



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: 9/20/2021

Virtual Meeting

FINANCIAL EXAMINERS HANDBOOK (E) TECHNICAL GROUP

Tuesday, October 5, 2021

12:00 p.m. – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

Susan Bernard, Chair	California	Justin Schrader	Nebraska
John Litweiler, Vice Chair	Wisconsin	Colin Wilkins	New Hampshire
Blase Abreo	Alabama	John Sirovetz	New Jersey
William Arfanis	Connecticut	Tracy Snow	Ohio
N. Kevin Brown	District of Columbia	Eli Snowbarger	Oklahoma
Cindy Andersen	Illinois	Matt Milford	Pennsylvania
Grace Kelly	Minnesota	John Jacobson	Washington
Shannon Schmoeger	Missouri		

NAIC Support Staff: Bailey Henning/Elise Klebba

AGENDA

1. Consider Exposure of Handbook Guidance - *Susan Bernard (CA)*
 - Completeness and Accuracy repository revisions Attachment 1
 - Coordination Framework revisions Attachment 2

2. Discuss Any Other Matters Brought Before the Technical Group – *Susan Bernard (CA)*

3. Adjournment

EXAMINATION REPOSITORY – RESERVES/CLAIMS HANDLING (HEALTH)

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:

Claims Unpaid (Less Reinsurance Ceded)
Accrued Medical Incentive Pool and Bonus Payments
Unpaid Claims Adjustment Expenses
Aggregate Health Policy Reserves
Aggregate Life Policy Reserves
Property/Casualty Unearned Premium Reserves
Aggregate Health Claim Reserves

Relevant Statements of Statutory Accounting Principles (SSAPs)

The relevant SSAPs related to the health insurance reserving 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. 50 Classifications of Insurance or Managed Care Contracts
No. 54R Individual and Group Accident and Health Contracts
No. 55 Unpaid Claims, Losses and Loss Adjustment Expenses
No. 61R Life, Deposit-Type and Accident and Health Reinsurance – Revised
No. 66 Retrospectively Rated Contracts
No. 107 Risk-Sharing Provisions of the Affordable Care Act

Identified Risk	Branded Risk	Exam Asrt.	Critical Risks	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The board of directors (or committee thereof) is not involved in establishing and/or reviewing the insurer's overall reserving practices.	OP ST RV	Other	RA	<p>The insurer's board of directors (or committee thereof) has adopted and/or reviewed the insurer's overall reserving practices.</p> <p>The board of directors (or committee thereof) regularly discusses reserving issues and receives reports from the appointed actuary. The reports include an explanation of the reserving policy and methodology, as well as an analytical review of the insurer's reserves.</p> <p>The insurer monitors and revises its reserving practices as needed.</p>	<p>Verify that the insurer has established overall reserving practices that have been adopted and/or reviewed by the board of directors (or committee thereof).</p> <p>Review board of directors (or committee thereof) minutes to ensure discussion of reserving. Review meeting materials to determine if materials would properly facilitate BOD oversight.</p> <p>Obtain information on revisions made by the insurer to its reserving practices and verify whether they were appropriately reviewed and/or approved by the board of directors (or committee thereof).</p>	<p>Obtain information on the insurer's overall reserving practices, including meeting materials, and forward it to the insurance department actuary or an independent actuary for review.</p> <p>Discuss with members of the board of directors (or committee thereof) their level of involvement in the monitoring of reserving practices.</p>
Financial Reporting Risks						
New claims are not entered into the claims management system.	RP LG	AC CT CO	RD	<p>Segregation of duties exists between the claim notification and the input of claims data into the claims system.</p> <p>Control reports exist to ensure all claims reported to the insurer electronically or manually have been entered into the claims system.</p>	<p>Observe that segregation of duties exists between the claim notification and the input of claims data into the claims system.</p> <p>Obtain the exception report and ensure management reviews the report and resolution of any exceptions</p>	<p>Select a sample of items from the exception reports and verify that the claim was appropriately accounted for.*</p> <p>Select a sample of claim and expense payments made subsequent to year-end to verify that claims were recorded in the proper</p>

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				<p>Exceptions are identified and resolved timely.</p> <p>The insurer reviews the Type II SOC 1 reports and ensures compliance with user-control considerations for any outsourcing companies that enter claims on behalf of the insurer.</p>	<p>Test the operating effectiveness of the automated claims posting process through reperformance and observation, which could include IT testing of batch totals to ensure completeness of transactions processed.</p> <p>Obtain documentation of management's review of the Type II SOC 1 reports.</p>	<p>period.</p> <p><u>Perform analytical procedures to verify the claims were recorded in the correct period (i.e. average claim count before and after period-end).</u></p> <p>Review Type II SOC 1 reports, including bridge letters, to ensure there are no significant control deficiencies or internal control weaknesses related to processing new claims into the claims system.</p>
Claims data is incomplete or incorrectly entered into the claims management system.	OP LG	AC CT CO EX	RD	<p>Claims data is subject to independent verification or quality assurance (QA) reviews.</p> <p>The claims system has automated controls that will not allow a claim to be entered without a valid in-force policy.</p> <p>The claims system has automated controls that will not permit continued processing until all pertinent claim data has been entered. Entering a valid policy number will automatically</p>	<p>Obtain documentation of independent claim verification or QA review. Ensure reviews performed address the completeness and accuracy of underlying claims information entered into the system.</p> <p>Test the operating effectiveness of automated controls (i.e., edit checks) through reperformance and observation.</p> <p>Obtain the error report and ensure proper resolution of exceptions.</p> <p>Test the operating effectiveness of authority restrictions through</p>	<p>Perform data validation tests to verify the accuracy of claim information maintained in the claims system, such as coverage terms, demographic data, date of service, provider name, service description or code, insured name, claim number and coverage period by vouching the information to the claimant's insurance contract, claims form and any other underlying support.* <u>Utilize an actuary to determine the most significant lines of business and data points used in the estimate and focus accuracy testing on those.</u></p> <p>Scan the database(s) for</p>

Commented [KE1]: Discuss on call

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				<p>populate select policy data. System edits will identify data that does not meet the predetermined criteria, <u>such as an invalid social security format or missing provider name</u>, resulting in inclusion on a system-generated exception report.</p> <p>Segregation of duties exists between individuals responsible for new claim set-up and those responsible for setting up new policies.</p>	<p>reperformance and observation.</p> <p>Obtain claims set-up and new policy set-up authorization listings and cross-reference the listings to ensure that there are no employees with conflicting authority.</p>	<p>internal inconsistencies, such as missing claim amounts, unusually small amounts and claims misclassified by type (e.g., Medicare).</p> <p>In situations where adequate segregation of duties is not apparent, obtain data to determine whether any claims were set up by the same user who created the corresponding policy in the master file. If any instances are identified, investigate the claim to ensure the claim exists and is supported by underlying data.</p>
<p>The third-party administrators (TPAs), or managing general agents (MGAs), are not processing claims in accordance with the insurer's claims procedures as outlined in the TPA agreement.</p>	<p>LG OP RP</p>	<p>AC CM</p>	<p>RD</p>	<p>The insurer performs regular audits of its TPAs/MGAs to determine whether insurer claims handling standards and additional contract provisions are being consistently followed by the TPA.</p> <p>Management obtains a Type II SOC 1 report for all TPAs and reviews the report to verify whether the TPA has adequate controls and that the insurer is adhering to user control considerations.</p> <p>Management performs</p>	<p>Review audit reports and other documentation to determine whether the insurer provides sufficient oversight of its TPAs/MGAs.</p> <p>Verify that the insurer has obtained and reviewed the TPA's Type II SOC 1 report, if available. Determine whether the insurer is adhering to user control considerations.</p> <p>Obtain evidence of</p>	<p>Determine, by a review of selected claims, whether the insurer is settling its claims accurately and in accordance with the contract, based on information contained in the claim file.*</p> <p>Review the Type II SOC 1 report to determine whether the controls outlined in the report are adequate to ensure that claims are being processed in accordance with the TPA agreement.</p> <p>Test for compliance with applicable state MGA</p>

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				necessary reviews to comply with applicable state MGA regulations.	management's review of compliance with applicable state MGA regulations.	regulations.
Claims are not being processed accurately and in accordance with insurer guidelines.	OP ST LG	AC CM CO	RD	<p>The insurer has administrative policies and maintains a claims procedures manual that outlines the following requirements:</p> <ul style="list-style-type: none"> • Maximum benefit to be paid based on procedure type. • Usual, customary and reasonable (UCR) limitations. • Proper application of deductibles. • Reserving and payment authority and approval levels. • File documentation and tracking. • Procedures for handling suspicious and/or fraudulent claims. • Compliance with applicable state fair claims practices laws and/or regulations. <p>Automated controls are in place to ensure that paid losses are not to exceed policy limits, cover ineligible loss causes/types and/or apply to a policy period for which insurer is not contractually responsible. Any</p>	<p>Review the claims procedures manual to determine its appropriateness, including management approval.</p> <p>Test the operating effectiveness of system edit checks to ensure procedures are implemented through reperformance and observation.</p> <p>Review assessments of the claims handling process</p>	<p>Perform tests to determine whether claims were accurately processed in accordance with the claims procedures manual, approved authority limits and administrative policies through review of the claimant's insurance contract, claims form and any other underlying support.</p> <p>Review policyholder complaints and investigate significant issues.</p> <p>Review a sample of denied claims to ensure compliance with contract provisions.*</p>

