastrophic reinsurance protection, t~~T~~he insurer uses ~~one of the industry's catastrophic modeling software tools~~third-party commercial vendor catastrophe models (see *NAIC's Property/Casualty*	Review ~~the adequacy of the process and tools utilized to determine the insurer's~~ the PMLs ~~amount(s).~~ for catastrophe perils and compare them to the catastrophic reinsurance structure that has been selected.	Verify that what is reported in the RBC RCAT is consistent with PMLs the insurer uses for own risk assessment purposes. Discuss and/or obtain explanation for material discrepancies. Obtain information on

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
information contained in the RCAT Attestation provided by insurers that are subject to this filing requirement.				*RBC Forecasting and Instructions* for a list of approved vendors) ~~(such as RMS, AIR, EQECAT, etc.)~~ or internally developed catastrophe models that have been compared against commercial vendor models. The models ~~to~~ determine ~~the~~ gross probable maximum losses (PMLs) ~~by zone.~~ for catastrophe perils. • Modeled results used for own risk assessment purposes are consistent with what is reported in the RBC RCAT filing. The insurer selects the most appropriate reinsurance strategy and structure by evaluating model results, considering capital resources, conducting cost/benefit analysis, considering broker recommendations, regulatory requirements, etc. The strategy and structure are discussed with and approved by senior management, including the following elements: • Use of traditional and non-traditional	Obtain and review the insurer's reconciliation of the modeled PMLs to the RBC RCAT filing reported to the NAIC and discuss and/or obtain explanation for material discrepancies. Obtain evidence of the process used by the insurer to evaluate and approve various reinsurance strategies and structures. Obtain from insurer benchmarking information on catastrophic reinsurance coverage and compare the insurer's coverage against the benchmarking and discuss with the insurer any significant differences.	catastrophic reinsurance coverage from public information (10Ks, Climate Disclosure Survey, etc.) or ORSA report for internal consistency and independent validation by reconciling to source documents. Review the reasonableness of the catastrophic reinsurance coverage in place at the insurer by benchmarking against competitors and/or comparing against industry standards (e.g., reviewing premium retention percentages or net PMLs as a percentage of surplus against competitors). Consider involving an exam actuary or reinsurance specialist in assessing the adequacy of the insurer's catastrophic reinsurance coverage. The specialist should determine if there are retrospective provisions (such as loss limiting features) that would cause the insurer to retroactively pay a higher reinsurance premium. If this trigger is present, determine if the insurer has the financial resources to pay the higher premium.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				structures (e.g., insurance-linked securities) • Retention and reinstatement provisions, aggregate versus occurrence structures • Attachment and exhaustion levels ~~The process includes actuarial involvement with the ceded reinsurance department to insure the ceded department purchases the proper amount of reinsurance.~~ ~~The insurer adjusts its retentions or uses reinsurance alternatives, such as cat bonds, to ensure full placement at each catastrophic layer.~~ ~~The insurer has protected itself against multiple occurrences in the same period with contractual reinstatement of coverage.~~	~~Determine whether the insured's reinsurance strategy includes the involvement of the actuarial and ceded reinsurance departments in the purchasing of catastrophic reinsurance.~~ ~~Review the coverages in place for each layer of reinsurance for appropriate supervisory review.~~ ~~Determine whether the insurer's reinsurance strategy requires premium reinstatement for the cat program.~~	
The insurer is over-exposed to credit and liquidity risks in its use of reinsurance counterparties. †	~~OP~~ ~~ST~~ CR LQ	Other	AARP	The insurer has policies in place requiring utilization of multiple reinsurers to reduce concentration with any one entity. The insurer has ~~developed~~ a ~~formal~~ process to	Test the operating effectiveness of the insurer's controls to track compliance with the concentration policy. Obtain evidence of the ~~company's~~ insurer's	Based on a review of significant contracts, determine whether the insurer is properly diversified. Perform procedures to evaluate the quality of significant reinsurers utilized by the insurer, for example:

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				approve reinsurance counterparties. The insurer has a process in place to preapprove and set maximum limits to be ceded to reinsurers that are monitored and revised, as necessary. The insurer continually monitors the financial solvency of its reinsurers throughout the duration of the reinsurance contracts. Collateral is held in association with significant treaties to encourage prompt settlement and fulfillment of obligations.	process to approve reinsurance counterparties and to determine the credit worthiness of the counterparties. Obtain evidence of the preapproval process and documentation of maximum reinsurance limits. Obtain evidence of the insurer's ongoing review of its reinsurers. Obtain evidence of the insurer's process to consider/require collateral to be held for significant treaties.	• Review agency ratings • Review financial results Contact domestic regulator regarding any concerns. For select reinsurers, verify that the balance currently ceded is within the maximum limits set by the insurer. Review the liquidity of the assets used to secure the collateral and verify that these assets are correctly attributed to the reinsurers.
~~Smaller, less complex or new insurers are unable to negotiate equitable reinsurance contract terms from larger or more experienced reinsurers. †~~	~~OP~~ ~~ST~~ ~~LQ~~	~~Other~~	~~AARP~~	~~The insurer engages licensed reinsurance intermediaries to negotiate fair and accurate reinsurance contracts on its behalf.~~	~~Review the work performed by the insurer to determine whether the intermediary is licensed.~~	~~Review the credentials, background and experience of those negotiating the contracts to ensure that they are licensed to represent the insurer in contract negotiations.~~

EXAMINATION REPOSITORY – UNDERWRITING

Annual Statement Blank Line Items

There are no Annual Statement line items directly related to the underwriting process; however, policies underwritten and rate calculations may affect line items associated with areas such as premiums and reserves.

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

No. 6 Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers (*All Lines*)
No. 51R Life Contracts (*Life Companies*)
No. 53 Property and Casualty Contracts – Premiums (*Property/Casualty [P/C] Companies*)
No. 54R Individual and Group Accident and Health Contracts (*Health Companies*)
No. 65 Property and Casualty Contracts (*P/C Companies*)

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

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer has not established and maintained appropriate risk exposure limits ~~(including catastrophe coverage)~~ that are consistent with risk appetite. † (See also examination Repository – Reinsurance Ceding)	ST PR/UW	Other CO	UPSQ	The insurer has established and documented risk exposure limits by state/geographic areay, ~~other~~ rating classes ~~and~~ lines of business (coverages) and other criteria that have been reviewed and approved by senior management. • ~~For some unique lines of business or exposures (e.g., terrorism, casualty catastrophe, etc.) the insurer tracks exposure limits at a more granular level (e.g., geocode) to ensure that concentrations are within its risk appetite.~~ ~~Risk exposure limits established by the insurer consider the direct and indirect impacts of climate change risk.~~ The insurer utilizes a fully staffed, well-qualified underwriting function that has experience in all lines of business (coverages) and geographic locations (rating classes) served by the insurer. ~~The insurer utilizes risk~~	Review documentation of risk exposure limits and evidence of senior management/Board of Directors review/approval. ~~Consider if the risk limits are consistent with the risk appetite and risk tolerance levels articulated in the company's ERM process and consider alignment with company's reinsurance program.~~ ~~Perform a walkthrough of the underwriting process and observe how the impact of climate change risk is considered when establishing risk exposure limits.~~ Review the credentials, background and responsibilities of the insurer's underwriting function (internal and/or external). ~~Test the operating effectiveness of the insurer's controls to track compliance with the exposure limits by reviewing modeling data.~~	~~Use audit software to review the insurer's risk exposures for compliance with insurer limits. (For P/C companies, summarize policies by ZIP code, industry code, policy size, etc. For life and health companies, summarize by risk class, age, medical codes, etc.) for compliance with insurer limits.~~ If the insurer has not identified risk exposure limits, test the risk exposures for appropriateness by considering applicable industry standards and comparison to peer groups. Perform detailed review of risk exposure models and management reports to monitor exposure by risk. Areas to consider include accuracy and completeness of input data, reasonableness of methodology and results as well as management discipline in adhering to risk exposure limits.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				~~models to track compliance with exposure limits established by the insurer.~~ The insurer has a process to accumulate the underwriting exposure both at the segment (line of business, region, etc.) and the aggregate level and compare it with the segment limits and enterprise-wide risk appetite.	Review dashboards or other risk management reports to verify that aggregate risk exposure is consistent with the segment limits, risk appetite and risk tolerance levels articulated in the company's ERM process and in alignment with the company's reinsurance program.	
The insurer has not established and maintained appropriate catastrophic risk exposure limits that are consistent with its risk appetite. (See also examination	ST PR/UW	AC CO	UPSQ	The insurer has established more granular concentration limits for various catastrophe risks. The limits can be set by peril as zone limits, or through scenario analysis or by using a catastrophe model, depending on the	Verify that management reviews and approves concentration limits that are consistent with the risk appetite and risk tolerance levels articulated in the company's ERM process.	Evaluate the appropriateness of concentration limits in comparison to the overall risk appetite, reinsurance strategy and capital available to the insurer by considering applicable industry standards and

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Repository – Reinsurance Ceding) Note: This risk is intended to address catastrophe risk exposure (natural, terrorism/man-made, casualty liability, pandemics).				sophistication of the insurer. For example: • The PML calculated using a catastrophe model for a 1 – 250 loss event for earthquake risk in CA cannot exceed 2% policy holder surplus. • Limit commercial real estate exposure to $2.5 billion for a 5 square block radius to mitigate the impact of a terrorism event.		comparison to peer groups.
				The insurer monitors the actual exposure to the catastrophe risks to the concentration limits on a frequent basis and reports to management.	Verify that management reviews and approves reports of actual exposure to catastrophe risk limits on a regular basis.	
				The insurer has an escalation process to respond to the exposure to catastrophe risk approaching the concentration limits.	Verify that any exposures approaching the concentration limit are subject to management review and action, if appropriate, to reduce the gross risk exposure (i.e., stop underwriting new business, non-renew certain policies, increase the limit, re-rate business, etc.).	
				Concentration limits established by the insurer are regularly updated to	Perform a walkthrough of the underwriting process and observe how the impact	

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				consider the direct and indirect impacts of climate change risk.	of climate change risk is considered when establishing and updating concentration limits for catastrophe risk.	
The catastrophe (CAT) risk exposure calculations are not produced by a reliable process and/or data input. Note: this is for catastrophe risks only (natural, terrorism/man-made, casualty liability, pandemics).	ST PR/UW	AC CO	UPSQ	The insurer has a process to ensure that: • Input data into the CAT model is complete and timely populated from the data sources. Input data is correctly transformed into the modeling format. • The selection of the CAT model assumptions is documented. • Non-modeled risks are quantified and aggregated into the CAT model output. • Outputs of the CAT model are checked for reasonableness and the CAT model is independently validated on a regular basis.	Verify that data reconciliations exist to ensure that inputs are loaded and transformed into the CAT model correctly. Obtain and review the documentation of the assumptions. Additionally, obtain and review the documentation of the quantification methodology of the non-modeled risks. Obtain and review the validation report produced by the independent validator. Conduct and document a walkthrough of the CAT modeling process to ensure that inputs are complete, timely and reconciled to the source data, assumptions are reviewed and documented, and outputs are validated and approved by management before being used for underwriting.	Select a sample of input data and reconcile to the data sources. Consider engaging the NAIC catastrophe modeling center of excellence or independent expert to review the CAT modeling process for reasonableness. Consider selecting a sample of actual losses and compare them with the estimates from the CAT model.
The insurer has not established sufficient pricing practices, resulting in inadequate or excessive premium	ST PR/UW	Other	UPSQ	The insurer has developed comprehensive pricing practices that have been approved by senior management.	Review documentation of pricing practices and evidence of senior management review/approval.	Review the underwriting and pricing guidelines established by the insurer for appropriateness.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
rates in relation to its assumed risks and expense structure. Consider utilizing an actuarial specialist to assist with test procedures related to this risk. †				Pricing practices include consideration of future changes in loss development including the impact of climate change risk, where allowed. The insurer utilizes a fully staffed, well-qualified pricing actuarial function that has experience in all lines of business (coverages) and geographic locations (rating classes) served by the insurer. The pricing actuarial function has an established process to calculate base premium rates based on historical loss results, trends, principal advisory organizations (ISO, LIMRA, etc.) and/or other appropriate factors (e.g., costs of reinsurance, expense structure, commission rates) and the calculation is subject to a peer-review process. Regulatory changes are factored into pricing decisions.	Perform a walkthrough of the pricing process and observe how the impact of claim trends including climate change risk and weather variability is considered when establishing rates/prices, where allowed. Review the credentials, background and responsibilities of the insurer's pricing actuarial department for appropriateness. Perform a walkthrough to gain an understanding of the rate calculation process and obtain evidence of a peer review of base premium rate calculations and possibly get input from line personnel. Perform a walkthrough of the company's pricing process and observe how regulatory changes are factored into pricing decisions.	Perform analytical procedures to review the insurer's profitability and history of indicated rates vs. selected/filed rates to evaluate the sufficiency of premium rates. If rates have been subject to insurance department approval, consider whether reliance can be placed on this work. If deemed necessary, utilize the insurance department actuary or an independent actuary to perform a review or independent calculation of base premium rates. Compare base premium rates utilized by the insurer to industry averages and advisory organization recommendations for reasonableness.

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EXHIBIT A
EXAMINATION PLANNING PROCEDURES CHECKLIST

COMPANY NAME______________________________

PERIOD OF EXAMINATION ______________________________

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

Examiner	Date

<u>Pre-planning Procedures</u>

1. At least six months prior to the as-of date, notify the company and its external auditors, with company personnel's assistance, that an examination will take place and that the auditor workpapers will be requested when the exam begins.

2. If the examination is to be performed on a company that is part of a holding company group, send an informal notification at least six months prior to the as-of date to other states that have domestics in the group.

3. Call the examination in the Financial Exam Electronic Tracking System (FEETS) at least 90 days prior to the exam start date.

    a. If the examination is to be performed on a company that is part of a holding company group, document your attempts to coordinate the exam with the Lead State and other domestic state(s) within your group. Utilize Exhibit Z – Examination Coordination to assist with this process.

4. Send preliminary information requests to the company with sufficient lead-time to allow information to be provided prior to the start of examination fieldwork. Exhibit B – Examination Planning Questionnaire and Exhibit C, Part One – Information Technology Planning Questionnaire can be utilized to assist in developing pre-planning requests. **Note**: The examiner is encouraged, with input from the financial analyst when possible, to customize Exhibit B to the insurer being examined prior to submitting the information request.

<u>Phase 1 – Understand the Company and Identify Key Functional Activities to be Reviewed</u>

Part 1: Understanding the Company

Step 1. Gather Necessary Planning Information

Meet with the Financial Analyst

1. Meet (in person or via conference call) with the assigned financial analyst (and/or analyst supervisor) to gain an understanding of company information available to the department. In addition, discuss risks and concerns highlighted in the Insurer Profile Summary as well as the company's financial condition and operating results since the last

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examination. Ascertain the reasons for unusual trends, abnormal ratios and transactions that are not easily discernible. Document a summary of significant risks identified by the analyst for further review on the examination. **Note**: An email exchange, in and of itself, is not deemed sufficient to achieve the expectation of a planning meeting with the assigned analyst.

a. If deemed necessary, obtain supporting documentation from the most recent annual financial statement analysis to aid in the identification of significant risks and facilitate ongoing discussion with the analyst.

Obtain Existing Documentation

2. Obtain copies of relevant information available to the insurance department as deemed necessary to aid in the identification of significant risks. (**Note:** Review of these documents may have already been performed by the analysis unit, while other documents may readily be available on I-Site+ in accordance with NAIC general filing deadlines and requirements.) Such information may include but is not limited to:

   a. Annual financial statements.

   b. Previous examination report and supporting workpapers.

   c. Market conduct report (if deemed applicable).

   d. CPA financial statement audit report.

   e. Actuarial opinion.

   f. Independent loss reserve analysis report, if done.

   g. Management's discussion and analysis letter.

   h. Risk-based capital (RBC) report.

   i. Holding company registration statements.

   j. SEC registration statements, most recent 10-K and 10-Q.

   k. CPA's audit of internal control over financial reporting (SOX) report.

   l. Examination Jumpstart reports.

   m. IRIS reports.

   n. Department's correspondence file.

   o. Inter-divisional memorandum.

   p. NAIC database reports (RIRS, CDS).

q. Credit rating agency reports.

r. Articles of incorporation, bylaws and amendments.

s. Recently approved agreements or contracts (e.g., expense-sharing agreements, assumption reinsurance contracts, custodial agreements, etc.).

t. Form F – Enterprise Risk Report.

u. Own Risk and Solvency Assessment (ORSA) summary report.

v. Climate-Related Disclosures (e.g., Climate Risk Disclosure Survey, Task Force on Climate-Related Financial Disclosures [TCFD], or SEC required disclosures if applicable).

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EXHIBIT B
EXAMINATION PLANNING QUESTIONNAIRE

The Examination Planning Questionnaire contains procedures and questions that are designed to assist the examiner in gathering necessary planning information and obtaining an understanding of the insurer's organization. The examiner or company personnel should complete this questionnaire as early in exam planning as practical. If company personnel complete this exhibit, identification of who completed each request, as well as supporting documentation, should be provided to the examination team, and the responses to this questionnaire should be critically evaluated by the examiner. If information requested through the questionnaire has already been provided to the department, the company's response should so state and reference when and how the information was provided. The substance of the information collected during the completion of this questionnaire should be incorporated into the Examination Planning Memorandum. The questionnaire responses should be considered when identifying the inherent risks of the insurer. They should also affect the planned examination approach, as well as the nature, timing and extent of examination procedures performed.

Examiners may consider requesting the completion of Section K – Liquidity during intervals outside of the full-scope examination period (e.g., annually). Most questions in this section are intended for all insurers. However, questions 9, 10 and 11 in this section apply to life insurers only. Therefore, the questionnaire should be customized before it is provided to the insurer. If the examiner has prior knowledge or reason to believe the company may be facing significant liquidity risks, the additional liquidity tables included at Attachment 1 may also be requested to prompt the company to provide greater detail regarding potential liquidity risks (typically most applicable to life insurers). Alternatively, if the examiner is not already aware of significant liquidity risks, it may be appropriate to first review the company's responses to the liquidity questions before determining whether the additional detail provided by the tables should be gathered.

If the company's state of domicile has adopted the *Corporate Governance Annual Disclosure Model Act* (#305) and *Corporate Governance Annual Disclosure Model Regulation* (#306), the following information may have been provided via the Corporate Governance Annual Disclosure (CGAD) filed with the insurance department. If the CGAD is available to the examiner, Section IA – The Board of Directors and its Committees and Section VI – Code of Conduct may be removed from the questionnaire prior to providing to the company for completion.

Similarly, if the insurance company has completed any of the climate-related disclosures (e.g., Climate Risk Disclosure Survey, Task Force on Climate-Related Financial Disclosures (TCFD) or SEC required disclosures), some of the following information may have already been provided within those disclosures.

Customization of Questionnaire Prior to Distribution

This questionnaire should be customized to the insurer being examined to allow the examiner or company personnel completing the questionnaire to focus only on the applicable questions. The questions that remain should be completely addressed, providing additional support if necessary. It is possible that the financial analyst has performed work in these areas as part of the analysis procedures. Therefore, prior to completion of the questionnaire, the exam team should communicate with the analyst to determine whether the information has already been obtained in order to reduce duplication of work and duplicative information requests to the insurer.

To assist the exam team in identifying information that may already be provided to the department, requests that may be collected through the financial analysis process have been denoted with an asterisk (*) and items that may be addressed within climate-related disclosures have been denoted with a caret (^) for ease in identification and potential removal from the questionnaire.

Instructions for Completing Exhibit

Please provide the most current version of the following items to the examination team within the specified timeline. If a requested item has already been provided to the department, please note the date and to whom it was provided.

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	COMPLETED BY	SUPPORTING DOCUMENTATION
I. OWNERSHIP AND MANAGEMENT INFLUENCES		
A. The Board of Directors and its Committees The purpose of this section is to gather information related to the insurer's board of directors and its committees, including the audit committee. **DETAIL ELIMINATED TO CONSERVE SPACE**		
B. Corporate Planning		
1. Advise whether the company has developed a long-term strategic plan. Summarize the company's business strategy, if applicable, and provide the following information		
a. How often are the strategic and business plans reviewed and updated? *		
b. How does management obtain and use information to stay abreast of changes in the competitive, technological, and regulatory environments? What resources are used?		
c. What is the scope of the established compliance and ethics program and how does it integrate with the company's overall business strategy?		
d. How is the strategic plan affected by the company's risk management practices? *		
i. How are risks accumulated and addressed? *		
ii. Does the company have an impact of climate change risk strategy? Have any risks been identified related to the impact of climate change risk and, if so, what are they and how are these risks incorporated into the company's overall business strategy? *^		
C. Use of Specialists		
1. List any key consultants (e.g., actuarial specialist, investment manager, etc.) whose services were used during the examination period. State the specialist's relationship, if any, to the company, and the applicable reporting structure (i.e., to whom the specialists' reports are provided, to whom the specialist(s) have access, etc.). **DETAIL ELIMINATED TO CONSERVE SPACE**		

	COMPLETED BY	SUPPORTING DOCUMENTATION
II. ORGANIZATION AND PERSONNEL PRACTICES		
A. Organization		
1. Provide details of the company structure, including:		
a. To the extent the corporate structure chart (by legal/business unit) has changed since the last annual statement filing, please provide the latest structure chart available. *		
b. Personnel organization chart. *		
c. Organizational chart detailing the structure of key business activities, including the individuals responsible for each activity, areas of responsibility and lines of reporting and communication.		
d. A list of critical management and operating committees and their members.		
2. Provide a copy of the formal conflict of interest policy. Provide information on the following elements regarding the conflict of interest policy:		
a. Does the conflict of interest policy require periodic declarations by officers, directors and key employees?		
b. Describe the system used to monitor compliance with the conflict of interest policy.		
c. What position in the organization provides oversight and leadership in the compliance/ethics function, and where does this position fall in the organization chart?		
3. Does the company have a written corporate governance framework? If so, describe how the corporate governance framework meets factors a–i~~h~~ below. (Note that similar to Section I.A above, if the examiner has access to the CGAD, this question may be removed from the questionnaire prior to providing to the company for completion.)		
a. Approved and overseen by the board of directors.		
b. Implemented and monitored by executive management.		
c. Aimed at the identification and fulfillment of sound ethical, strategic, and financial objectives.		
d. Supported by business planning and resource allocation.		

	COMPLETED BY	SUPPORTING DOCUMENTATION
e. Built by reliable business planning and proactive resource allocation.		
f. Reinforced by firm adherence to sound principles of segregation of duties.		
g. Independent in the assessment of these programs. Is the assessment of these programs performed by the internal audit and/or by the independent certified public accountants?		
h. Objective in reporting of findings to the board or appropriate committees thereof.		
i. Considers climate risks. For example, are there governance structures in place in your organization through which board members and senior management may have oversight over material climate-related risks? ^		
DETAIL ELIMINATED TO CONSERVE SPACE IV. MONITORING PROCEDURES		
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D. Investments		
1. Provide a copy of the company's investment policy and answer the following questions:*		
a. How often is the policy reviewed and updated?		
b. How is investment performance periodically reviewed by management?		
c. How are investment activities approved by the board of directors?		
d. Does the company consider the impact of material climate change risks when determining its investment strategy and/or monitoring the risks in its investment portfolio? Explain why or why not. ^		
G. Reinsurance		
1. Describe the overall reinsurance strategy including the following:		

	COMPLETED BY	SUPPORTING DOCUMENTATION
a. How reinsurance is evaluated in terms of internal and external factors;		
b. The company's reliance on reinsurance to meet business goals;		
c. The process for reinsurance decision making, including factors considered and/or rationale for changes made.		
2. Do reinsurance agreements and material amendments require formal review and approval, prior to execution, by officers? Explain which officers complete this review and approval. Also note whether the board of directors also reviews and approves reinsurance agreements.		
3. Discuss any major changes in terms (e.g., commission, percent participation, limits or retentions) or conditions of contracts with significant management companies, agents or on reinsurance layers. Document in detail significant specific arrangements with agents, MGAs or others.*		

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EXHIBIT I
EXAMINATION PLANNING MEMORANDUM

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

COMPANY NAME:

EXAMINATION DATE:

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

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KEY ACTIVITIES AND RISKS (Phase 1, Part 4 and Phase 2)

The purpose of the risk-focused surveillance process is to identify areas of high risk for concentration of efforts in order to enable more efficient use of examiners resources. This section should summarize the general process and results of selecting the key activities that will be addressed during the examination. At a minimum, the exam team should address the following:

Critical Risk Categories

If the examiner does not intend to address risks related to a specific critical risk category within one of the key activities selected, the rationale for such should be adequately documented in this memo (e.g., the examiner does not plan to address the critical risk category related to reinsurance reporting and collectibility because the insurer does not have any reinsurance agreements in place).

Climate Related risks

The examination team should consider how potentially significant climate change risks could impact the insurer and document how such risks will be evaluated by the examination, if applicable.

Any additional discussion regarding the overall examination approach for specific key activities or inherent risks can be included here.

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EXHIBIT V – OVERARCHING PROSPECTIVE RISK ASSESSMENT

Background

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

Use of this Exhibit

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

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

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

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

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

The investigation of prospective risks on Exhibit V should be completed by the end of Phase 5. It is not required that the various steps to investigate prospective risks on Exhibit V directly coincide with the seven-phase exam approach, but it is recommended that examiners complete each step of Exhibit V as early in the exam as practical to ensure each risk identified is sufficiently tested and reviewed.