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				<p>consideration to pay a loss must be processed in accordance with the insurer's procedures. As part of the claims processing procedures, the insurer obtains adequate documentation and coverage of benefits before a claim is settled.</p> <p>Claims approval is subject to approved authority limits.</p> <p>A QA review is periodically performed for each claims processor to ensure compliance with the claims handling policies.</p>	<p>performed by internal/external auditors, reinsurers and/or others for significant issues.</p> <p>Test the operating effectiveness of controls to ensure adequate documentation is obtained before payment is made.</p> <p>Test the controls in place to ensure that claims are approved in accordance with documented authority limits.</p> <p>Review documentation of QA reviews to determine that the QA function is being executed as outlined in the insurer's policies.</p> <p>On a sample basis, reperform the QA testing to ensure that the testing was completed accurately.</p>	
The claims data utilized by the actuary to estimate reserves does not correspond to the data in the insurer's claims system and to the data	OP RV	AC CO	RD	The insurer has established procedures to reconcile actuarial data <u>and claims triangles</u> to the insurer's claims system, the data in the insurer's accounting records and appropriate	Review the insurer's reconciliation reports of actuarial data <u>and claims triangles</u> to the insurer's claims system and the insurer's accounting records. Ensure evidence of	Test <u>any</u> reconciling items within the reconciliations for appropriateness. Reconcile the insurer's actuarial report for claims paid and claims adjustment

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in the insurer's accounting records.				<p>annual financial statement schedules and/or exhibits (<u>3-way match</u>). Such reconciliations are reviewed by supervisory personnel.</p> <p>Inventories of reported and unpaid claims are maintained and periodically reconciled to the general ledger.</p>	<p>supervisory review.</p> <p>Review the insurer's reconciliation of reported and unpaid claims to the general ledger.</p>	<p>expenses (CAE) to supporting insurer reports (<u>trace into claim lags</u>), general ledger and annual financial statement schedules and exhibits as of the valuation date. <u>Vouch payment of claim into bank statement.</u></p> <p><u>Test significant data elements utilized in the actuary's calculation by selecting a sample from each significant data element and obtaining supporting documentation (contract, rate sheet, etc.). To ensure completeness, utilize the data element population's reciprocal population and trace selections of the reciprocal population back into the main population.</u></p> <p><u>Perform analytical procedures to review the reasonableness of paid claims.</u></p>
Reinsurance is not properly taken into account in accumulating claims data.	RV	AC CO	RD RRC	The insurer has established procedures to prepare the claims data for actuarial review in accordance with the insurer's reinsurance treaties.	<p>Review the insurer's reconciliation reports of actuarial data to the insurer's claims system, reinsurance reports, and accounting records.</p> <p>Test the operating effectiveness of the</p>	<p>Test reconciling items relating to reinsurance claims data for appropriateness.</p> <p>Verify assumed reinsurance claims data accumulated for actuarial review by comparing to the data</p>

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					insurer's established procedures to include claims data from assumed reinsurance treaties within the data for actuarial review.	provided by the ceding insurer for completeness.
Initial claim reserves are not established or reviewed in accordance with insurer standards.	RV CR	AC VA CO	RA	<p>The insurer has a claim reserving philosophy and qualified actuaries are involved in establishing and reviewing the reserving policy.</p> <p>Initial reserves are made in accordance with the insurer's reserving philosophy and within a specified time frame.</p> <p>Claim adjusters/supervisors are required to review significant initial case reserves on a timely basis and make adjustments as necessary.</p> <p>Committees are formed to evaluate and strategize claims involving serious injuries, complex claims law, and large or unusual loss reserve determinations or settlements.</p>	<p>Obtain documentation supporting the insurer's reserving philosophy. Review reserving philosophy for actuary review and policy adequacy.</p> <p>For a sample of loss reserves, determine whether loss reserve reviews were performed and documented in accordance with insurer policy.</p> <p>Obtain periodic new claims reports and verify the insurer reviews significant initial case reserves and makes adjustments, if necessary, in a timely manner.</p> <p>Obtain minutes and other meeting materials from the meetings of the committee to determine whether the committee provided appropriate oversight.</p>	<p>For a sample of reserves verify that the calculation is in accordance with the reserving philosophy and that reserves are calculated on a timely basis.*</p> <p>For a sample of reserves meeting the criteria to go to a claims committee, determine whether the reserves were referred to this committee.*</p> <p>Confirm a sample of unpaid claims with major providers.</p>
Claim reserves (other than IBNR) are not updated accurately.	RV CR	CO VA	RA	The insurer has a policy requiring open claims to be reviewed regularly. When new information is received, case reserves are reviewed	From a sample of claim reserves (other than IBNR), determine whether the reserves are updated regularly and are	Select a sample of paid claims and compare the final overall claims settlement with the case reserve to determine

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				<p>and adjusted, if necessary.</p> <p>The claims management system generates analyses of reserve increases and decreases, an outstanding reserve list, an outstanding reserve list by claim adjuster, and a reserve release report. These reports are reviewed/ monitored by the claims manager for reasonableness.</p>	<p>appropriately updated when new information is received.</p> <p>Obtain copies of the reserve reports, noting management approval.</p>	<p>whether the reserves are adequate and/or updated accurately.</p> <p><u>Perform analytical procedures to determine whether the actual reserves were adequate and appropriately updated based upon the amount paid.</u></p> <p>Verify that the information contained in the reports is accurate and determine whether the appropriate analyses are being used to evaluate the reserves.</p>
<p>The assumptions and methodologies used by the insurer for the health, long-term care and long-term disability business are not accurate and appropriate.</p>	RV	VA AC PD	RA	<p>The insurer uses consistent assumptions and methodologies that have been based on historical results (to the extent appropriate), adequately documented, approved by senior management and in accordance with statutory accounting principles (SAPs), Actuarial Standards of Practice (ASOPs), and applicable state statutes and/or regulations.</p> <p>Senior management uses either internal or independent actuaries to conduct reserve analyses of all major lines of business on an annual basis.</p> <p>Actuarial analysis is subject</p>	<p>Gain an understanding of the insurer's assumptions and methodologies and compare with prior periods.</p> <p>Verify that senior management signs off on assumptions and methodologies used by the insurer, including any changes.</p> <p>Verify senior management review of reports from actuaries and that reports include reserve analyses of all major lines of business.</p> <p>If performed in-house, review and test the actuarial peer review process and</p>	<p>Review assumptions and methodologies for reasonableness, appropriateness and accuracy, with assistance from the insurance department actuary or an independent actuary.</p> <p>Verify that reserving assumptions are in accordance with the relevant SSAPs related to health reserving, as well as any applicable state statutes, regulations, actuarial guidelines, pronouncements and/or bulletins.</p> <p>Review prior history of claims development, as well as subsequent claims development data to analyze</p>

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				<p>to a peer review process.</p> <p>Management receives regular reports on loss ratios by line or class of business, as well as other key ratios <u>and operational reports (e.g., claim count, per member per month ratio, etc.)</u>, and reviews unusual fluctuations on a timely basis to review reserves for adequacy.</p> <p>The insurer utilizes a fully staffed, well-qualified actuarial department that is under the direction of a fellow of the Society of Actuaries (FSA) or member of the American Academy of Actuaries (MAAA) and is experienced in the lines of business written by the insurer.</p> <p>The reserving actuarial unit's responsibilities are segregated from the pricing actuarial unit, but there is regular communication between the two units.</p> <p>The insurer's organizational structure limits the influence that management can have on the appointed actuary.</p>	<p>related sign-offs.</p> <p>Verify management review of reserve reporting and test the operating effectiveness of procedures in place.</p> <p>Review the credentials, background and responsibilities of the insurer's actuarial department (internal or external) for appropriateness.</p> <p>Request and review the insurer's organizational chart and job descriptions to determine whether the functions are separate and distinct.</p> <p>Interview the appointed actuary during the planning phase of the examination to determine whether the insurer's organizational structure is appropriate in this area.</p> <p>Review insurer processes in place to calculate the</p>	<p>the reasonableness of assumptions and methodologies <u>and identify any management judgments/assumptions related to estimates that indicate possible bias.</u></p> <p>Determine whether the appropriate disclosures have been made in the Notes to the Financial Statements for the changes in reserve methodologies.</p> <p>Review actuarial reports and compare reports to prior periods. Investigate significant variations.</p> <p>Utilize the insurance department actuary or an independent actuary to perform an independent calculation/estimate of the reserves.</p> <p>Review correspondence related to peer review for appropriate depth of review.</p> <p>Compare the opining actuary's assumptions and estimates with those in other available actuarial analyses.</p> <p>Determine whether the Actuarial Opinion was changed by the appointed actuary after meeting with</p>