Exhibit V, Part One – Overarching Prospective Risk Testing Template

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

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

Exhibit V, Part Two – Common Areas of Concern

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

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PART ONE – OVERARCHING PROSPECTIVE RISK TESTING TEMPLATE

Overarching Prospective Risk Identified	Br. Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assess Level	Trend	Rationale	Communicate Findings to Financial Analysis
Example Prospective Risk 4: *The company may experience increased frequency and/or increased severity of natural hazards due to climate change risk in future years, impacting its ability to achieve its long-term business strategy.* *Note: Only P/C insurers.*	*ST PR/UW*	*As the company underwrites primarily in hurricane prone geographies it runs both short and medium-term climate scenarios that include additional frequency and severity of hurricanes to estimate their potential impacts. The results of the short-term scenarios are presented in the ORSA report. The medium-term scenarios are projected over a 5–10-year event horizon and indicate a potentially significant increase in loss costs that would require changes to the underwriting/reinsurance strategy or require additional capital. The company is currently evaluating the impact on its long-term business strategy and plans to present recommendations to its Board of Directors at the next annual meeting.*	*Obtained the insurer's ORSA and details of the climate scenarios that were used to stress the underwriting results and the capital in section III of the ORSA. (See A.1.2)* *Reviewed the results of medium-term climate stress scenarios noting material increases in loss costs for hurricane events across the various scenarios (see A.2.3).*	*Moderate*	*Increasing*	*Increase in frequency and/or severity of natural hazards due to climate change risk may reduce underwriting profit and may create a need for additional capital. However, the company runs climate scenarios to simulate the underwriting and capital impact of climate change.*	*The analyst should review the ORSA summary report to understand how the company manages the short-term impacts of climate change risks through use of climate scenarios quantifying the impact to underwriting, reinsurance and capital.* *The analyst should request a copy of recommendations for the Board of Directors on the impact of climate scenarios on the company's long-term business strategy. In addition, the analyst should request updated medium-term climate scenario results from the company on an annual basis to track changes in estimated future exposures.*

PART TWO – COMMON AREAS OF CONCERN

The prospective risk categories provided within this exhibit are not designed to be an all-inclusive list and might not apply to all insurance companies under examination. The examiner's understanding of the company obtained in Phase 1, including a review of the company's Enterprise Risk Report (Form F) and/or Own Risk and Solvency Assessment (ORSA) Filing, should be utilized to determine whether risks in these categories might be applicable to the company. The company will likely face additional prospective risks that do not fit within the categories in this exhibit.

Prospective Risk Category	**Comments**
Merger and Acquisition Activity	If applicable, review the company's process to identify and perform due diligence on potential acquisitions. In addition, consider reviewing the company's process to integrate acquired entities and business into its systems.
Product Development	If applicable, review and assess the company's process to identify, develop, price and market new products in accordance with the company's strategy and business needs.
Legal and Regulatory Changes	If applicable, review how the company identifies, monitors and addresses changes to the legal and regulatory environment it operates within. For example, review the company's processes in place to analyze the impact that health care reform could have on the company, including support for company projections and strategies for appropriateness.
HR/Personnel Risks	If applicable, review and assess the company's HR processes to identify, mitigate and monitor risks related personnel management (including succession planning for critical positions) as well as hiring, managing, retaining and terminating personnel in accordance with company needs.
Strategic Planning	If applicable, review and assess the company's processes for strategic planning to determine whether the company regularly analyzes its strengths and weaknesses, as well as opportunities and threats, on an ongoing basis. In addition, it might be appropriate to review the company's process to update its overall business plan on a regular basis.
Compensation Structure	If applicable, review the company's process for developing, monitoring and adjusting its compensation structure to ensure that employees are appropriately compensated without creating an incentive to misrepresent financial results.
Rating Agency Downgrade	If applicable, review the company's process to monitor and prepare for potential adverse changes in its credit ratings. If a future rating agency downgrade is deemed likely, consider whether the company is adequately prepared to handle the results of such a downgrade.
Costs of Capital	If applicable, review the company's access and ability to obtain capital, reinsurance and letters of credit, if necessary, to meet funding and risk diversification needs.
Business Continuity	If applicable, review the company's business continuity plan. Follow the steps outlined in Section 1, Part III.
Climate Change	If applicable, review the company's process for identifying and monitoring risks resulting directly or indirectly from the impact of climate change risk. The insurer may assess energy transition and asset devaluation risk on its investment portfolio, or physical risk due to climate change with scenario analysis or modeling. If material, the company should evaluate the impact of climate risk on its longer-term business strategy and inform its Board of Directors regarding the results of transitional and physical risk stress scenarios and modeling.

EXHIBIT Y
EXAMINATION INTERVIEWS

Overview

Interviews are a useful examination tool to gather information about key activities, risks and risk mitigation strategies. Employees can also provide information on fraudulent activity within the company. It is critical for the examination team to understand and leverage the company's risk management program; i.e., how the company identifies, controls, monitors, evaluates and responds to its risks. The discipline and structure of risk management programs vary dramatically from company to company. Interviews should be performed in the early stages of the examination so that regulators can adjust their procedures accordingly. An examiner can perform alternate, additional or fewer detail and control tests as a result of interviews with the company.

Interviews should be conducted with key members within management of the company, as well as members of the board of directors, audit committee, internal/external auditors and any other employees deemed necessary. These interviews can be used at the beginning of the examination or at any time during the examination, as necessary. In order to conduct a productive interview, the examiner should have a basic understanding of the company prior to commencing the interview process. When possible, the examiner should meet with the department analyst prior to scheduling interviews with company personnel to assist in gaining this basic understanding. Examiners should continue to tailor each interview as information is learned about the company throughout the planning process.

Examiners should consider the size and complexity of the organization in determining which individuals to interview. The interview process is a key step in the "top–down" approach, beginning with senior management and then drilling down through the various levels of management to obtain a thorough understanding of the organization to assist in scoping the examination. In order to select the individuals to interview, the examiners should obtain an organizational chart from the company and compile a list of potential interviewees. Interviews of board members and senior company management should be conducted by examiners who possess the appropriate background and training. The examiner should also carefully consider the order of interviews, as information gleaned from certain "C"-level individuals can inform subsequent interviews. For example, the Chief Risk Officer (CRO) is uniquely positioned to have an awareness of the various risks facing the company from multiple perspectives. The information obtained through an interview with the CRO can help the examiner have a greater understanding of the key risk areas of the company, which can then be used to further customize subsequent interviews, as well as determine which additional members of management should be interviewed. This may be particularly important if the company under examination is part of a larger coordinated holding company group exam as the CRO at the enterprise level reviews and establishes risks for the holding company as a whole. Questions asked of management of each regulated entity in the holding company group, such as those for climate related risks, may be more appropriately directed to the CRO. While it can be challenging to coordinate the interview schedule with company personnel at this level, examiners are encouraged to attempt interviewing the CRO as early in the interview process as possible.

If the company under examination belongs to a holding company group that has been identified as an internationally active insurance group (IAIG), as defined in the *Insurance Holding Company System Regulatory Act* (#440), the group-wide supervisor should consider conducting additional interviews at the head of the IAIG, including key members of management and the board of directors. Such interviews would assist the group-wide supervisor in determining the consistency of governance practices across the IAIG, as well as whether the group's risk management framework encompasses the head of the IAIG and legal entities within the IAIG.

Interviews should be performed in person, if possible. This allows the interviewer to receive both verbal and nonverbal communication. The interviews should be kept confidential when possible; however, if a significant fraud or other pertinent issue was discovered through the interviews, the regulator has a duty to report the conflict to the appropriate officials.

The examiner should conduct the interview in a location where both parties are free to talk openly. The examiner should ask relevant questions, with the most general questions posed first as building blocks for additional conversation. The

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examiner may want to consider alternating between open-ended questions (e.g., "Explain to me how this process works.") vs. closed-ended questions (e.g., "How many claim processors do you have in your department?") to obtain the information. Open-ended questions are generally better suited for explanation and processes, while closed-ended questions are better suited to obtain concise information. The examiner should be prepared, listen carefully and focus on the speaker's entire message, as well as the non-verbal cues expressed during the interview process.

Significant risks and concerns identified through completion of the examination interviews should be adequately addressed within the examination workpapers. As such, all significant risks identified by the examiner during the interview process should be recorded in a central location for tracking purposes, such as Exhibit CC – Issue/Risk Tracking Template or a similar document.

Because information obtained from the interview serves as important evidence in the examination process, the examiner should develop techniques to plan, conduct, document and consider interview information. Although interviews play a key role in gaining useful insight into company operations, interviews alone are not sufficient exam evidence and should be corroborated with other exam documentation to evaluate the accuracy of the information.

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Sample Interview Questions for Board or Committee Members

Experience and Background
- How has your professional experience and background prepared you to serve on the board of directors for this company?

Duties and Responsibilities
- How often does the board/committee meet? Why is that sufficient?
- Briefly describe your duties and responsibilities, including what types of company information you monitor on a continuous basis.
- How does management establish objectives and how does the board of directors monitor achievement of those objectives?
- What role does the board of directors play in determining executive compensation?
- What areas are discussed and what type of decisions are made by the board/committee?
  - How does the board ensure that sufficient information is received to make informed decisions on behalf of the company?
- Does the board/committee review related-party transactions?
- What role does the board/committee play in overseeing the actuarial function as well as associated internal controls?
- Do you have a board member or committee that is responsible for monitoring the financial risks (short-term and long-term) associated with climate change?
  - How often and at what level of detail are these risks discussed by the board?

Reporting Structure
- Describe the reporting structure of the company, including who reports to the board/committee.
- Describe the interaction the board of directors has with the internal/external auditors, shareholders and senior management.

Ethics
- Does the company have a code of conduct/ethics in place? Is it enforced? Approved?
- Explain the commitment to ethics by the board/committee and explain how the board/committee conveys that commitment to employees.
  - How does the board obtain an understanding of the "tone" throughout the organization?
- How does the company compare to others, in terms of its position on ethics?
- Do you have any knowledge or suspicion of fraud within the company?

Risk Areas
- How does the board identify and monitor key risks faced by the company?
  - What are the key risks the board has identified?
  - What are the key prospective risks the company faces?
- Does the board review any type of stress testing?

Risk Mitigation Strategies (Internal Controls)
- How often does the board receive reports from management on the internal controls of the company?
  - What information is reported?

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Sample Interview Questions for the Chief Executive Officer

Experience and Background
- How has your professional experience and background prepared you to serve as the Chief Executive Officer for this company?

Duties and Responsibilities
- Briefly describe your duties and responsibilities.
- How does management establish objectives and how is the achievement of those objectives monitored?
- What role do you play in the hiring of senior management and determining executive compensation?
  - How is your compensation determined?
- How do you support the operations and administration of the board?
- Briefly describe your oversight responsibilities regarding the company's actuarial function?
- Is there a member of senior management or function that is responsible for monitoring the financial risks associated with climate change? If so, please describe the lines of authority and the level of monitoring that occurs on a regular basis.

Reporting Structure
- Describe the reporting structure of the company, including to whom you report, as well as those reporting to you.
- Explain the function and reporting structure of your senior management team.
  - How often are you in contact with them?
- Describe your interaction with the board of directors.

Ethics
- Does the company have a code of conduct/ethics in place? Is it enforced? Approved?
- Explain management's commitment to ethics and explain how management conveys that commitment to employees.
  - How does management obtain an understanding of the "tone" throughout the organization?
- When establishing ethics, does the company evaluate what other companies have implemented? If yes, how does the company compare?
- Do you have any knowledge or suspicion of fraud within the company?

Risk Areas
- How are key risks faced by the company identified and monitored?
  - What are the key prospective risks the company faces?
  - How are these risks communicated to senior management and throughout the company?
- Describe any stress testing performed by the company.
- Explain how the organization expects climate change to affect its business, both in the short and long-term.
- What are the key risk exposures (e.g., physical, economic, social, political, technological, or reputational) related to climate change that are most relevant for the business?

Risk Mitigation Strategies (Internal Controls)
- What is the formal procedure for reporting on risk management to senior management and the board?
- Explain your commitment to the internal control structure.
- What is your company's plan for operating in crisis/disaster – business continuity?
- From a strategic perspective, how are risks addressed across all business units and entities?
- If the organization expects climate change to have a material effect on its business, what processes have been put in place to monitor and mitigate this risk?

Corporate Strategy
- Where is the company headed strategically? What type of plan is in place to implement this strategy? Has it been approved? How is it being monitored?

- What are your plans for retaining and growing business?
- Explain what types of tools and/or reports you utilize to make key business decisions.
- Explain any strengths or weaknesses of the company, as well as opportunities or threats, the company is facing and how the company is responding to each.
- What key measures do you assess to evaluate the company's performance and competitive position?
- If part of a holding company:
  - How does the holding company contribute to the company's strategy?
  - How might the holding company be impacted by the company's strategy?
- How often do you discuss corporate strategy with your direct reports?
- Has the organization implemented or planned any substantive changes to its longer-term business strategy in response to current and potential future climate change impacts? If so, what are the key climate change drivers that you would consider relevant to the strategy? If not, please explain.

Other Topics

- Explain any significant turnover in senior management and/or on the board/committee.
- What type of succession planning does the company have in place?
- How does the company monitor and assess financing needs, as well as access to capital?
- How does the company monitor, assess and respond to information security risks (including those related to cybersecurity threats)?
- How does the organization disclose its financial risks from climate change?
- Please explain any activities that the organization has undertaken to build awareness, capacity, and understanding of underwriting and investment professionals with respect to climate change factors.

Sample Interview Questions for the Chief Financial Officer/Controller

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Risk Areas

- How are key risks faced by the company identified and monitored?
  - What are the key prospective risks the company faces?
  - How are these risks communicated to your senior management level team and throughout the company?
- What key risks do you monitor in your position?
  - What reports or other means do you utilize to evaluate the risks?
- Do you monitor risks relevant to specific components or divisions within the entity?
- Explain how the organization expects climate change to affect its business, both in the short and long term.
- What are the key risk exposures (e.g., physical, economic, social, political, technological, or reputational) related to climate change that are most relevant for your business?

Risk Mitigation Strategies (Internal Controls)

- How often do you discuss with the audit committee/board of directors how the internal control system serves the company?
- How has the NAIC *Annual Financial Reporting Model Regulation* (Model Audit Rule) affected the company and/or the holding company?
- Briefly describe the key aspects of the financial reporting process, including validation of financial information, review and approval, and distribution.
- Describe some of the key management estimates (e.g., loss reserves, etc.) included within the company's financial reports and describe how they are performed, reviewed and approved.
- Describe the budgeting and planning process.
- Briefly describe the month/year-end close process, including manual journal entries and approvals.
- What is the process for adopting/implementing accounting guidance?
- If your organization expects climate change to have a material effect on its business, what processes have been put in place to monitor and mitigate this risk?
  - Have you made any changes to the business' reinsurance coverage to combat these risks?
  - Do you complete a cost/benefit analysis to determine what mitigation strategies are worth pursuing in response to climate risks?

Corporate Strategy

- Where is the company headed strategically? What type of plan is in place to implement this strategy? Has it been approved? How is it being monitored?
- What are your plans for retaining and growing business?
- Explain what types of tools and/or reports you utilize to make key business decisions.
- How do you identify and manage changes in business conditions?
- Explain any strengths or weaknesses of the company, as well as opportunities or threats, the company is facing and how the company is responding to each.
- What key measures do you assess to evaluate the company's performance and competitive position?
- If part of a holding company:
  - How does the holding company contribute to the company's strategy?
  - How might the holding company be impacted by the company's strategy?
- How often do you discuss corporate strategy with your direct reports?

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Sample Interview Questions for Investment Management

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Risk Areas

- What is the company's risk tolerance for investments and how is that communicated?
- How does the company monitor risks related to investments (e.g., interest rate risk, credit risk, etc.)?
- How does the company review its risk/reward trade-off?
- How does the company determine its asset allocation strategy?
- Does the company consider the impact of climate change risks when determining its investment strategy and/or monitoring the risks in its investment portfolio? If yes, please explain how physical risks and transition risks are considered and whether the company has altered its investment strategy in response to these considerations. If not, explain why and if there is a plan to consider financial risks from climate change in the future.
- Does the company have a system in place to manage correlated climate risks between its underwriting and investments?

Risk Mitigation Strategies (Internal Controls)

- What is the formal procedure for reporting on risk management to senior management and the board?
- What types of internal controls exist to ensure adherence to investment policies and procedures?
- How is performance and compliance gauged (both with statutory rules and internal investment policies)?
- Who monitors potential impairment issues?
  - How often?
- What types of controls and authorizations are in place to transfer money?
  - Are all employees with access to funds bonded?
- Are all transactions approved by senior management?
- How does the company monitor and determine the value for its Schedule BA investments?
- How are assets and liabilities matched at the company?

Corporate Strategy

- Where is the company headed strategically? What type of plan is in place to implement this strategy? How does the strategy impact activities within your department?
- Explain strengths or weaknesses of the company, as well as opportunities and threats the company is facing, and how the company is responding to each.
- Is the company-wide strategy clearly communicated by senior management to the rest of the company?
  - How does that impact your department's goals/activities?
- Explain what tools or reports you utilize to make key business decisions.

Other Topics

- Explain the company's involvement in transactions that include derivative risks.
- Is the company subject to any derivative risks that are not disclosed within Schedule DB of the Annual Statement? If so, please explain.
- How are the climate risks on the investment side managed? Does the organization have a dedicated team/staff responsible for climate-risk related matters on the investment side?

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Sample Interview Questions for Chief Risk Officer

Experience and Background
- How has your professional experience and background prepared you to serve as the Chief Risk Officer for this company?

Duties and Responsibilities
- Briefly describe your duties and responsibilities.
- How does your role/function relate to, or how is it integrated with Sarbanes-Oxley Act and/or NAIC *Annual Financial Reporting Model Regulation* (Model Audit Rule) processes, internal audit and/or other departments?
- Describe the major projects taking place and how you divide your departments time (i.e., what are the areas of focus)?
- Do you publish reports/findings?
  - To whom are they distributed and how often are they distributed?

Reporting Structure
- Describe the reporting structure of the company, including to whom you report, as well as who reports to you.
- Is there a board-level committee or other group that you report to?
  - Is that group independent from your area of management?
  - What is their role and how do you interact with them?
- Describe those who have been involved (e.g., your team, internal audit, operational areas, consultants, external auditors, etc.) and their roles in the Model Audit Rule compliance process.
- Are there any financial ties to company profits within your compensation package?

Ethics
- Does the company have a code of conduct/ethics in place? Is it enforced? Approved?
- Explain management's commitment to ethics and explain how management conveys that commitment to employees.
- When establishing ethics, does the company evaluate what other companies have implemented? If yes, how does the company compare?
- Do you have any knowledge or suspicion of fraud within the company?

Risk Areas
- How are key risks faced by the company identified and monitored?
  - What are the key prospective risks the company faces?
  - How are these risks communicated to senior management and throughout the company?
- Do you monitor risks relevant to specific components or divisions within the entity?
- What key risks do you monitor in your position?
  - What reports or other means do you utilize to evaluate the risks?
- Does your company consider the impact of climate change risks as part of its overall risk management practices?
  - If so, what risks have you identified related to the impact of climate change risks?
  - If so, what is done to analyze and mitigate each of those risks? Is this done independently or as part of weather-related risks in general?
- Are you involved in the company's process for establishing and monitoring reserving risks?
  - If so, please describe the company's process to establish and monitor reserving risks.
- Does the company have a system in place to manage correlated climate risks between its underwriting and investments?

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Sample Interview Questions for Underwriting

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Risk Areas

- How are key risks faced by the company identified and monitored?
  - What are the key prospective risks the company faces?
  - How are these risks communicated to senior management and throughout the company?
- What key risks do you monitor in your position?
  - What reports or other means do you utilize to evaluate the risks?
- Describe the development and approval process for new products.
- What are the underwriting authorization levels?
- Which lines of business performed well/poorly in the past?
- What percent of your cases are automatically underwritten vs. manually underwritten?
- How do you determine if you are you underwriting the cases you should?
- Give a general description of product pricing.
- How might physical risk factors affect underwriting business performance across different business lines?
- Does your organization expect that transition risks – including economic, social, technological, regulatory or policy factors stemming from climate change – will affect underwriting business performance, in terms of market demand, claims burden, or other factors? If yes, please explain how, and over what timeframes. If not, please explain why not.
- Does your organization consider that it may be exposed to litigation risks stemming from climate change, either now or in the future? If yes, what steps might your firm take to monitor, reduce, or mitigate these risks? If not, please explain.
- What systems does the company have in place to manage correlated climate risks between its underwriting and investments?

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Other Topics

- Explain any significant turnover in the underwriting department.
- Explain the distribution channels used by the company.
- What is the compensation/commission structure for each distribution channel?
- How do you ensure that your staff is handling an appropriate number of cases?
- How are the climate risks on the underwriting side managed? Does the organization have a dedicated team/staff responsible for climate-risk related matters on the underwriting side?

Sample Interview Questions for the Chief Actuary

Experience and Background

- How has your professional experience and background prepared you to be the Chief Actuary for this company?

Duties and Responsibilities

- Briefly describe your duties and responsibilities.
- How does management establish objectives, and how is the achievement of those objectives monitored?
- How is your performance evaluated? Is it based on the performance of the company?

Reporting Structure

- Describe the reporting structure of the actuarial function, including to whom you report, as well as those reporting to you.
- Is there a reserving committee?
  - How is it organized and who are its members?
  - How are differences resolved?
- Describe your interaction with the CFO/CEO/BOD.
  - Do you provide them with any specific reports?
- Do the board/audit committee members demonstrate an understanding of the variability inherent in the reserves?
- How does the board/committee oversee the application of Principle Based Reserving (if applicable)?

Ethics

- Does the company have a code of conduct/ethics in place? Is it enforced? Approved?
- Explain management's commitment to ethics and explain how that commitment is conveyed to employees.
- Do you have any knowledge or suspicion of fraud within the company?

Risk Areas

- How are key legal and regulatory risks faced by the company identified and monitored?
  - What are the key prospective risks the company faces?
  - How are these risks communicated to senior management and throughout the company?
- Have there been changes in the appointed actuary in recent years and, if so, how often have such changes occurred and why?
- What is the current reinsurance program? Describe any changes over the past five years.
- Describe the company's process to establish Principle Based Reserves.
  - Does the company have credible experience or experience studies to substantiate the model assumptions?
  - Does the company use a vendor supplied or internally developed Cash Flow Model?

Risk Mitigation Strategies (Internal Controls)

- What is the formal procedure for reporting on risk management to senior management and the board.
- What controls are in place to ensure reserving guidelines are followed?
- Who determines which reserves will be booked in the financial statements quarterly and/or annually?
- How often are full reserve analyses performed?
- Does the company book to the actuary's point estimate, or is there a monitored gap?
- Is the actuarial opinion signed by a company actuary or a consultant?
- Does the company use commercial software or "homegrown" spreadsheets? What controls are in place to check for errors?
- How are pricing and underwriting monitoring integrated into the reserving process?
  - Describe how climate-related risks are considered in the reserving process.

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EXHIBIT DD
CRITICAL RISK CATEGORIES

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

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

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

Critical Risk Category Reporting Template

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

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Appropriateness of Investment Portfolio and Strategy	This category encompasses whether the insurer's investment portfolio and strategy are appropriately structured to support its ongoing business plan. Considerations may include elements of the ongoing investment strategy such as asset diversification, quality, maturities and risk/reward considerations, which could impact the insurer's vulnerability to future market fluctuations and impairments associated with various scenarios (e.g. real-estate downtown, a pandemic, significant shift in interest rates, climate change/energy transition, etc.). For long-term lines of business in particular, these considerations would address asset adequacy testing/liability matching.	*Example Comment: See Risk 5 and Risk 6 on Exhibit V at A.7.3.*

Risk Category	Description	Where Addressed
Appropriateness/ Adequacy of Reinsurance Program	This category encompasses the overall reinsurance strategy of the insurer, whether the strategy is appropriate to support its ongoing business plan and whether adequate coverage is in place to address the insurer's risk exposures (e.g., catastrophe/climate risks, morbidity risk, etc.). Considerations may include the quality of reinsurance counterparties, types of coverage in place, associated limits, net retentions, concentration of reinsurance cessions, coverage periods, terms, affiliated agreements, etc.	
Reinsurance Reporting and Collectibility	This category encompasses whether all reinsurance amounts are properly accounted for and reported by the insurer. Considerations may include the existence and valuation (including collectibility) of reinsurance recoverable amounts and reserve credits. In addition, proper accounting and reporting/disclosure for risk transfer issues may be considered.	
Underwriting and Pricing Strategy/Quality	This category encompasses whether the insurer has appropriate underwriting, pricing and marketing practices (including premium~~s~~ management) to meet its financial solvency needs. Considerations may include whether the insurer has established and implemented appropriate risk exposure limits and underwriting guidelines, whether the insurer is establishing adequate rates for the risks assumed under its policies and expense structure, and whether these strategies and practices are consistently applied across the insurer's distribution channels to appropriately address exposure to a wide range of insurance risks (e.g. Cat/climate, pandemic, increased mortality/morbidity, etc.).	
Reserve Data	This category encompasses whether selected elements of the underlying data utilized by the actuary in reserve calculations are complete and accurate. Considerations may include claim or in-force data depending on the lines of business and reserving methodologies utilized by the insurer.	
Reserve Adequacy	This category encompasses the overall accuracy and adequacy of the reported reserves. Considerations may include the assumptions and methodologies used as well as the accuracy of reserve calculations. This category may apply to various forms of significant reserves carried by an insurer including life reserves, incurred but not reported (IBNR) reserves, case reserves, loss adjustment expense (LAE) reserves, policy reserves, premium deficiency reserves, etc.	
Related Party/Holding Company Considerations	This category encompasses transactions and agreements arising from relationships with affiliates that affect the insurer's ongoing solvency position. Considerations may include inequitable contract provisions, the impact of guarantees, contagion risks extending from holding company operations, intercompany tax issues, etc.	
Capital Management	This category encompasses the company's ability to assess, manage and maintain sufficient capital to sustain its business plan and solvency position. Considerations may also include a company's ability to forecast its capital needs and obtain additional capital, if necessary.	