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				The insurer has appropriately established procedures to include policy lapse rates when calculating the reserving estimates.	reserve calculations to ensure consideration is given to policy lapse rates.	insurer management.
The claims unpaid, claims reserve, policy reserve and premium deficiency reserve computations are not performed correctly or the selected estimates are unreasonable.	OP RV	AC VA	RA	<p>The insurer has an established process (although assumptions and methodologies may change) to estimate the claims unpaid, claim reserves, policy reserves and premium deficiency reserves on an annual basis.</p> <p>The insurer maintains a fully staffed, well-qualified actuarial department that is under the direction of a fellow of the Society of Actuaries (FSA) or member of the American Academy of Actuaries (MAAA) and is experienced in the lines of business written by the insurer.</p> <p>Senior management uses either internal or independent actuaries to conduct reserve analyses of all major lines on an annual basis.</p> <p>The actuarial calculations</p>	<p>Review the process in place (which may include performance of a walkthrough) to estimate the claims unpaid, claim reserves, policy reserves and premium deficiency reserves.</p> <p>Review the credentials, background and responsibilities of the insurer's actuarial department staff for appropriateness.</p> <p>Obtain actuarial reports to verify insurer is using either independent or in-house actuaries to perform the reserve calculations on all major lines of business annually and verify senior management review.</p> <p>If performed in-house,</p>	<p>Utilize the insurance department actuary or an independent actuary to perform an independent estimate of the claims unpaid, claims reserve, policy reserve and premium deficiency reserves.</p> <p>Perform analytical procedures to review the reasonableness of reserve estimates.</p>

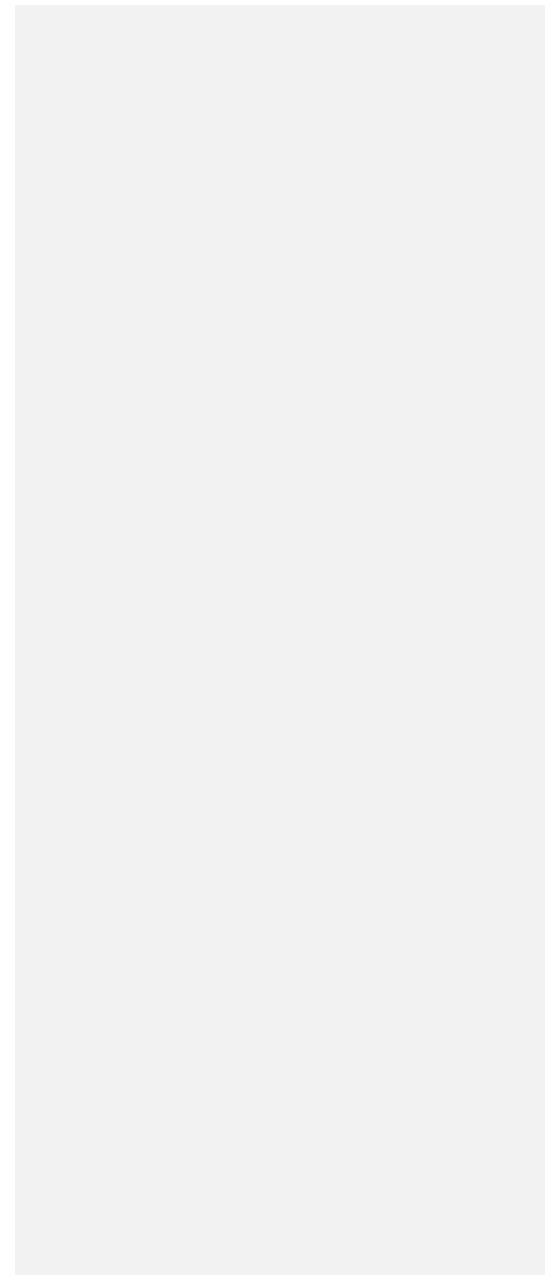
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				<p>are subject to a peer review process.</p> <p>The insurer's board of directors (or committee thereof) receives an annual presentation on the actuarial analysis process.</p> <p>Management receives regular reports on claims ratios (including claims unpaid, claims reserve, policy reserve and premium deficiency reserve) by line or class of business for accident year and calendar year, as well as other key ratios, and reviews unusual fluctuations on a timely basis to review reserves for adequacy.</p>	<p>review and test the actuarial peer review process and related sign-offs.</p> <p>Review the board of directors (or committee thereof) minutes to verify that a presentation was given on the actuarial analysis process.</p> <p>Verify management review of reserve reporting and test the operating effectiveness of procedures in place.</p>	
The claims adjustment expense (CAE) computations are not performed correctly.	OP RV	AC VA CO	RA	<p>The insurer has established processes to estimate both the cost containment and other claim adjustment reserves on an annual basis.</p> <p>The insurer maintains a fully staffed, well-qualified actuarial department that is under the direction of a fellow of the Society of Actuaries (FSA) or member of the American Academy of Actuaries (MAAA) and is experienced in the lines</p>	<p>Review the processes (which could include a walkthrough) in place to calculate both the cost containment and other claim adjustment reserves.</p> <p>Review the credentials, background and responsibilities of the insurer's actuarial department staff for appropriateness.</p> <p>Obtain actuarial reports to verify the insurer is using</p>	<p>Utilize the insurance department actuary or an independent actuary to perform an independent calculation/estimate of the CAE.</p> <p>Perform analytical procedures to review the reasonableness of CAE calculations.</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risks	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>of business written by the insurer.</p> <p>Senior management uses either internal or independent actuaries to conduct separate cost containment and other claim adjustment reserve analysis of all major lines on an annual basis.</p> <p>The actuarial analyses are subject to a peer review process.</p> <p>The insurer's board of directors (or committee thereof) receives an annual presentation on the actuarial analysis process.</p> <p>Management receives regular reports on loss ratios by line or class of business, as well as other key ratios, and reviews unusual fluctuations on a timely basis to review reserves for adequacy.</p>	<p>either independent or in-house actuaries to perform separate cost containment and other claim adjustment reserve analyses on an annual basis.</p> <p>Verify senior management review of reports from actuaries.</p> <p>If the analyses are performed in-house, review and test the actuarial peer review process and related sign-offs.</p> <p>Review the board of directors's, (or committee thereof) meeting minutes to verify whether a presentation was given on the actuarial analysis process.</p> <p>Verify management review of reserve reporting and test the operating effectiveness of procedures in place.</p>	
Changes in the legal environment or	OP RV	VA PD	RA	The insurer has procedures in place for its legal	Review the insurer's process to monitor changes	Through a review of the actuarial reports, determine

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changes in the insurer's underwriting, reserving or claims handling processes are not appropriately considered within the insurer's reserving assumptions and methodologies.	ST	AC		<p>department to monitor and communicate changes in the legal environment (e.g., changes in case law, award amounts, trends in the number of claims being litigated) are being taken into consideration by the reserving unit in a timely manner.</p> <p>The insurer has procedures in place for the underwriting, case reserving and claims handling units to communicate changes in their processes to the reserving unit in a timely manner.</p>	<p>in the legal environment that may affect the reserving process.</p> <p>Review evidence of communication between the reserving unit and other relevant insurer units.</p>	whether changes in the legal environment and/or changes in the insurer's internal processes have been properly incorporated in the insurer's reserving assumptions and methodologies.
The computations of reinsurance credits within the reserves are not performed correctly. (See also Examination Repository – Reinsurance Ceding Insurer)	CR RV	AC VA CO	RA RRC	<p>The reserving actuary calculates the reserve on a gross basis and determines the net basis by estimating the reinsurance credits and applying them to the gross reserve.</p> <p>The insurer applies reinsurance credits to reserves by reviewing reinsurance treaties in place at the insurer, as well as historical results.</p>	<p>Test the operating effectiveness of the insurer's process for reviewing the reserve analysis to determine whether reserves have been estimated on a gross basis, including management approval and sign-off.</p> <p>Test the operating effectiveness of the insurer's process to estimate reinsurance credits for reserves, including management approval and sign-off.</p>	<p>Compare the annual financial statement net and gross incurred and paid loss presentation for consistency with reinsurance treaties in place at the insurer.</p> <p>Consider the reasonableness of reinsurance credits taken, based on a review of the insurer's reinsurance program and treaties in place.</p>
The insurer is not properly recording case reserves (assumed or ceded)	RV CR LG	CO VA AC	RA RRC	The insurer has policies in place to verify that case reserves subject to reinsurance are valid and	Review insurer policies to determine appropriateness, noting management approval.	Utilize the NAIC Examination Jumpstart report to determine whether case reserves recorded by