APPENDIX

GLOSSARY

Accredited State	A state that meets the accreditation standards of the NAIC and has been awarded accredited status by the Financial Regulation Standards and Accreditation (F) Committee.
Analytical Procedures	Procedures which are typically used to determine whether a financial statement contains relationships and items that are unusual.
Annual Financial Reporting Model Regulation	See *Model Audit Rule.*
Attribute Testing	A method of testing which estimates the rate of occurrence of a specific attribute in a population.
Branded Risk Classifications	Nine classifications developed to assist examiners in categorizing identified risks to be reviewed on an examination. See Exhibit L.
Business Continuity Plan	A plan created by an insurer that identifies potential threats to its organization and presents plans to provide an effective response in order to ensure continuation of the insurer's operations.
Calculated Residual Risk	The risk that remains after considering the risk mitigation strategies that reduce the extent of inherent risk. This calculation is performed using a table located in Section 2 of the *Financial Condition Examiners Handbook*. Calculated residual risk may be adjusted based upon professional judgment (see *Judgmental Residual Risk*).
COBIT	Acronym for the IT Governance Institute's Control Objectives for Information and Related Technology. COBIT is one of the most widely recognized internal control standards for information technology management.
Control Testing	Procedures intended to provide assurance that internal processes and procedures are operating as prescribed.
Coordinated Examination	An examination that is performed by examiners from more than one state whereby the participating states share resources and allocate work among examiners. A coordinated examination can be conducted on either one insurer or a group of insurers and results in increased communication among states, more efficient use of resources and minimized duplication of work.
Corporate Governance	A system by which an insurer's board of directors and senior management monitor and oversee the activities, organizational structure and risk-management functions of an insurer.
Corporate Governance Assessment	An assessment of corporate governance, including management and the board of directors, that is completed during Phase 1 of a financial examination. It is required as part of the risk-focused process.
COSO	Acronym for Committee of Sponsoring Organizations. This acronym is generally used to refer to the COSO Integrated Framework of Internal Control, one of the most widely recognized internal control standards.
Critical Risk Categories	Ten categories that represent the most common areas of risk insurers face. The categories serve as the minimum standard for accreditation purposes and each category must be specifically addressed as part of an examination. See Exhibit DD.
Critical Thinking	See *Professional Judgment.*
Detail Testing	Testing performed in Phase 5 that is beyond or in addition to control testing and may include substantive and/or attribute testing.

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Detective Controls	Controls designed to detect an anomaly after it has occurred.
Exam Facilitator	The state/individual that assumes the primary leadership role in a coordinated group examination.
Examination Planning Memorandum	A document containing all significant examination planning considerations, which may include key-activities, examination goals, corporate governance, related parties, pending matters, use of work performed by others and materiality levels.
Examination Assertions	Underlying elements of financial statement accounts that the examiner uses to identify financial reporting risks.
Examination Planning Procedures Checklist	A list that details step-by-step the various components of planning a risk-focused examination. The examiner should initial and date as each step is completed. See Exhibit A.
Examination Planning Questionnaire	A document typically completed by company personnel in Phase 1, which contains procedures and questions that assist in gathering necessary planning information and obtaining an understanding of the insurer's organization. See Exhibit B.
Examination Report	A report that summarizes any significant findings of fact discovered during an examination.
External Audit Function	An independent, objective assurance activity conducted by a firm outside of an organization for the purpose of expressing an opinion as to whether the financial statements are free of material misstatement. An external audit is required annually by the *Model Audit Rule*.
Financial Exam Electronic Tracking System (FEETS)	Electronic system maintained by the NAIC and accessed by I-SITE through which group and individual examinations are called and tracked.
Financial Reporting Risk	The risk that an error will occur within the current financial statements of the insurer.
Full-Scope Examination	A financial exam in which the scope of the control testing and additional detail procedures to be performed during the examination is based on the implementation and documentation of the risk assessment procedures required under the *Financial Condition Examiners Handbook*.
Group Examination	A financial examination of multiple insurers that are part of an insurance holding company group.
Impact of Climate Change Risk	The impact of climate change risk may be identified as any significant change in the measures of climate over an extended period of time that includes major changes in relative temperatures, precipitation or wind patterns that occur over several decades or longer. It may include the effects from the increase in severity and occurrence of climate-change-related weather events (some may include, but are not limited to: thunderstorms, including severe hail and strong winds; tornadoes; hurricanes; windstorms; the aftermath of floods; heat waves; droughts; rise in sea level; forest fires; grass fires; and the resultant subsequent debilitating effects created by these events). <u>The components of climate change risk are transitional, physical, and liability risk. Transitional risk effects an insurer's asset portfolio, Transition risks are linked to the transformation towards a low carbon economy, so they are driven largely by changes in societal perception of carbon intensive industries, new public policy, new technologies, and changing investor preferences. Physical risk is the component of climate change which affects severity and frequency of the risk event due to change in weather patterns. Liability risk effect an insurers' legal liability exposures arising directly or indirectly from a company's business activity and could include, for instance, people or businesses that have suffered from physical events, such as flooding, making claims against companies who they see as responsible for causing or contributing to climate change.</u>

United Healthcare

September 25, 2023

Mr. Eli Snowbarger, Chair
Financial Examiners Handbook (E) Techical Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Attn: Ms. Elise Klebba, NAIC Senior Examination Coordinator via electronic mail filing

Re: August 24, 2023, Financial Examiners Handbook Exposures

Dear Mr. Snowbager:

We appreciate the opportunity to provide comments in response to the Financial Examiners Handbook ("Handbook") that were exposed for comment on August 24, 2023.

We fully support the revisions suggested pursuant to the referral from the Risk-Focused Surveillance (E) Working group based upon the May 2023 Examination Peer Review Session. As a Company that participates in a large coordinated holding company group examination structure, these enhancements will further strengthen processes and efficiencies within the exams.

With respect to the additions proposed to various sections of the Handbook to incorporate climate change risks, we are suggesting the addition of "material" in front of references to climate risks as shown on the Word documents accompanying this comment letter. While we understand that analysis and management of climate risk is important, it may not be as material for health carriers as it is for other insurance industries. By putting the word "material" in the language it helps to encourage a level of rigor that is appropriate to the risk level.

We are also proposing additional language to the Schedule Y Interviews that suggests that the questions related to climate related risks be directed to the enterprise level Chief Risk Officer (CRO). Board Members and "C" level officers of the regulated entities in the holding company group exam who go through the interview process will not be able to answer these questions as these risks are covered by the CRO at the enterprise level.

Thank you for your consideration of these proposed revisions.

Sincerely,

Jeff Martin

Jeff Martin
Director, NAIC Policy
UnitedHealthcare
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Cc: Tracy Arney, UnitedHealth Group
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Susan Bernard
Financial Examiners Handbook (E) Technical Group
National Association of Insurance Commissioners
Via Email: eklebba@naic.org

RE: Referral on Proposed Climate Risk Enhancements to the Financial Condition Examiners Handbook

Dear Ms. Bernard,

Thank you for the opportunity to comment on the Referral on Proposed Climate Risk Enhancements to the Financial Condition Examiners Handbook ("the Proposed Changes"). NAMIC welcomes the opportunity to comment on these changes. NAMIC membership includes more than 1,500 member companies. The association supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies write $323 billion in annual premiums. Our members account for 67 percent of homeowners, 55 percent of automobile, and 32 percent of the business insurance markets. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

NAMIC seeks to convey several key messages to the Technical Group as it further considers climate-related supervision, particular through the Financial Examiners Handbook ("the Handbook"). First, we are incredibly appreciative for the Technical Group's work on this topic by using the existing risk-based supervisory tools. State regulators have a robust toolbox to analyze the solvency of an insurer and to remain risk focused throughout the exam.

Property/casualty insurance has concentrated on extreme weather and has focused on seeking ways to minimize the physical and financial effects of climate events on policyholders. At its core, an insurer's responsibility to policyholders requires understanding of risk. This responsibility demands that the insurer review information and utilize disciplined processes. Not only must insurers understand risk to address exposures, insurers must be able to adjust the terms of contracts (policies) of insurance and to use risk-based pricing. When it comes to climate-related risks, it is important to note the importance of the time-horizon in the context of property-casualty insurance is premised on an alignment between time horizon and the risk. Tools have been in place for years for insurers to engage in enterprise risk management and to accordingly structure their regular review of their risk

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management (such as through the Own Risk and Solvency Assessment ("ORSA") or Risk Based Capital ("RBC")). Not all insurers are the same, so any regulatory requirements must be proportional and recognize the nature, scale, and complexity of an insurer's business.

Insurance Fundamental Focused

Efforts by regulators in addressing risks, including climate-related risks, must be grounded in long-standing and foundational insurance concepts. Congruous with the standards described here, this encompasses directly relevant approaches for safeguarding solvency (*for insurers to meet contractual claim-payment obligations to policyholders*) and not redirecting focus. Safeguarding solvency is the goal of the financial exam, and we encourage the financial exam should stay true to that goal. Climate risks do play a role in the overall picture of solvency, but they are one piece of an insurer's solvency story. Regulators and their staff should keep the overall picture in mind when evaluating a company's geographic risk or investment practices. We are cautious that the climate risk portion of the exam may lead to situations in which regulators direct companies where to geographically write policies, how to invest based on information from the financial exam or substitute their judgement for the current governance structure in place.

Materiality Directed

Because of the importance of assessing risks' impacts, the concept of materiality to informed decision-making matters greatly. Insurers' businesses vary, which is not a new concept to regulators or financial exam staff. Therefore, materiality is company-specific and should be considered in the context of an insurers' assessment of its risk and solvency (such as through ORSA). Among concerns with materiality are concerns that some data (and time horizons) may not be ready/reliable to be used for purposes of making determinations of materiality. For example, in some cases, data sets may not be credible (coming from a small subset of data points that does not deliver a complete picture or reflecting a short time period that may not provide a full view into a trend). However, NAMIC believes that the questions must be materiality directed and take into account the size and scope of insurer's business.

Confidentiality of Responses

While the proposed edits to the Handbook would be covered under the same confidentiality provisions of the rest of the Handbook, NAMIC reiterates that companies should not have to make a public disclosure regarding climate risk, as it could run a serious danger of being misinterpreted and/or misconstrued due to the unique perspective of each individual company. Investment information, risks, or strategies should only be disclosed to regulators in confidentiality filings, such as ORSA or RBC.

<u>Specific Questions on the Exposure</u>

NAMIC has specific questions on the additions to *Section 4- Examination Exhibits – Sample Interview Questions for Underwriting*. The question stating "…transition risks- including economic, social, technological, regulatory, or policy factors stemming from climate change- will affect underwriting business performance, in terms or market demand, claims burden, or other factors?.." may capture data outside of what is necessary to meaningfully insure that climate-related risks are being considered. The same concern exists with the question "Does your organization consider that it may be exposed to litigation risks stemming from climate change, either now or in the future?" In the current handbook, litigation is mentioned as a reputational or legal risk, not an underwriting risk. While NAMIC understands the link between underwriting, climate, and financial solvency, we would appreciate clarity around the intent of the questions. Will these questions provide any meaningful data points regarding an insurer's solvency or governance structure that regulators can use to evaluate climate risks to the company? What is the intent behind the questions?

Thank you for your consideration of these comments on this matter of importance to insurers and policyholders. NAMIC looks forward to continuing the dialogue on these issues and being helpful to moving these discussions forward.

Colleen Whiting Scheele

Colleen Scheele, Public Policy Counsel and Director of Financial and Tax Policy
National Association of Mutual Insurance Companies

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Susan Bernard, Chair, Financial Examiners Handbook (E) Technical Group

FROM: Judy Weaver, Chair, Financial Analysis (E) Working Group

DATE: April 27, 2023

RE: Enhanced Regulatory Guidance

As you may be aware, the Financial Analysis (E) Working Group (FAWG) meets annually in Kansas City to discuss among other things, potentially troubled insurers and insurance groups. During this meeting, FAWG also discusses issues and industry trends, including identifying any that are potentially adverse or might warrant communication and coordination with other NAIC groups. As a result of the issues and trends discussed, FAWG would like to refer the following item to the attention of your group.

1. **Strategic/Operational Risks of Health Insurers** – Due to their nature, health insurers are exposed to a number of strategic and operational risks that differ from those faced by other insurers, which have the potential to significantly impact their current and prospective solvency position. In addition, a health insurer's processes to identify and mitigate exposures to these risks can be difficult to assess and evaluate during the initial licensure and ongoing, off-site financial analysis processes. As such, it is recommended that additional guidance on strategic/operational risks faced by health insurers be considered for incorporation in the NAIC's *Financial Condition Examiners Handbook* to encourage review of these risks during an onsite examination. Examples of unique strategic/operational risks with the potential to impact the solvency of health insurers include, but are not limited to:

    a. **Failure to Maintain Adequate CMS Star Rating** – For health insurers writing Medicare business, a low or lowering of the Star rating may result in a loss of bonus payments, concerns regarding the insurer's reputation leading to loss of membership, decrease in underwriting results, and changes in future strategic plans.
    b. **Failure to Properly Identify/Code Member Health Status** – For ACA plans that are subject to risk adjustment programs, a failure to properly identify and code member health status for risk scoring could significantly impact the risk adjustments due to the health insurer through the program. For example, an insurer with ineffective coding processes could owe a material risk adjustment payment even though it experiences higher than average medical loss ratios.
    c. **Failure to Plan for Variation in Membership Levels** – Many health insurers are exposed to significant swings in enrollment (increases or decreases), which can impact solvency if the company is not adequately capitalized and prepared to adjust operational support up or down to accommodate changes in membership. This operational risk is often interrelated with underpricing concerns, which could lead to rapid growth.
    d. Challenges in Provider Contracting – Given the importance of provider contracting in maintaining an adequate network and controlling the cost of healthcare services, a failure to implement effective practices in this area could quickly lead to solvency concerns.

If there are any questions regarding the proposed recommendation, please contact me or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification.

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EXAMINATION REPOSITORY – CAPITAL AND SURPLUS

Own Risk and Solvency Assessment (ORSA)

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

Annual Statement Blank Line Items

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer is not effectively monitoring and reporting its capital and surplus needs, including how changes (e.g., significant or rapid increases/decreases in membership/premium) may affect capital adequacy and financial strength ratings from rating agencies.	LQ	Other	CMT	Management assesses capital adequacy in normal and stressed environments, to understand the insurer's current and prospective capital needs. The board of directors (or committee thereof) reviews and approves the capital adequacy assessment performed by management on an annual basis. Management prepares financial projections that include investment, membership/premium volume, underwriting and expenses, and their projected impact on surplus. Financial projections are reviewed by the board of directors.	Obtain evidence of the capital adequacy assessment performed by management, including self-validation efforts. Review the board of directors' (or committee thereof) meeting minutes for evidence provided to the board and evidence of the board's approval of the capital adequacy assessment results. Obtain evidence of financial projections and planning by management. Review the board of director meeting minutes for evidence of financial projections provided to the board, as well as board review and approval.	Review the underlying assumptions found in the financial projections for reasonableness and consistency with the insurer's business plan and strategy. Review prior year projections and capital adequacy assessments for a comparison of assumptions and whether management is historically on target.
The capital model/ metrics used by the insurer/group for capital adequacy are not appropriate to measure the capital at risk, given the risk profile. † **Please Note**: This risk	ST	Other	CMT	The insurer's/group's board of directors (or committee thereof) reviewed the insurer's overall capital adequacy framework used to determine capital needs currently and prospectively. The insurer/group periodically reviews and	Review the board of directors' (or committee thereof) meeting minutes for evidence of the board's approval of the capital adequacy framework. Conduct a model walkthrough and receive a	Consider using an actuarial specialist to assist with detail test procedures. Review the insurer's capital modeling, and evaluate the appropriateness of inputs, assumptions and calibrations, modeling scenarios, calculation

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
The insurer/group does not effectively use the results of the capital model/metric or capital adequacy assessment to make informed business decisions. † **Please Note**: Some elements of this risk are generally intended for insurers with a more complex capital modeling framework. Examiners should use information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement and related review guidance in Section 1-XI of this Handbook.	ST	Other	CMT	The insurer/group uses the capital model outputs or capital adequacy assessment results in setting and adjusting its business strategy, by: • Establishing risk appetite, tolerances and limits • Allocating capital to products, lines of business and entities. • Establishing rating agency, regulatory, and jurisdictional capital targets. • Projecting capital needs.	Interview senior management/board members to understand how capital model outputs or capital adequacy assessment results are used in setting and adjusting its business strategy. Obtain documentation that senior management/board members use to understand the outputs and results. Obtain and review documentation used in supporting business decision making (e.g., risk dashboards, capital allocation reports, strategic planning documents, etc.) to ensure that model outputs or capital adequacy assessment results are being considered.	Verify that capital adequacy assessment results are reflected in changes in business strategy, updated business plans, recent or pending transactions, etc.
The insurer/group does not have access to sufficient capital or a plan to access additional capital to support its ongoing and future business needs under stressed conditions. † **Please Note**: Examiners should use information contained in the Own Risk and	ST	Other	CMT	Management performs ongoing analysis of various sources of capital (e.g., issuing bonds, selling common stock, parent contributions, borrowing, etc.) to ensure the insurer maintains a current understanding of the options available, including the quality and liquidity thereof.	Review documentation describing the insurer's/group's analysis of the options available to raise capital, including the quality and liquidity thereof.	Perform a review of management's available sources of capital and assess the feasibility of each option to confirm the insurer has access to sufficient capital, should the need arise. Assess the fungibility of group capital (if necessary) by understanding the jurisdictional constraints on capital, if applicable.

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement. **Please Note**: When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository.				The board of directors (or committee thereof) reviews and approves the strategic capital management plan, including sources of capital, on an annual basis. The insurer/group has a protocol for reallocating capital among legal entities and jurisdictions to meet capital needs in times of stress. Companies with business plans calling for rapid growth or new startups have developed realistic projections to determine capital needs to reach profitability. <u>The insurer has contingency plans in place should the actual results fall short of the initial projection.</u>	Review the board of directors' (or committee thereof) meeting minutes for evidence of the Board's approval of the overall capital strategy plan and the various options available to raise capital, should the need arise. Obtain and review the insurer's/group's protocol for reallocating capital across the group should the need arise. Verify that management has developed projections to determine profitability and break-even point and updates as needed based on the latest results. <u>Verify that the insurer maintains and updates contingency plans that are reviewed and approved by management.</u>	Obtain and review the insurer's projections and evaluate for reasonableness by comparing to historical results or benchmarking against competitors. <u>Review and evaluate the insurer's contingency plans for reasonableness.</u>
The insurer is not effectively managing its gross leverage.	ST CR	Other	AARP	The insurer has established and documented gross leverage limits that are reviewed and approved by senior management. The insurer periodically evaluates its gross leverage and adjusts, as needed.	Review documentation of gross leverage limits and evidence of senior management review/approval.	Review the reasonableness of the insurers gross leverage limit by benchmarking against industry standards.
Financial Reporting Risks						
The underlying quality	LQ	AC	CMT	The insurer monitors assets	Verify the insurer's process	Verify the accuracy of

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EXAMINATION REPOSITORY – UNDERWRITING

Annual Statement Blank Line Items

There are no Annual Statement line items directly related to the underwriting process; however, policies underwritten and rate calculations may affect line items associated with areas such as premiums and reserves.

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

No. 6 Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers (*All Lines*)
No. 51R Life Contracts (*Life Companies*)
No. 53 Property and Casualty Contracts – Premiums (*Property/Casualty [P/C] Companies*)
No. 54R Individual and Group Accident and Health Contracts (*Health Companies*)
No. 65 Property and Casualty Contracts (*P/C Companies*)

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

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
consistent with risk appetite. †				• For some unique lines of business or exposures (e.g., terrorism, casualty catastrophe, etc.) the insurer tracks exposure limits at a more granular level (e.g., geocode) to ensure that concentrations are within its risk appetite. Risk exposure limits established by the insurer consider the direct and indirect impacts of climate change risk. The insurer utilizes a fully staffed, well-qualified underwriting function that has experience in all lines of business (coverages) and geographic locations (rating classes) served by the insurer. The insurer utilizes risk models to track compliance with exposure limits established by the insurer.	levels articulated in the company's ERM process and consider alignment with the company's reinsurance program. Perform a walkthrough of the underwriting process and observe how the impact of climate change risk is considered when establishing risk exposure limits. Review the credentials, background and responsibilities of the insurer's underwriting function (internal and/or external). Test the operating effectiveness of the insurer's controls to track compliance with the exposure limits by reviewing modeling data.	companies, summarize by risk class, age, medical codes, etc.) for compliance with insurer limits. If the insurer has not identified risk exposure limits, test the risk exposures for appropriateness by considering applicable industry standards and comparison to peer groups. Perform detailed review of risk exposure models and management reports to monitor exposure by risk. Areas to consider include accuracy and completeness of input data, reasonableness of methodology and results as well as management discipline in adhering to risk exposure limits.
The insurer has not established sufficient	ST PR/UW	Other	UPSQ	The insurer has developed comprehensive pricing	Review documentation of pricing practices and	Review the underwriting and pricing guidelines

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
pricing practices, resulting in inadequate or excessive premium rates in relation to its assumed risks and expense structure. Consider utilizing an actuarial specialist to assist with test procedures related to this risk. †				practices that have been approved by senior management (including for products where there is insufficient historical Company or industry experience). Pricing practices include consideration of future changes in loss development including the impact of climate change risk.	evidence of senior management review/approval. Perform a walkthrough of the pricing process and observe how the impact of claim trends including climate change risk and weather variability is considered when establishing rates/prices.	established by the insurer for appropriateness. Perform analytical procedures to review the insurer's profitability and history of indicated rates vs. selected/filed rates to evaluate the sufficiency of premium rates. If rates have been subject to insurance department approval, consider whether reliance can be placed on this work.
				The insurer utilizes a fully staffed, well-qualified pricing actuarial function that has experience in all lines of business (coverages) and geographic locations (rating classes) served by the insurer.	Review the credentials, background and responsibilities of the insurer's pricing actuarial department for appropriateness.	If deemed necessary, utilize the insurance department actuary or an independent actuary to perform a review or independent calculation of base premium rates.
				The pricing actuarial function has an established process to calculate base premium rates based on historical loss results, trends, principal advisory organizations (ISO, LIMRA, etc.) and/or other appropriate factors (e.g., costs of reinsurance, expense structure, commission rates, benchmarking to competitors,~~)~~ and the	Perform a walkthrough to gain an understanding of the rate calculation process, and obtain evidence of a peer review of base premium rate calculations ~~and possibly get input from line personnel.~~.	Compare base premium rates utilized by the insurer to industry averages, key competitors, and advisory organization recommendations for reasonableness.

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				calculation is subject to a peer-review process. Regulatory changes are factored into pricing decisions.	 Perform a walkthrough of the company's pricing process and observe how regulatory changes are factored into pricing decisions.	
Policies are issued that do not comply with underwriting and pricing guidelines. †	OP PR/UW	Other	UPSQ	The insurer utilizes a fully staffed, well-qualified underwriting function that has experience in all lines of business (coverages), geographic locations and other rating classes served by the insurer. The insurer provides initial and ongoing training programs to qualify its underwriting staff to follow the insurer guidelines established. Underwriters are restricted in the type and amount of policies that they underwrite by authority levels built into the system. The insurer has established a QA process to review new policies underwritten for compliance with underwriting guidelines on a sample basis.	Review the credentials, background and responsibilities of the insurer's underwriting function (internal and/or external). Review documentation outlining the insurer's training of underwriting staff. Test the operating effectiveness of automated controls (i.e., authority levels) through reperformance and observation. Re-perform, on a sample basis, testing of policies reviewed by the QA function for proper implementation of the	Test a sample of new policies underwritten to determine whether the final underwriting decision (including any deviations from accepted guidelines) was made by someone at an appropriate authority level.* Test a sample of new policies underwritten for compliance with appropriate underwriting guidelines.* Test a sample of new policies underwritten for appropriate pricing. Review certificates of authority for the states and jurisdictions where the insurer is licensed to write business as of the examination date.

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				The insurer designates an individual to be responsible for tracking and maintaining licenses for all jurisdictions in which it transacts business. The insurer has a process in place that requires deviations from pricing or acceptability guidelines to be pre-approved, reviewed, and/or spot-checked.	insurer's underwriting guidelines. Review the insurer's process for tracking and maintaining licenses to write business. Review the insurer's process for reviewing deviations from pricing or acceptability guidelines.	
Underwriting results are not monitored and updated in order to measure success or failure of business written. †	PR/UW ST	Other	UPSQ	A portfolio manager analyzes key portfolio indicators—such as policies in force, new policy count and policy retention—on a monthly, quarterly and annual basis. Actual policy in force counts are compared to the annual policy in force goals to assess the growth or decline in portfolio size. The company measures underwriting results and key policy characteristics at specific frequencies to uncover unexpected relationships between policy characteristics, variances from pricing assumptions or other factors (such as significant swings in membership levels) that	Review company reports to determine sufficient oversight of the company's portfolio. Verify management oversight and approval of the measures used to assess underwriting results and variances from pricing assumptions and of the periodic reports used for monitoring portfolio performance.	Review underwriting results for profitability. Consider profitability from a variety of perspectives, including product lines, geographic areas and distribution channels. Discuss any significant variances or discrepancies between planned strategies/budgets/pricing assumptions and actual results with senior management.

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				may affect portfolio performance. The company has a process in place to take corrective actions to address product and underwriting problems identified in the portfolio.	Review underwriting department's underwriting file review process and how management uses results to drive performance and compliance with company goals and direction. Verify the company has implemented changes to underwriting guidelines to address policies with unanticipated loss exposures.	
The insurer has developed or implemented marketing or distribution plans that are not feasible or consistent with its business and underwriting strategy. †	OP PR/UW	Other	UPSQ	The insurer has established and maintains clear and reasonable goals and objectives regarding marketing and distribution plans (i.e., direct, online, agency network, app, etc.) to achieve its underwriting strategy. Marketing and distribution plans are reviewed and updated on a regular basis to account for changes in the marketplace and consumer preferences. The insurer has cross-unit meetings prior to product	Review the marketing and distribution plans and obtain evidence of management approval. Determine if the insurer periodically evaluates its marketing and distribution plans and updates the plans, if necessary, to address changes in the marketplace and effectively execute the underwriting strategy. Review evidence of cross-unit communication and	Review marketing and distribution plans and compare with underwriting strategy to determine if there are inconsistencies. Consider if there are inconsistencies with other information filed with the department (e.g. business plan, ORSA, risk registers, etc.). Review the company's marketing and distribution plans for feasibility and appropriateness in light of market conditions and competition. Review company's ongoing performance against

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
						If deemed necessary, utilize the insurance department actuary or an independent actuary to perform a review or independent calculation of premium rates. Compare rate increase assumptions to reserve assumptions, (e.g., review the rate requests and compare against *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) filings) to ensure that assumptions used for pricing and reserving do not materially conflict. Track the progress of the company in achieving its rate increase goals by comparing rate increases received against those requested. If necessary, evaluate the potential impact of rate request denials on the future solvency position of the insurer.
Failure to maintain an adequate CMS Star Rating may result in decreased underwriting outcomes. (Health)	OP PR/UW	Other	UPSQ	The company monitors key metrics that impact Centers for Medicare and Medicaid Services (CMS) star ratings.	Review documentation evidencing management monitors and evaluates key metrics that impact CMS star ratings.	Perform a trend analysis for a sample of contracts over the exam period (or other pre-determined period of time).