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for contracts subject to reinsurance.				accurate (within contract time frame, covered under the contract, etc.).	Review documentation of insurer's review of claim validity.	the insurer agree with the case reserves of the assuming (ceding) insurer.
Management books reserves that are materially different than the actuary's best estimate.	OP ST LG	VA PD	RA	<p>The insurer has a process in place to ensure that reserves are recorded based on the actuary's best estimate, or documents an appropriate reason for any deviations.</p> <p>The board of directors (or committee thereof) reviews management's best estimate of booked reserves and challenges such estimates based on reports received, including the actuarial report from the appointed actuary.</p> <p>The insurer's organizational structure limits the influence that management can have on the appointed actuary.</p>	<p>Review management guidelines regarding the recording of actuarially determined reserves. Verify that deviations from the actuary's best estimate are properly documented, if applicable.</p> <p>Review the board of directors (or committee thereof) meeting minutes for evidence of a presentation and review of information supporting management's best estimate of the booked reserves (i.e., the actuarial report).</p> <p>Interview the appointed actuary during the planning phase of the examination to determine whether the insurer's organizational structure is appropriate in this area.</p>	<p>Review the actuarial report, as well as the annual financial statements and other appropriate documentation, to determine whether the insurer has booked the actuary's best estimate.</p> <p>Review the documentation supporting a deviation from the actuary's best estimate for reasonableness, if applicable.</p>
The insurer does not maintain an adequate premium deficiency reserve.	RV LQ OP	VA CO CM	RA	<p>The insurer has a process in place to review for premium deficiencies on an annual basis in accordance with SSAP No. 54.</p> <p>Independent actuaries review and sign off on premium deficiency reserve calculations.</p>	<p>Review the process in place and verify key controls surrounding the calculation of premium deficiency reserves.</p> <p>Obtain the actuarial opinion and verify approval of premium deficiency reserve calculations.</p>	<p>Perform an analytical review of loss ratios.</p> <p>If necessary, utilize the insurance department actuary or an independent actuary to perform a detailed review or an independent calculation/estimate of the premium deficiency</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risks	Possible Controls	Possible Test of Controls	Possible Detail Tests
						reserves.



EXAMINATION REPOSITORY – RESERVES/CLAIMS HANDLING (LIFE)

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:

Aggregate Reserve for Life Contracts
Aggregate Reserve for Accident and Health Contracts
Liability for Deposit-Type Contracts
Contract Claims

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the life insurance reserving 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. 50 Classifications of Insurance or Managed Care Contracts
No. 51R Life Contracts
No. 52 Deposit-Type Contracts
No. 54R Individual and Group Accident and Health Contracts
No. 55 Unpaid Claims, Losses and Loss Adjustment Expenses
No. 61R Life, Deposit-Type and Accident and Health Reinsurance – Revised
No. 63 Underwriting Pools

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risk						
The board of directors (or committee thereof) is not involved in establishing and/or reviewing the insurer's overall reserving policy.	ST RV	Other	RA	<p>The insurer's board of directors (or committee thereof) has adopted and/or reviewed the insurer's overall reserving policy.</p> <p>The board of directors (or committee thereof) regularly discusses reserving issues and receives reports from the appointed actuary. The reports include an explanation of the reserving policy and methodology, as well as an analytical review of the insurer's reserves.</p> <p>The insurer monitors and revises its reserving policy as needed.</p>	<p>Verify that the insurer has established overall reserving policy that have been adopted and/or reviewed by the board of directors (or committee thereof).</p> <p>Review board of directors (or committee thereof) minutes to ensure discussion of reserving. Review meeting materials to determine if materials would properly facilitate BOD oversight.</p> <p>Obtain information on revisions made by the insurer to its reserving practices and verify the revisions were appropriately reviewed and/or approved by the board of directors (or committee thereof).</p>	<p>Obtain information on the insurer's overall reserving policy and forward it to the insurance department actuary or an independent actuary for review.</p> <p>Discuss with members of the board of directors (or committee thereof) their level of involvement in monitoring the implementation of reserving policy.</p>
<p>The insurer has not taken appropriate steps to prepare for the implementation of Principle-Based Reserving (PBR).</p> <p>Note: Under the requirements of the Valuation Manual, companies have until 1/1/2020 to implement PBR requirements. See Section 1, VI, for further information on</p>	RV ST	Other	RA RD	<p>The insurer has a PBR implementation plan that includes consideration of staffing needs and appropriate expertise in current and/or future budgets and strategic plans.</p>	<p>Verify that budgets and/or strategic plans contain consideration of PBR implementation needs including qualified staff.</p> <p>Determine if the company has adequate suitability requirements in place for the actuarial department that requires the actuarial staff to be qualified to implement and practice a PBR methodology.</p>	<p>Review the insurer's PBR implementation plan for reasonableness.</p> <p>Review actuarial department staff qualifications to determine if suitability requirements are met and/or determine if actuarial staff has adequate training available for implementation of PBR. Consider involving an IT specialist in a review of system capabilities</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
the implementation of PBR.				<p>The insurer has a process to monitor the progress and ongoing needs of PBR implementation. Process includes consideration of exempted products.</p> <p>Data reporting and system needs are reviewed by management on a periodic basis in preparation for PBR implementation.</p>	<p>Review the insurer's procedures to determine if pending PBR implementation needs are continuously monitored by company personnel. Consider if certain products have been exempted and the appropriateness of that determination.</p> <p>Verify that management reviews data reporting and system needs.</p>	necessary for PBR implementation.
Financial Reporting Risks						
In-force data is not complete or accurate nor consistent with accounting records	OP RV	CO AC	RD	<p>The insurer has established appropriate internal controls over the input and maintenance of in-force data as outlined in the Examination Repository – Underwriting.</p> <p>The in-force data is tested periodically by the insurer's quality assurance (QA) function for completeness and accuracy.</p> <p>The insurer's system is programmed to issue insurance contracts utilizing sequential policy numbers.</p> <p>In-force database is</p>	<p>Perform tests to verify the operating effectiveness of policy in-force controls as outlined in the Examination Repository – Underwriting.</p> <p>Review the QA reports relating to the testing of in-force data to verify the operating effectiveness of the controls.</p> <p>Verify through observation and/or reperformance that system parameters prohibit the issuance of non-sequential policy numbers. Ensure management review of exceptions.</p> <p>Test reconciliation process</p>	<p>Obtain a copy of the listing detailing in-force insurance contracts provided to the insurer's actuary. Perform procedures to verify the completeness of this listing by tracing to the database a sample of contracts selected from sources outside the reserve system (e.g., premium cash collections). Use control totals for face amount, benefits, and policy count in order to detect use of incorrect files.*</p> <p>In conjunction with the testing performed in the Examination Underwriting Repository, select a sample of in-force insurance contracts <u>within the system to trace to the underlying</u></p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				reconciled to accounting records on a periodic basis.	for supervisory review, appropriateness and operating effectiveness.	<p><u>contract in order to</u> verify that the system data reflects the actual insurance contract provisions <u>and relevant attributes that are deemed significant by the actuary.*</u></p> <p>Review complaint logs for misapplied payments, missing policy documentation and investigate the status of the complaint.</p> <p>Reconcile data elements to AS reporting.</p> <p><u>Send confirmation to policyholder to verify accuracy of significant attributes.</u></p> <p><u>Perform analytical procedures to verify the completeness and accuracy of in-force data.</u></p>
The data utilized in the company's PBR model is not representative and consistent with the company's in-force data.	OP RV	AC CO	RD	The insurer maintains a model validation process to confirm that model cells represent actual inforce data.	Review documentation associated with the model validation process performed by the company to ensure agreement between the insurer's model and aggregated in-force data for attributes such as: *Issue age *Gender *Policy counts *Face amounts	Compare in-force aggregation and statistics for products under scope of PBR to model output reports at period zero for attributes such as: *Average issue age *Gender distribution *Total policy counts *Total face amounts *Total fund values *Total annualized premium

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<u>Data utilized in the PBR model is reconciled to in-force records on a periodic basis.</u>	*Fund values *Annualized premium <u>Test reconciliation process for supervisory review, appropriateness and operating effectiveness.</u>	<u>If concerns are noted, select a sample of policies from the company's PBR model and obtain the valuation system audit trail (cash flows discounted back to the reserve value). With the help of an actuary, identify significant attributes of the policyholder and validate them by agreeing back into the administrative system.</u>
In-force data is not appropriately restricted and protected to maintain accurate and complete data.	OP	AC CO EX	RA RD	The insurer maintains logical access controls, including password protection and active directories, to properly restrict access to in-force data. The insurer has appropriately segregated its duties to ensure that individuals with the ability to update in-force data do not have conflicting responsibilities. The insurer has established policies and procedures for making accurate, timely changes to policies. The insurer has established a QA process to review	Test the operating effectiveness of logical access controls by reviewing documentation relating to requests for access and by attempting to have unauthorized individuals access the in force data. Test the operating effectiveness of segregation controls by attempting to have individuals authorized to access in-force data access claims processing or other systems. Perform a walkthrough to gain an understanding of the insurer's process to make changes to in-force policies. Test a sample of changes to policies reviewed by the QA	Select a sample of in-force policy data at the examination as of date for accuracy and completeness testing. * Test a sample of changes made to in-force policies during the year by reviewing supporting documentation.*