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Please Note: It may be appropriate to coordinate with other areas of the insurance department on this risk as certain measures of the star rating may correspond to market conduct compliance.				The Board of directors (or committee thereof) monitors and reviews the performance related to the CMS Star Rating. Individual measures of the star rating are prioritized by performance opportunities and interventions. Process improvements are designed, implemented, and evaluated for effectiveness.	Review the board of directors' (or committee thereof) meeting minutes for evidence of CMS star rating review and discussion of performance opportunities and/or process improvements, if necessary.	• Follow-up on contracts that fall below a specific threshold (e.g., all contracts with a rating below a 3). Perform analytical procedures (e.g., trend analysis) for key metrics that drive the CMS Star Ratings. • Follow-up on lower performing metrics to determine how the company plans to remediate the issues and help boost the overall star rating. If there has been a star rating downgrade, perform procedures to determine the financial and membership impact of the downgrade.
Financial Reporting Risks						
Policy data are not properly and completely entered into the system (See also Examination Repository – Reserves – Claims (Life)). †	OP PR/UW	AC CO	UPSQ RA	The insurer's system contains edit checks that require policy data to be complete and reasonable before being entered into the system. The insurer has a QA process in place that tests policy data entered into the system on a sample basis.	Test the operating effectiveness of edit checks through reperformance and observation. Re-perform, on a sample basis, QA testing of the application data entered into the system.	Trace a sample of records from the policy data to the database and from the database to the policy data to verify and validate key data elements used in the database. Utilize an actuary to determine the most significant lines of business and data points used in the estimate, and focus accuracy testing on those.

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
						Perform analytical procedures over the population of policy data to identify any unusual trends or anomalies that should be further investigated. Trace a sample of records from an external source (i.e., bank deposits) to the policy database to ensure all policies are properly recorded in the system.
Policies are underwritten with high deductibles that expose the company to significant collectibility/credit risk. †	ST PR/UW CR	Other	UPSQ	The insurer reviews the credit quality of potential policyholders before underwriting high-deductible policies. The insurer requires collateral to be posted and maintained to ensure that deductibles on significant claims can be collected. Collateral levels and associated claims activity are reviewed on a regular basis to ensure collectibility.	Review evidence of credit assessment prior to the approval of high-deductible policies. Obtain evidence of the insurer's process to require and maintain collateral at a sufficient level for high-deductible policies.	Consider reviewing a sample of high deductible policies and evaluate sufficiency of collateral based on ongoing claims activity and credit risk of the insured. Perform an analytic to review and assess historical collections. Review the quality/liquidity/availability of collateral held for high deductible policies.
Risk adjustment accruals for Affordable Care Act (ACA) plans or Medicare are inaccurate. (Health) (See also – Reserves/Claims Handling – Health)	OP PR/UW	AC CO	UPSQ	The Company (or its vendor) obtains access to and performs an adequate review of medical records to ensure accurate coding supporting the patients risk score.	Obtain documentation of the Company (or its vendor) review of medical records. Verify that the Company (or its vendor) has sufficient infrastructure in place and the ability to gain access to and review all relevant medical records for coding purposes.	Perform analytical procedures to review the reasonableness of the risk adjustment payment compared to risk adjustment accruals. Consider obtaining explanations and support for significant differences.. Compare expected risk scores by plan to actual

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				Data used to calculate the Risk Adjustment is reviewed for completeness and accuracy before being utilized in the estimation of the risk adjustment.. For ACA Risk Adjustment – The Company utilizes Wakley Model (or another method) to assist in estimating the risk adjustment. The Company has periodic risk adjustment meetings to discuss the recast of risk adjustments and risk score by plan.	Inspect evidence to verify that the data used to calculate the Risk Adjustment is reviewed for completeness and accuracy. Inspect evidence to verify that the resulting reports from the Wakely Model (or other method) are checked for reasonableness and control totals verified and approved prior to being used for the risk adjustment analysis. Obtain evidence that the Risk Adjustment was calculated and booked to the GL accurately. Review meeting minutes or other documentation evidencing periodic risk adjustment meetings. The company presents and discusses their recast, expected risk scores by plan, actual final risk scores and estimated risk score accrual.	final risk scores and the estimated risk score accrual. Utilize an actuary to review the risk adjustment estimates and methodologies. (See also – Reserves/Claims Handling – Health).

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EXHIBIT V – OVERARCHING PROSPECTIVE RISK ASSESSMENT

Background

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

Use of this Exhibit

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

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

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

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

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

The investigation of prospective risks on Exhibit V should be completed by the end of Phase 5. It is not required that the various steps to investigate prospective risks on Exhibit V directly coincide with the seven-phase exam approach, but it is recommended that examiners complete each step of Exhibit V as early in the exam as practical to ensure each risk identified is sufficiently tested and reviewed.

Exhibit V, Part One – Overarching Prospective Risk Testing Template

Examiners should use this worksheet to document a review and investigation of overarching prospective risks throughout the examination. Examiners may also use the examples provided on the template as a guide to assist in determining the nature and extent of the prospective risk review to be performed. **Please Note:** The risk mitigation strategies identified in

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the template are only examples, and the examiner should be aware that the insurer might use other strategies to mitigate the identified risk. Instructions for completing and documenting a review of prospective risk within the template are as follows:

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

Exhibit V, Part Two – Common Areas of Concern

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

DETAIL ELIMINATED TO CONSERVE SPACE

PART TWO – COMMON AREAS OF CONCERN

The prospective risk categories provided within this exhibit are not designed to be an all-inclusive list and might not apply to all insurance companies under examination. The examiner's understanding of the company obtained in Phase 1, including a review of the company's Enterprise Risk Report (Form F) and/or Own Risk and Solvency Assessment (ORSA) Filing, should be utilized to determine whether risks in these categories might be applicable to the company. The company will likely face additional prospective risks that do not fit within the categories in this exhibit.

Prospective Risk Category	Comments
Merger and Acquisition Activity	If applicable, review the company's process to identify and perform due diligence on potential acquisitions. In addition, consider reviewing the company's process to integrate acquired entities and business into its systems.
Product Development	If applicable, review and assess the company's process to identify, develop, price and market new products in accordance with the company's strategy and business needs.
Legal and Regulatory Changes	If applicable, review how the company identifies, monitors and addresses changes to the legal and regulatory environment it operates within. For example, review the company's processes in place to analyze the impact that health care reform could have on the company, including support for company projections and strategies for appropriateness.
HR/Personnel Risks	If applicable, review and assess the company's HR processes to identify, mitigate and monitor risks related personnel management (including succession planning for critical positions) as well as hiring, managing, retaining and terminating personnel in accordance with company needs.
Strategic Planning	If applicable, review and assess the company's processes for strategic planning to determine whether the company regularly analyzes its strengths and weaknesses, as well as opportunities and threats, on an ongoing basis. In addition, it might be appropriate to review the company's process to update its overall business plan on a regular basis.
Compensation Structure	If applicable, review the company's process for developing, monitoring and adjusting its compensation structure to ensure that employees are appropriately compensated without creating an incentive to misrepresent financial results.
Rating Agency Downgrade	If applicable, review the company's process to monitor and prepare for potential adverse changes in its credit ratings. If a future rating agency downgrade is deemed likely, consider whether the company is adequately prepared to handle the results of such a downgrade.
Costs of Capital	If applicable, review the company's access and ability to obtain capital, reinsurance and letters of credit, if necessary, to meet funding and risk diversification needs.
Business Continuity	If applicable, review the company's business continuity plan. Follow the steps outlined in Section 1, Part III.
Climate Change	If applicable, review the company's process for identifying and monitoring risks resulting directly or indirectly from the impact of climate change risk.
Provider Contracting (Health)	If applicable, review the company's process for negotiating contracts with key providers and ensuring an adequate and competitive provider network. **Please Note**: It may be appropriate to coordinate with other areas of the insurance department as certain considerations related to provider contracting may be evaluated/reviewed by market conduct for compliance.

United Healthcare

November 8, 2023

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

Attn: Ms. Elise Klebba, NAIC Senior Examination Coordinator via electronic mail filing

Re: The Financial Examiners Handbook (E) Technical Group Proposed Changes

Dear Sirs:

UnitedHealthcare (United) appreciates the opportunity to submit comments to the Financial Examiners Handbook (E) Technical Group regarding the proposed revisions to the *Financial Condition Examiners Handbook Examination Repository – Underwriting*, specifically with respect to the possible test for accurate risk adjustment accruals.

Pursuant to the April 27, 2023, Financial Analysis (E) Working Group (FAWG) Memorandum to this Technical Group, the FAWG noted that "... health insurers are exposed to a number of strategic and operational risks that differ from those faced by other insurers, which have the potential to significantly impact their current and prospective solvency position. In addition, a health insurer's processes to identify and mitigate exposures to these risks can be difficult to assess and evaluate during the initial licensure and ongoing, off-site financial analysis processes. As such, it is recommended that additional guidance on strategic/operational risks faced by health insurers be considered for incorporation in the NAIC's *Financial Condition Examiners Handbook* to encourage review of these risks during an onsite examination."

One of the examples of a unique strategic/operational risk with the potential to impact the solvency of health insurers was:

> **Failure to Properly Identify/Code Member Health Status** – For ACA plans that are subject to risk adjustment programs, a failure to properly identify and code member health status for risk scoring could significantly impact the risk adjustments due to the health insurer through the program. For example, an insurer with ineffective coding processes could owe a material risk adjustment payment even though it experiences higher than average medical loss ratios.

In reviewing the Memorandum referenced above, the charge for this Technical Group was narrowly focused on newly licensed ACA plans, their risk adjustment program and material risk adjustment payments. To that end, United proposes to remove the applicability to Medicare plans from the proposed language below as it falls outside of the scope of the Memorandum's concern and jurisdiction. We would also ask that the scope of the proposed verbiage below be further narrowed to only apply to newly formed health insurers that have been licensed to offer ACA plans for three (3) years or less. Last, as an alternative to the proposed revisions to the handbook below, we would recommend regulators consider using a targeted examination for newly licensed health insurers in this ACA market.

United provides redlined changes to the proposed language in the chart below. In the fifth column United recommends deleting the first possible control, "The Company (or its vendor) obtains access to and performs an adequate review of medical records to ensure accurate coding supporting the patients risk score." In conjunction with our requested deletion of the first possible control, United recommends deleting the corresponding possible test of controls in the sixth column.

United Healthcare

We are requesting this removal since health insurers do not code the patient's diagnosis in the medical records. The health care providers determine what diagnosis codes apply to a patient's condition, records the codes in their patient's medical records, then bill the issuers for the related services. For the commercial risk adjustment process, the Center for Medicare and Medicaid Services (CMS), has required a highly technical and resource intensive, time sensitive process regarding how health insurers transmit claims, enrollment, premium, customer and issuer data to CMS for the development of the risk adjustment scores and financial impacts. This process includes forecasting, completeness and quality reviews throughout the nine (9) month submission window process. As such, upon licensure to offer ACA plans, it is important for an examiner to use the other listed proposed possible controls to assess whether a newer company has the technology infrastructure and processes built to accurately report claims, enrollment, premium, customer and plan data to CMS.

Additionally, the first possible control verbiage should be removed as CMS conducts a detailed annual Risk Adjustment Data Validation audit (RADV), where CMS selects a sample of enrollees, and requires health insurers to submit the medical records associated to the enrollee's diagnosis for the program year of the audit. Two separate groups of medical coding auditors conduct the audit, the first hired by the company and the second hired by CMS, evaluate whether the diagnosis associated to the CMS EDGE Server risk scores can be substantiated from these medical records. If a company cannot do that within an acceptable range developed by CMS, an error rate is calculated and CMS publishes a RADV financial correction to the original Risk Adjustment payment transfer. For newer health insurers and upon licensure to offer ACA plans, regulators should focus its proposed controls and testing on whether the company has sufficient processes in place to address the complexities of medical record identification, retrieval and validation necessary to substantiate their risk score during a RADV audit.

Below are the specific redline changes referenced above.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Risk adjustment accruals for Affordable Care Act (ACA) plans ~~or Medicare~~ are inaccurate. (Health) (See also – Reserves/ Claims Handling – Health)	OP PR/UW	AC CO	UPSQ	~~The Company (or its vendor) obtains access to and performs an adequate review of medical records to ensure accurate coding supporting the patients risk score.~~ Data used to calculate the Risk Adjustment is reviewed for completeness and accuracy before being utilized in the estimation of the risk adjustment. For ACA Risk Adjustment – The	~~Obtain documentation of the Company (or its vendor) review of medical records. Verify that the Company (or its vendor) has sufficient infrastructure in place and the ability to gain access to and review all relevant medical records for coding purposes.~~ Inspect evidence to verify that the data used to calculate the Risk Adjustment is reviewed for completeness and accuracy.	Perform analytical procedures to review the reasonableness of the risk adjustment payment compared to risk adjustment accruals. Consider obtaining explanations and support for significant differences. Compare expected risk scores by ~~plan~~ Issuer/Market to actual final risk scores and the estimated risk score accrual. Utilize an actuary to review the risk adjustment estimates and methodologies. (See also – Reserves/Claims Handling – Health).