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				changes to policies to ensure compliance with the insurer's policies and procedures on a sample basis.	function for proper implementation of the insurer's policies and procedures.	
Reinsurance is not properly taken into account in accumulating in-force data. (See also Examination Repository – Reinsurance Assuming Insurer.)	RV	AC CO	RD RRC	The insurer has established procedures to prepare the in-force data for actuarial review in accordance with the insurer's reinsurance treaties.	Review the insurer's reconciliation reports of actuarial data to the insurer's in-force system, reinsurance reports, and accounting records. Test the operating effectiveness of the insurer's established procedures to include in-force data from assumed reinsurance treaties within the data for actuarial review.	Test reconciling items relating to reinsurance in-force data for appropriateness. Verify the assumed reinsurance in-force data accumulated for actuarial review by comparing to the data provided by the ceding insurer for completeness. Utilize the NAIC Examination Jumpstart report to compare in-force amounts reported by the assuming insurer to those amounts reported by the ceding insurer.
The insurer does not properly monitor XXX/AXXX reserve development related to its ceded reinsurance transactions. Note: The <i>Financial Analysis Handbook</i> (V.C. Domestic and/or Non-Lead State Analysis) has several procedures that may be relevant in the evaluation of captive reinsurance transactions and the	RV	AC VA	RA RRC	The insurer monitors actual experience on ceded reinsurance relative to the initial or most recent projections and monitors underlying assumptions to evaluate asset adequacy and report any material adverse deviations to management.	Review the insurer's process to monitor experience on ceded reinsurance transactions and verify that material adverse deviations are reviewed by management.	Determine whether the insurer's ceded reinsurance transactions are tracking appropriately relative to the initial or most recent projections and underlying assumptions. For example, compare actual deaths under the reinsurance transaction with expected deaths assumed in the reserve under the reinsurance transaction. Consider utilizing an actuarial specialist to assist in this determination.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
related reserves.						
The assumptions and methodologies used by the insurer for determining the reserves for life, A&H and deposit-type contracts are not accurate or appropriate.	RV	VA AC PD	RA	<p>The insurer uses consistent assumptions and methodologies that have been based on guidelines outlined in the <i>Valuation Manual (VM)</i> and Appendix A and Appendix C of the <i>NAIC Accounting Practices and Procedures Manual</i> (to the extent appropriate), adequately documented, approved by senior management, and in accordance with statutory accounting principles (SAP) and applicable state statutes and/or regulations.</p> <p>Senior management uses internal or independent actuaries to conduct reserve analyses of all major lines of business on an annual basis.</p> <p>The insurer maintains a fully staffed, well-qualified actuarial department</p> <p>Actuarial analysis is subject to a peer review process.</p> <p>Management receives regular reports on claim liabilities (including IBNR) by line or class of business,</p>	<p>Gain an understanding of the insurer’s assumptions and methodologies and compare with prior periods.</p> <p>Verify that senior management signs off on assumptions and methodologies used by the insurer, including any changes.</p> <p>Verify senior management review of reports from actuaries and that reports include reserve analyses of all major lines of business.</p> <p>Review the credentials, background and responsibilities of the insurer’s actuarial department staff or independent actuaries.</p> <p>If performed in-house, review and test the actuarial peer review process and related sign-offs.</p> <p>Verify management review of contract claim liabilities reporting, including analysis</p>	<p>Review assumptions and methodologies for reasonableness, appropriateness, accuracy, and compliance with the <i>Valuation Manual</i> and Appendix A and Appendix C of the <i>NAIC Accounting Practices and Procedures Manual</i>, with assistance from the insurance department actuary or an independent actuary.</p> <p>Compare actual investment, mortality, morbidity, lapse, interest crediting strategy and expense experience to assumptions, by line of business and to prior-period assumptions.</p> <p>Verify whether the assumptions surrounding contract claim liabilities are in accordance with the relevant SSAPs, as well as applicable statutes, regulations, pronouncements and/or bulletins.</p> <p>Utilize the insurance department actuary or an independent actuary to perform an independent calculation/estimate of the life reserves and incurred but not reported (IBNR) contract claims liability.</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>as well as other key ratios, and reviews unusual fluctuations on a timely basis to review claim liabilities for adequacy.</p>	<p>of fluctuations, and test the operating effectiveness of procedures in place.</p>	<p>Determine whether the appropriate disclosures have been made in the Notes to the Financial Statements for any changes in reserve methodologies.</p> <p>Review actuarial reports and compare reports to prior periods. Investigate significant variations.</p> <p>Review correspondence related to any peer reviews performed for appropriate depth of review.</p>
<p>The assumptions used by the insurer to calculate reserves for policies subject to Principle-Based Reserving are not accurate or appropriate.</p>	<p>RV</p>	<p>VA AC PD</p>	<p>RA</p>	<p>The company utilizes the prescribed valuation assumptions of the Valuation Manual to calculate PBR reserves.</p> <p>The company has established a process for determining appropriate margins.</p> <p>The company maintains credible experience data to support all assumptions utilized in PBR reserving, including:</p> <ul style="list-style-type: none"> • Lapse • Mortality • Morbidity • Premium Persistency • Etc. 	<p>Utilize a Department actuary, independent actuary or NAIC Actuarial Modeling support staff to review company documentation that provides support for assumptions and evidence that they are developed in accordance with the requirements of PBR as published in the Valuation Manual.</p>	<p>Utilize a Department actuary, independent actuary or NAIC Actuarial Modeling support staff to verify and validate that the company has followed the requirements of PBR as prescribed in the Valuation Manual in developing assumptions.</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
The assumptions used by the insurer to calculate reserves for long-term care insurance (LTCI) policies are not accurate or appropriate to meet reserve adequacy requirements.	RV	VA AC	RA	<p>The company maintains credible experience data to support all assumptions utilized in calculating reserves for LTCI policies, including:</p> <ul style="list-style-type: none"> • Lapse • Mortality • Morbidity • Interest rate • Etc. <p>The company utilizes an independent actuarial firm (other than its appointed actuary) to periodically review its LTCI reserving assumptions.</p>	<p>Select a sample from experience studies to verify support for and consistency with assumptions used by the company.</p> <p>Review any third-party actuarial work to verify and substantiate the appropriateness of company assumptions.</p>	<p>Utilize the insurance department actuary or an independent actuary to review assumptions and methodologies for reasonableness, appropriateness, accuracy and compliance with the <i>Valuation Manual</i>.</p> <p>Compare actual investment, mortality, morbidity and lapse experience to assumptions.</p> <p>Compare reserving assumptions to rate increase assumptions, (e.g., review the <i>Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves</i> (AG 51) filing and compare against rate increase requests) to ensure that assumptions used for pricing and reserving do not materially conflict.</p> <p>Review the company’s AG 51 filing and compare assumptions utilized by the company in LTCI reserving against industry standards and those of its competitors.</p> <p>Review the company’s AG 51 reporting to identify assumptions underlying the asset adequacy testing</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
						<p>memorandum that appear to be an outlier and compare against a subsequent rate increase filing.</p> <p>Coordinate with the Valuation Analysis (E) Working Group of the NAIC regarding any reviews it has performed on the company's AG 51 filings.</p> <p>Utilize the insurance department actuary or an independent actuary to evaluate the impact that a change in assumptions could have on the company's LTCI reserves and solvency position by reperforming reserve calculations using more conservative assumptions.</p>
Policies with supplemental or accelerated benefits have not been properly separated and reserved for in accordance with SAP.	OP RV	AC	RA RD	The insurer has a process in which supplemental and accelerated benefits are properly identified and reserved.	Test the process surrounding the identification and reserving of supplemental and accelerated benefits.	<p>Utilize the insurance department actuary or an independent actuary to perform an independent calculation of the reserves of supplemental and accelerated benefits.</p> <p>Verify that reserves are in accordance with SAP.</p>
Policies subject to Principle-Based Reserving are not properly identified or exclusion testing is not appropriately	RV	VA AC PD	RA	Company conducts and reviews exclusion testing in accordance with Valuation Manual instructions.	Review company support and supervisory sign-off for exclusion testing.	Utilize a Department actuary, independent actuary or NAIC Actuarial Modeling support staff to conduct or reperform exclusion testing.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
conducted.						
The life, A&H and deposit-type reserve and IBNR contract claim liability computations are not performed correctly or the selected estimates are unreasonable.	OP RV	AC VA	RA	<p>The insurer has an established process that is consistent with the method adopted by the NAIC to calculate the life reserves on an annual basis.</p> <p>The insurer maintains a fully staffed, well-qualified actuarial department.</p> <p>Senior management uses internal or independent actuaries to conduct reserve analyses of all major lines on an annual basis.</p> <p>The actuarial calculations are subject to a peer review process.</p> <p>The insurer's board of directors (or committee thereof) receives an annual presentation on the actuarial analysis process.</p> <p>Management receives regular reports on key ratios and reviews unusual fluctuations on a timely</p>	<p>Review the process in place (which may include performance of a walkthrough) to estimate the life reserves.</p> <p>Review the credentials, background and responsibilities of the insurer's actuarial department staff.</p> <p>Obtain actuarial reports to verify whether the insurer is using independent or in-house actuaries to perform the reserve calculations on all major lines of business annually and verify senior management review of reports from actuaries.</p> <p>If performed in-house, review and test the actuarial peer review process and related sign-offs.</p> <p>Review the meeting minutes of the board of directors (or committee thereof) to verify whether a presentation was given on the actuarial calculation process.</p> <p>Verify management review of reserve reporting and test the operating effectiveness of procedures in place.</p>	<p>Utilize the insurance department actuary or an independent actuary to perform an independent estimate of the life reserves and IBNR contract claims liability.</p> <p>Perform analytical procedures to review the reasonableness of reserve calculations.</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				basis to review reserves for adequacy.		
The methodologies utilized in PBR are not appropriate or the reserve computations are not performed correctly.	OP RV	AC VA	RA	<p>The company has a formal process in place to develop and validate a model for use in PBR. Governance of the actuarial model includes consideration of:</p> <ul style="list-style-type: none"> • Security Process • Software Change Process • Parameter Setting Process • Validation Process • Oversight of Overall Model Processes <p>Model results have undergone peer review and are subject to reasonableness tests, such as:</p> <ul style="list-style-type: none"> • The insurer manually calculates Net Premium Reserve (NPR) on selected policies. • The insurer does movement analysis comparing reserves per 1,000 of face amount with prior periods. 	<p>Review evidence that the company followed its process in developing and validating its model for use in PBR.</p> <p>Review the credentials, background and responsibilities of the insurer’s actuarial department staff in developing and validating the model used in PBR.</p> <p>Ensure that company peer review process is in place and operating effectively.</p>	<p>Utilize a Department actuary, independent actuary or NAIC Actuarial Modeling support staff to review and evaluate results (e.g. compare results of the standard portfolio, reasonableness in comparison with prior periods, etc.) of the insurer’s modeling computations.</p> <p>Utilize a Department actuary, independent actuary or NAIC Actuarial Modeling support staff to recalculate reserves on selected policies.</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<ul style="list-style-type: none"> The insurer performs sensitivity testing on key non-prescribed assumptions. 		
The computation of reinsurance credits within life, A&H and deposit-type reserves are not performed correctly. (See also Examination Repository – Reinsurance Ceding Insurer.)	CR RV	AC VA CO	RA RRC	<p>The reserving actuary calculates the reserve on a gross basis and determines the net basis by estimating the reinsurance credits and applying them to the gross reserve.</p> <p>The insurer applies reinsurance credits to life reserves by reviewing reinsurance treaties in place at the insurer, as well as historical results.</p>	<p>Test the operating effectiveness of the insurer’s process for reviewing the reserve analysis to determine whether life reserves have been estimated on a gross basis, including management approval and sign-off.</p> <p>Test the operating effectiveness of the insurer’s process to estimate reinsurance credits for life reserves, including management approval and sign-off.</p>	<p>Compare the annual financial statement net and gross incurred for consistency with reinsurance treaties in place at the insurer.</p> <p>Consider the reasonableness of reinsurance credits taken, based on a review of the insurer’s reinsurance program and treaties in place.</p> <p>Compare the corresponding reserve held by the reinsurer with the credit taken by the insurer and identify all reasons for differences.</p>
The insurer does not properly adjust the terminal reserve computation back to the reporting date.	OP RV	AC VA	RA	The insurer has a process in place whereby reserve computations are adjusted back to the reporting date.	Test the key controls surrounding the process by which reserve computations are adjusted back to the reporting date.	Utilize the insurance department actuary or an independent actuary to perform an independent estimate of the reserve adjustment back to the reporting date.
The initial reserves calculated by the actuary do not adequately reflect reserve liabilities.	OP RV	AC VA	RA	The insurer has a process in place by which it computes an asset adequacy test on the calculated life reserves.	Test the key controls surrounding the process by which the reserve adequacy test is calculated.	Utilize the insurance department actuary or an independent actuary to perform an independent estimation of the reserve