United Healthcare

				Company utilizes Wakeley Model (or another method) to assist in estimating the risk adjustment. The Company has periodic risk adjustment meetings to discuss the recast of risk adjustments and risk score by ~~plan~~ Issuer/Market.	Inspect evidence to verify that the resulting reports from the Wakely Model (or other method) are checked for reasonableness and control totals verified and approved prior to being used for the risk adjustment analysis. Obtain evidence that the Risk Adjustment was calculated and booked to the GL accurately. Review meeting minutes or other documentation evidencing periodic risk adjustment meetings. The company presents and discusses their recast, expected risk scores by ~~plan~~ Issuer/Market, actual final risk scores and estimated risk score accrual.	

We welcome the opportunity to discuss our comments further and if you have any questions, please do not hesitate to reach out.

Sincerely,

Jeff K. Martin

Jeff Martin
Director, NAIC Policy
UnitedHealthcare
Regulatory Financial Operations
Office: (813) 890-4569
Jeffrey_K_Martin@uhc.com

November 8, 2023

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

By Email to Elise Klebba (eklebba@naic.org) and Bailey Henning (bhenning@naic.org)

Re: AHIP Comments – Financial Examiners Handbook (E) Technical Group Exposure - Comments Due November 8

Dear Gentlemen:

On behalf of the members of Americas Health Insurers Plans (AHIP), we appreciate the opportunity to provide comments to the NAIC's Financial Examiners Handbook (E) Technical Group (FEHTG) on the Exposure Draft of proposed revisions to the NAIC's Financial Condition Examiners Handbook (the Handbook) in response to a referral from the Financial Analysis Working Group (FAWG) regarding certain operational risks of health insurers. AHIP is the national association whose members provide health care coverage, services, and solutions to hundreds of millions of Americans every day. We are committed to market-based solutions and public-private partnerships that make health care better and coverage more affordable and accessible for everyone by promoting, among other things, effective and efficient examination processes by state insurance regulators.

FAWG's referral to FEHTG recommended that additional guidance on strategic/operational risks faced by health insurers be considered for incorporation in the Handbook to encourage review of these risks during an onsite examination. Examples of such risks cited in the referral included:

- Failure to Maintain Adequate CMS Star Rating
- Failure to Properly Identify/Code Member Health Status
- Failure to Plan for Variation in Membership Levels
- Challenges in Provider Contracting

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As a threshold matter, AHIP agrees that risks such as those cited above from the referral can exist within certain health plans and, where applicable and potentially material, should be the subject of effective and efficient examination procedures, among other risk management measures utilized by the respective health plan. AHIP thus believes that the draft revisions to the Handbook are a step in the right direction toward addressing such risks from a regulatory examination perspective. That said, we offer some suggested revisions of our own to clarify the text, and to assure that the result is an effective and efficient approach by focusing any suggested examination procedures on insurers/ situations where the risk of material impact is more likely and more accentuated.

To that end, please see the attachment to this AHIP response, which is the exposed Operational Risk Repository with AHIP's suggested revisions in marked text (note that for sake of brevity, rows in the repository for which no marked text is indicated have been deleted). The table below summarizes the nature of the revisions proposed by AHIP (where not otherwise self-explanatory):

Identified Risk	**AHIPs Suggested Revisions**
The insurer has not established sufficient pricing practices, resulting in inadequate or excessive premium rates in relation to its assumed risks and expense structure. Consider utilizing an actuarial specialist to assist with test procedures related to this risk.	Delete references to benchmarking of competitor's rates, as competitors may be operating under very different marketing and operational strategies that would make a direct comparison potentially misleading.
Failure of a Medicare Advantage plan to maintain an adequate CMS Star Rating may result in decreased underwriting outcomes. (Health)	Change reference from the Board and to its minutes to the "company" and to company documentation more generally; companies differ as to what level these processes are maintained, by whom, and the nature of related documentation. Add possible control to address inadequate Star Rating with prospective pricing changes. Delete detail tests of underlying calculation of the Star Rating which is the purview of CMS/federal regulators, and not that of state regulators or their financial examiners.
Risk adjustment accruals for Affordable Care Act (ACA) plans are inaccurate. (Health) (See also – Reserves/Claims Handling – Health)	Deleted reference to Medicare plans in the description of the risk in column 1. While this risk can apply to Medicare Advantage risk adjustment and can entail estimates and time lags before reimbursement by CMS, because the adjustment is funded by the government agency, the risk would not generally be expected to be considered material or volatile in the absence of

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	some extenuating circumstances e.g., perhaps in the case of new, less seasoned, or less adequately capitalized companies. Added that DOI's should consult with CMS before performing a detailed review of risk adjustment accruals inasmuch as CMS is the primary authority involved. Added suggested detail test to inquire of DOI actuary on pricing impact on annual growth and reasonableness of forecasted risk adjustment assumptions in the rate buildup. Extend the application of the detail test suggested in the final column to include impact on solvency risk.

Thank you for the opportunity to provide these suggestions and comments, and we look forward to further discussing these matters with you.

Sincerely,

Bob Ridgeway
Bridgeway@ahip.org 501-333-2621

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EXAMINATION REPOSITORY – UNDERWRITING

Annual Statement Blank Line Items

There are no Annual Statement line items directly related to the underwriting process; however, policies underwritten and rate calculations may affect line items associated with areas such as premiums and reserves.

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

No. 6	Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers (*All Lines*)
No. 51R	Life Contracts (*Life Companies*)
No. 53	Property and Casualty Contracts – Premiums (*Property/Casualty [P/C] Companies*)
No. 54R	Individual and Group Accident and Health Contracts (*Health Companies*)
No. 65	Property and Casualty Contracts (*P/C Companies*)

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

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer has not established sufficient pricing practices, resulting in inadequate or excessive premium rates in relation to its assumed risks and expense structure. Consider utilizing an actuarial specialist to assist with test procedures related to this risk. †	ST PR/UW	Other	UPSQ	The insurer has developed comprehensive pricing practices that have been approved by senior management (including for products where there is insufficient historical Company or industry experience). Pricing practices include consideration of future changes in loss development including the impact of climate change risk. The insurer utilizes a fully staffed, well-qualified pricing actuarial function that has experience in all lines of business (coverages) and geographic locations (rating classes) served by the insurer. The pricing actuarial function has an established process to calculate base premium rates based on historical loss results, trends, principal advisory organizations (ISO, LIMRA, etc.) and/or other appropriate factors (e.g., costs of reinsurance, expense structure,	Review documentation of pricing practices and evidence of senior management review/approval. Perform a walkthrough of the pricing process and observe how the impact of claim trends including climate change risk and weather variability is considered when establishing rates/prices. Review the credentials, background and responsibilities of the insurer's pricing actuarial department for appropriateness. Perform a walkthrough to gain an understanding of the rate calculation process, and obtain evidence of a peer review of base premium rate calculations~~ and possibly get input from line personnel.~~.	Review the underwriting and pricing guidelines established by the insurer for appropriateness. Perform analytical procedures to review the insurer's profitability and history of indicated rates vs. selected/filed rates to evaluate the sufficiency of premium rates. If rates have been subject to insurance department approval, consider whether reliance can be placed on this work. If deemed necessary, utilize the insurance department actuary or an independent actuary to perform a review or independent calculation of base premium rates. Compare base premium rates utilized by the insurer to industry averages~~, key competitors,~~ and advisory organization recommendations for reasonableness.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				commission rates, ~~benchmarking to competitors,)~~ and the calculation is subject to a peer-review process. Regulatory changes are factored into pricing decisions.	Perform a walkthrough of the company's pricing process and observe how regulatory changes are factored into pricing decisions.	
Underwriting results are not monitored and updated in order to measure success or failure of business written. †	PR/UW ST	Other	UPSQ	A portfolio manager analyzes key portfolio indicators—such as policies in force, new policy count and policy retention—on a monthly, quarterly and annual basis. Actual policy in force counts are compared to the annual policy in force goals to assess the growth or decline in portfolio size. The company measures underwriting results and key policy characteristics at specific frequencies to uncover unexpected relationships between policy characteristics, variances from pricing assumptions or other factors (such as significant swings in membership levels) that	Review company reports to determine sufficient oversight of the company's portfolio. Verify management oversight and approval of the measures used to assess underwriting results and variances from pricing assumptions and of the periodic reports used for monitoring portfolio performance.	Review underwriting results for profitability. Consider profitability from a variety of perspectives, including product lines, geographic areas and distribution channels. Discuss any significant variances or discrepancies between planned strategies/budgets/pricing assumptions and actual results with senior management.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				may affect portfolio performance. The company has a process in place to take corrective actions to address product and underwriting problems identified in the portfolio.	Review underwriting department's underwriting file review process and how management uses results to drive performance and compliance with company goals and direction. Verify the company has implemented changes to underwriting guidelines to address policies with unanticipated loss exposures.	
Failure of a Medicare Advantage plan to maintain an adequate CMS Star Rating may result in decreased underwriting outcomes. (Health) **Please Note**: It may be appropriate to coordinate with other areas of the insurance department on this risk as certain measures of the star rating may correspond to market conduct compliance.	OP PR/UW	Other	UPSQ	The company monitors key metrics that impact Centers for Medicare and Medicaid Services (CMS) star ratings. The ~~Board of directors (or committee thereof)~~company monitors and reviews the performance related to the CMS Star Rating. Individual measures of the star rating are prioritized by performance opportunities and interventions. Process improvements are designed, implemented, and evaluated for effectiveness. The company has controls in place to address a potential adverse impact of	Review documentation evidencing management monitors and evaluates key metrics that impact CMS star ratings. Review the ~~board of directors' (or committee thereof) meeting minutes for~~company documentation evidencing ~~e~~ the ~~of~~ CMS star rating review process and discussion of performance opportunities and/or process improvements, if necessary.	~~Perform a trend analysis for a sample of contracts over the exam period (or other pre-determined period of time).~~ ~~Follow-up on contracts that fall below a specific threshold (e.g., all contracts with a rating below a 3).~~ ~~Perform analytical procedures (e.g., trend analysis) for key metrics that drive the CMS Star Ratings.~~ ~~Follow-up on lower performing metrics to determine how the company plans to remediate the~~

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				an inadequate CMS Star Rating through prospective pricing changes given that the rating is known prior to bid submission to CMS. If so, and absent extenuating circumstances, the impact on prospective solvency risk would likely be mitigated. The absence of such a control may lead to greater risk, which may be more prevalent in the case of new or less seasoned companies.		~~issues and help boost the overall star rating.~~ For companies for which this risk has been identified in the IPS or GPS as potentially material and the risk is not adequately addressed in the company's risk management framework or related processes, consider performing detail tests such as the following: If there has been a star rating downgrade, perform procedures to determine the impact on financial solvency and evaluate company measures to address any solvency risk.
Financial Reporting Risks						
Risk adjustment accruals for Affordable Care Act (ACA) ~~plans or Medicare~~plans are inaccurate. (Health) (See also – Reserves/Claims Handling – Health)	OP PR/UW	AC CO	UPSQ	The Company (or its vendor) obtains access to and performs an adequate review of medical records to ensure accurate coding supporting the patients risk score. Data used to calculate the Risk Adjustment is reviewed for completeness and accuracy before being utilized in the estimation of the risk adjustment.~~.~~	Since CMS is the primary regulator over federal commercial risk adjustment, DOI's should consult and coordinate with CMS prior to a detailed review of risk adjustment accruals. Obtain documentation of the Company (or its vendor) review of medical records. Verify that the Company (or its vendor) has sufficient infrastructure in place and the ability to gain access to and review all relevant	For commercial risk adjustment, if the company's preventive controls are deemed unsatisfactory and the risk adjustment impact is potentially material to the company, inquire of the DOI actuary on reviews that were previously performed on the company's rate filings, the potential impact on year-over-year enrollment growth, and the reasonableness of the forecasted risk adjustment

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				For ACA Risk Adjustment – The Company utilizes Wakley Model (or another method) to assist in estimating the risk adjustment. The Company has periodic risk adjustment meetings to discuss the recast of risk adjustments and risk score by plan.	medical records for coding purposes. Inspect evidence to verify that the data used to calculate the Risk Adjustment is reviewed for completeness and accuracy. Inspect evidence to verify that the resulting reports from the Wakely Model (or other method) are checked for reasonableness and control totals verified and approved prior to being used for the risk adjustment analysis. Obtain evidence that the Risk Adjustment was calculated and booked to the GL accurately. Review meeting minutes or other documentation evidencing periodic risk adjustment meetings. The company presents and discusses their recast, expected risk scores by plan, actual final risk scores and estimated risk score accrual.	assumptions in the rate buildup as part of the rate filing and potential implications as to solvency risk. Perform analytical procedures to review the reasonableness of the risk adjustment payment compared to risk adjustment accruals. Consider obtaining explanations and support for significant differences.~~,~~ Compare expected risk scores by plan to actual final risk scores and the estimated risk score accrual. Utilize an actuary to review the risk adjustment estimates and methodologies. (See also – Reserves/Claims Handling – Health).