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>The insurer has a process in place to ensure that the correct assumptions and methodologies are used to estimate the adequacy of the life reserves.</p> <p>Management reviews the asset adequacy test for reasonableness of the reserve amount.</p>	<p>Test the key controls surrounding the assumptions and methodologies used to estimate reserve adequacy.</p> <p>Verify management review of asset adequacy test.</p>	<p>adequacy test to determine whether the overall reserve liability is adequate.</p>
<p>Management books reserves that are materially different than the actuary's best estimate.</p>	<p>OP ST LG</p>	<p>VA AC</p>	<p>RA</p>	<p>The insurer has a process in place to ensure that reserves are recorded based on the actuary's best estimate, or documents an appropriate reason for any deviations.</p> <p>The board of directors (or committee thereof) compares the booked reserves to the amounts included in the actuarial report by receiving a report from the appointed actuary.</p> <p>The insurer's organizational structure limits the influence that management can have on the appointed actuary.</p>	<p>Review management's guidelines regarding the recording of actuarially determined reserves. Verify that deviations from the actuary's best estimate are properly documented, if applicable.</p> <p>Review meeting minutes of the board of directors (or committee thereof) for evidence of a presentation and review of the actuarial report.</p> <p>Interview the appointed actuary during the planning phase of the examination to determine whether the insurer's organizational structure is appropriate in this area.</p>	<p>Review the actuarial report, as well as the annual financial statement and other appropriate documentation, to determine whether the insurer has booked the actuary's best estimate.</p> <p>Review the documentation supporting a deviation from the actuary's best estimate for reasonableness, if applicable.</p>
<p>The insurer is not properly accounting for cash surrender value (CSV) on life (including annuities)</p>	<p>OP LG</p>	<p>OB/OW VA</p>	<p>RA</p>	<p>The insurer has policies in place to ensure the reporting of CSV on life (including annuities) contracts in accordance with SSAP No.</p>	<p>Ensure the policies for the process used to report CSVs on life (including annuities) contracts is periodically reviewed and approved by</p>	<p>For a sample of life (including annuities) contracts with cash surrenders, determine whether the CSV is being</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
contracts.				51.	management.	properly reported.
Contract claim liabilities are not established or reviewed in accordance with the insurer's standards and applicable statutory guidelines.	RV OP LG	AC VA CO	RA	<p>The insurer has a policy for recording contract claim liabilities and actuaries are involved in establishing and reviewing the policy.</p> <p>Contract claim liabilities are recorded in accordance with the insurer's policy, applicable statutory guidelines and within a specified time frame.</p> <p>Committees evaluate and strategize claim liabilities involving large or unusual loss contract claim determinations and/or settlements.</p>	<p>Obtain documentation supporting the insurer's contract claim liability policy to ensure actuary review and policy adequacy.</p> <p>For a sample of contract claim liabilities, determine whether contract claim reviews were performed and documented in accordance with the insurer's policy and applicable statutory guidelines.</p> <p>Obtain minutes and other meeting materials from the meetings of the committee to determine whether the committee provided appropriate oversight.</p>	<p>For a sample of contract claim liabilities, verify that the calculation is in accordance with the insurer's policy, applicable statutory guidelines, and are calculated on a timely basis.</p> <p>From the sample selected above, identify any claims included on the detail for which the liability recorded is not consistent with the contract terms. Identify claims that appear to have not been paid in a reasonable or fair time frame. Investigate the status of these claims/benefits with the insurer's management.*</p> <p>Verify that the claims/benefits liability is complete and properly recorded at year-end.</p> <p>Obtain a detail of resisted claims and claims closed without payment. Perform procedures to verify the grounds for the resisted claims.</p> <p>For a sample of contract claim liabilities meeting the criteria to go to a loss/benefits committee, determine whether the liabilities were referred to</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
						this committee.*
The insurer does not maintain an adequate deficiency reserve.	RV OP	VA CO CM	RA	<p>The insurer has a process in place to review for premium deficiencies on an annual basis in accordance with SSAP No. 54.</p> <p>Independent actuaries review and sign off on deficiency reserve calculations.</p>	<p>Review the process in place and verify key controls surrounding the calculation of premium deficiency reserves.</p> <p>Obtain the actuarial opinion and verify approval of deficiency reserve calculations.</p>	<p>Perform an analytical review of loss ratios.</p> <p>If necessary, utilize the insurance department actuary or an independent actuary to perform a detailed review or an independent calculation/estimate of the premium deficiency reserves.</p>

EXAMINATION REPOSITORY – RESERVES/CLAIMS HANDLING (P&C)

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:

Losses
Loss Adjustment Expenses
Ceded Reinsurance Case Loss and Loss Adjustment Expense Reserves
Supplemental Reserve (*Title Companies*)

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the property and casualty insurance reserving 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. 53 Property Casualty Contracts – Premiums (*P&C Companies*)
No. 54R Individual and Group Accident and Health Contracts
No. 55 Unpaid Claims, Losses and Loss Adjustment Expenses
No. 57 Title Insurance
No. 62R Property and Casualty Reinsurance – Revised
No. 63 Underwriting Pools
No. 65 Property and Casualty Contracts
No. 70 Allocation of Expenses

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The board of directors (or committee thereof) is not involved in establishing and/or reviewing the insurer's overall reserving policy.	OP RV ST	Other	RA	<p>The insurer's board of directors (or committee thereof) has adopted and/or reviewed the insurer's overall reserving policy.</p> <p>The board of directors (or committee thereof) regularly discusses reserving issues/levels and receives reports from the Appointed Actuary.</p> <p>The insurer monitors and revises its reserving policy as needed.</p>	<p>Verify that the insurer has established an overall reserving policy that has been adopted and/or reviewed by the board of directors (or committee thereof).</p> <p>Review board of directors (or committee thereof) minutes to ensure discussion of reserving. Verify that the minutes indicate that the Appointed Actuary reported to the board of directors (or committee thereof) on the items within the scope of the actuarial opinion and identifies the manner of presentation.</p> <p>Obtain information on revisions made by the insurer to its reserving policy and verify the revisions were appropriately reviewed and/or approved by the board of directors (or committee thereof).</p>	<p>Obtain information on the insurer's overall reserving policy and forward it to the insurance department actuary or an independent actuary for review.</p> <p>Discuss with members of the board of directors (or committee thereof) their level of involvement in the monitoring of reserving policy.</p>
Financial Reporting Risks						
New claims are not entered into the claims management system.	RP LG	AC CT CO	RD	<p>Segregation of duties exists between the claim notification and the input of claims data into the claims system.</p> <p>Control reports exist to</p>	<p>Observe that segregation of duties exists between the claim notification and the input of claims data into the claims system.</p> <p>Obtain the exception report</p>	<p>Select a sample of items from the exception reports and verify that the claim was appropriately accounted for.*</p> <p>Select a sample of claims</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>ensure all claims reported to the insurer electronically or manually have been entered into the claims system. Exceptions are identified and resolved timely.</p> <p>The insurer reviews the Type II SOC 1 report and ensures compliance with user control considerations for any outsourcing companies that enter claims on behalf of the insurer.</p>	<p>and ensure management review and exception resolution.</p> <p>Test the operating effectiveness of the automated claims posting process through reperformance and observation, which could include IT testing of batch totals to ensure completeness of transactions processed.</p> <p>Obtain documentation of the management’s review of the Type II SOC 1 report.</p>	<p>and expense payments made subsequent to year-end to verify that claims were recorded in the proper period.</p> <p>Review the Type II SOC 1 report, including any bridge letters, to ensure there are no significant control deficiencies or internal control weaknesses related to processing new claims into the claims system.</p> <p><u>Perform analytical procedures to verify the claims were recorded in the correct period (i.e. average claim count before and after period-end).</u></p>
<p>Claims data is incomplete or incorrectly entered into the claims management system.</p>	<p>OP LG</p>	<p>AC CT CO EX</p>	<p>RD</p>	<p>Claims data is subject to independent verification or quality assurance (QA) reviews.</p> <p>The claims system has automated controls that will not allow a claim to be entered without a valid in-force policy.</p> <p>The claims system has automated controls that will not permit continued</p>	<p>Obtain documentation of independent claim verification or QA review. Ensure reviews performed address the completeness and accuracy of underlying claims information entered into the claims system.</p> <p>Test the operating effectiveness of automated controls (i.e., edit checks) through reperformance and observation.</p> <p>Obtain the error report and ensure proper exception resolution.</p>	<p>Perform data validation tests to verify the accuracy of claim information maintained in the claims system — such as coverage terms, demographic data, loss occurrence and/or loss report date, date of service, insured name, claim number and coverage period — by vouching the information to the claimant’s insurance contract, claims form and any other underlying support. <u>Utilize an actuary to determine the most significant lines of business and data points used in the</u></p>

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>processing until all pertinent claim data has been entered. Entering a valid active policy number will automatically populate select policy data. System edits will identify data that does not meet the predetermined criteria resulting in inclusion on a system generated exception report.</p> <p>Segregation of duties exists between individuals responsible for new claim set-up and those responsible for setting up new policies.</p>	<p>Test the operating effectiveness of authority restrictions through reperformance and observation.</p> <p>Obtain claims set-up and new policy set-up authorization listings and cross-reference the listings to ensure that there are no employees with conflicting authority.</p>	<p><u>estimate and focus accuracy testing on those.</u></p> <p><u>Perform analytical procedures over the population of claims data (i.e. paid claims) at the appropriate disaggregation level to identify any unusual trends or anomalies pertaining to the accuracy of claims data that should be further investigated.</u></p> <p><u>Test completeness of the data by gap testing sequences of checks and investigating any gaps as well utilizing bank reconciliations and testing any outstanding checks.</u></p> <p><u>Select a sample of claim disbursements from bank statements back into the data file to ensure completeness.</u></p> <p>Scan the database(s) for internal inconsistencies, such as missing claim amounts, unusually small amounts and claims misclassified by type. In situations where adequate segregation of duties is not apparent, obtain data to determine whether any claims were set up by the same user who created the</p>

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						corresponding policy in the master file. If any instances are identified, investigate the claim to ensure the claim exists and is supported by underlying data.
The third-party administrators (TPAs) or managing general agents (MGAs) are not processing claims in accordance with the insurer's claims procedures as outlined in the TPA agreement.	LG OP RP	AC CM	RD	<p>The insurer performs regular audits of its TPAs/MGAs to determine whether the insurer's claims-handling standards and additional contract provisions are being consistently followed by the TPA.</p> <p>Management obtains a Type II SOC 1 report for all TPAs and reviews the report to verify the TPA has adequate controls and that the insurer is adhering to user control considerations.</p> <p>Management performs necessary reviews to comply with applicable state MGA regulations.</p>	<p>Review audit reports and other documentation to determine whether the insurer provides sufficient oversight of its TPAs/MGAs.</p> <p>Verify that the insurer has obtained and reviewed each TPA's Type II SOC 1 report, if available. Determine whether the insurer is adhering to user control considerations.</p> <p>Obtain evidence of management's review of compliance with applicable state MGA regulations.</p>	<p>Determine, by a review of selected claims, whether the insurer is settling its claims accurately and in accordance with the contract, based on information contained in the claim file.</p> <p>Review the Type II SOC 1 report to determine whether the controls outlined in the report are adequate to ensure that claims are being processed in accordance with the TPA agreement.</p> <p>Test for compliance with applicable state MGA regulations.</p>
Claims are not being processed accurately and in accordance with the insurer's guidelines.	OP ST LG	AC CM CO	RD	<p>The insurer has administrative policies and maintains a claims procedures manual that outlines the following requirements:</p> <ul style="list-style-type: none"> • Proper application of deductibles. • Reserving and 	<p>Review the insurer's claims manual to determine appropriateness including management approval.</p>	<p>Perform tests to determine whether claims were accurately processed in accordance with the claims procedures manual, approved authority limits and administrative policies, through review of the claimant's insurance</p>

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				<p>payment authority and approval levels.</p> <ul style="list-style-type: none"> • File documentation and tracking. • Procedures for handling suspicious or fraudulent claims. • Compliance with the domiciliary state’s fair claims practices laws and regulations. <p>Paid losses are not to exceed policy limits, cover ineligible loss causes/types and/or apply to a policy period for which the insurer is not contractually responsible.</p> <p>Any consideration to pay a loss that meets one or more of the aforementioned categories must be processed in accordance with the insurer’s procedures.</p> <p>As part of the claims processing procedures, the insurer obtains adequate documentation before a claim is settled.</p> <p>Claims approval is subject to approved authority limits.</p>	<p>Test the operating effectiveness of system edit checks to ensure procedures are implemented through reperformance and observation.</p> <p>Review assessments of the claims-handling process performed by internal/external auditors, reinsurers and/or others for significant issues.</p> <p>Test the operating effectiveness of controls to ensure adequate documentation is obtained before payment is made.</p> <p>Test the controls in place to ensure that claims are approved in accordance with documented authority limits.</p>	<p>contract, claims form and any other underlying support.*</p> <p>Review policyholder complaints and investigate significant issues.</p> <p>Review a sample of denied claims to ensure compliance with contract and timeliness provisions.</p>

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				A QA review is periodically performed for each claims processor to ensure compliance with the claims-handling policies.	Review documentation of QA reviews to determine whether the QA function is being executed as outlined in the insurer's policies. On a sample basis, reperform the QA testing to ensure that the testing was completed accurately.	
Claims under claims-made liability policies are improperly accepted (or rejected) by the claims adjusters.	RP RV OP ST	AC CM	RD	The insurer has a policy in place whereby coverage is automatically triggered under claims-made liability policies when a claim is first made during the policy period (as long as it did not occur prior to the retroactive policy date specified). A QA review is periodically performed for each claims processor to ensure compliance with claims-handling policies	Perform a walkthrough to verify that the adjuster properly applies tail coverage to the claim and reallocates the claim to the correct policy year. Review documentation of QA reviews to determine whether the QA function is being executed as outlined in the insurer's policies. On a sample basis, reperform the QA review to ensure the testing was accurately completed.	Perform data validation testing to ensure that claims under claims-made liability policies are being properly administered.
The claims data utilized by the actuary to estimate reserves does not correspond to the data in the insurer's claims system and to the data in the insurer's accounting records.	OP RV	AC CO	RD	The insurer has established procedures to reconcile actuarial data to the insurer's claims system, the data in the insurer's accounting records and appropriate annual financial statement schedules and/or exhibits. Such	Review the insurer's reconciliation reports of actuarial data to the insurer's claims system and the insurer's accounting records. Ensure evidence of supervisory review.	Test <u>any</u> reconciling items within the reconciliations for appropriateness. Reconcile the insurer's actuarial report for losses and loss adjustment expenses, <u>among other significant data inputs (e.g.</u>

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				<p>reconciliations are reviewed by supervisory personnel.</p> <p>Inventories of reported and unpaid claims are maintained and periodically reconciled to the general ledger.</p> <p>The company's internal Appointed Actuary reconciles the claims data used in the analysis to Schedule P <u>with proper review and approval.</u></p> <p>The insurer has established procedures to prepare complete and accurate data for actuarial review.</p>	<p>Review the insurer's reconciliation of reported and unpaid claims to the general ledger.</p> <p>Review the company's internal Appointed Actuary's reconciliation of the claims data used in the analysis to Schedule P, <u>noting the proper review and approval.</u></p> <p>Test the operating effectiveness of the insurer's established procedures to prepare the claims data for actuarial review.</p>	<p><u>paid claims, case reserves, etc.) according to the actuary</u> to supporting insurer reports/<u>underlying documentation</u>, general ledger, and annual financial statement schedules and exhibits as of the valuation date. <u>Vouch payment of claim into bank statement.</u></p> <p><u>Perform analytical procedures to review the reasonableness of paid claims.</u></p> <p>Independently reconcile the actuarial data to Schedule P.</p>
<p>Reinsurance is not properly taken into account in accumulating claims data.</p> <p>(See also Examination</p>	RV	AC CO	RD	<p>The insurer has established procedures to prepare the claims data for actuarial review in accordance with the insurer's reinsurance treaties.</p>	<p>Review the insurer's reconciliation reports of actuarial data to the insurer's claims system, reinsurance reports, and accounting records.</p>	<p>Test reconciling items relating to reinsurance loss data for appropriateness.</p> <p>Verify assumed reinsurance loss data accumulated for actuarial review by</p>

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Repository – Reinsurance Ceding Insurer)					Test the operating effectiveness of the insurer’s established procedures to include loss data from assumed reinsurance treaties within the claims data for actuarial review.	comparing to the data provided by the ceding insurer for completeness.
Initial case reserves are not established or reviewed in accordance with the insurer’s standards.	RV CR	AC VA CO	RA	<p>The insurer has a case reserving philosophy, and qualified actuaries are involved in establishing and reviewing the reserving policy.</p> <p>Initial reserves are made in accordance with the insurer’s reserving philosophy and within a specified time frame.</p> <p>Claims adjusters/ supervisors are required to review significant initial case reserves on a timely basis and make adjustments as necessary.</p> <p>The insurer verifies that the TPAs that process claims follow the insurer’s guidelines for setting case reserves on reported claims.</p> <p>Committees are formed to evaluate and strategize claims involving serious injuries, complex claims</p>	<p>Obtain documentation supporting the insurer’s reserving philosophy. Review the reserving philosophy for actuarial review and policy adequacy.</p> <p>For a sample of loss reserves, determine whether loss reserve reviews were performed and documented in accordance with the insurer’s policy.</p> <p>Obtain periodic new claims reports and verify the insurer reviews significant initial case reserves and makes adjustments, if necessary, in a timely manner.</p> <p>Obtain minutes and other meeting materials from the meetings of the committee to determine whether the</p>	<p>For a sample of reserves, verify that the calculation is in accordance with the reserving philosophy and that reserves are calculated on a timely basis.</p> <p>For a sample of reserves meeting the criteria to go to a claims committee, determine whether the reserves were referred to this committee.*</p>

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				law, and large or unusual loss reserve determinations or settlements.	committee provided appropriate oversight.	
Case reserves are not updated accurately.	RV CR	CO VA	RA	<p>The insurer has a policy requiring open claims to be reviewed regularly. When new information is received, case reserves are reviewed and adjusted, if necessary <u>and are subject to the necessary authority and approval levels outlined within the claims procedure manual.</u></p> <p>The claims management system generates analyses or reports that identify reserve increases and decreases, an outstanding reserve list, an outstanding reserve list by claims adjuster and a reserve release report. These reports are reviewed/ monitored by the claims manager for reasonableness.</p>	<p>From a sample of case reserves, determine whether the reserves are updated regularly and are appropriately updated when new information is received <u>and are evidenced by the appropriate approval.</u></p> <p>Obtain copies of the reserve reports, noting management approval.</p>	<p>Select a sample of paid claims and compare the final overall claims settlement with the case reserve to determine whether the reserves are adequate and/or updated accurately.*</p> <p>Verify that the information contained in management reserve reports is accurate and complete and determine whether the appropriate analysis is being used to evaluate the reserves.</p>
The insurer is not properly recording case reserves (assumed or ceded) for contracts subject to reinsurance.	RV CR LG	CO VA AC	RA	The insurer has policies in place to verify that case reserves subject to reinsurance are valid and accurate (within contract time frame, covered under the contract, etc.).	<p>Review the insurer's policies to determine appropriateness, noting management approval.</p> <p>Review documentation of the insurer's review of claim validity.</p>	Perform procedures to determine whether case reserves recorded by the insurer agree with the case reserves of the assuming (ceding) insurer.
Actuarial analyses relied upon by the insurer's management in determining carried reserves are not based	RV	VA AC PD	RA	The insurer's actuarial analyses use appropriate methods and reasonable assumptions that have been based on historical results	Gain an understanding of the methods and assumptions used in the analyses compared with prior periods.	Review the actuarial analyses' methodologies for appropriateness and assumptions for reasonableness, with

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<p>on appropriate methods and/or reasonable assumptions.</p>				<p>(to the extent appropriate), adequately documented, approved by senior management (where appropriate) and in accordance with statutory accounting principles and applicable state statutes and/or regulations.</p> <p>Actuarial analyses relied upon by management in determining carried reserves are subject to a peer review process.</p> <p>Management receives regular reports on loss/loss adjustment expense (LAE) reserve levels, loss/LAE ratios (including incurred but not reported (IBNR)) by line or class of business grouped by accident year and calendar year, as well as other key ratios, and reviews unusual fluctuations on a timely basis to review reserves for adequacy.</p> <p>The insurer utilizes a fully staffed, well-qualified actuarial function that is under the direction of an actuary that has an Accepted Actuarial Designation, as defined in</p>	<p>If performed in-house, review and test the actuarial peer review process and related sign-offs.</p> <p>Verify management review of loss/LAE reserve reporting and test the operating effectiveness of procedures in place.</p> <p>Review the credentials, background and responsibilities of the insurer's actuarial function (internal or external) for appropriateness.</p> <p>Request and review the insurer's organizational chart and job descriptions to determine whether the functions are separate and distinct.</p> <p>Interview the Appointed Actuary during the planning phase of the examination to</p>	<p>assistance from the insurance department actuary or an independent actuary.</p> <p>Verify that reserving methodologies and assumptions are in accordance with the relevant SSAPs related to P&C reserving, as well as applicable statutes, regulations, pronouncements and/or bulletins.</p> <p>Review prior history of loss development, as well as subsequent loss development data to analyze the appropriateness of methodologies and reasonableness of assumptions.</p> <p>Determine whether the appropriate disclosures have been made in the Notes to the Financial Statements for the changes in the insurer's reserve methodologies.</p> <p>Review actuarial reports and compare reports to prior periods. Investigate significant variations.</p> <p>Utilize the insurance department actuary or an independent actuary to</p>

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				<p>the NAIC Statement of Actuarial Opinion Instructions, and is experienced in the lines of business written by the insurer.</p> <p>The reserving actuarial unit's responsibilities are segregated from the pricing actuarial unit, but there is regular communication between the two units.</p> <p>The insurer's management does not inappropriately influence the methods, assumptions or conclusions of the Appointed Actuary.</p>	ascertain the degree of influence the insurer's management has on the Appointed Actuary's work.	<p>perform an independent calculation/estimate of the loss/LAE reserves for significant reserve segments with volatility, if necessary. Review the external auditor's reserve level calculations, when available, and the Appointed Actuary's report; independent tests should only be conducted if other tests are not conclusive.</p> <p>Review correspondence related to peer review for appropriate depth of review.</p> <p>Compare the Appointed Actuary's assumptions and estimates with those in other available actuarial analyses.</p> <p>Determine whether the Actuarial Opinion was materially changed by the Appointed Actuary after meeting with insurer management.</p>
Catastrophe-type (CAT) claims or large or significant exposure type claims data are not separately identified and evaluated from other claims.	OP RV	AC VA	RD RA	The insurer has established procedures to prepare the claims data for actuarial review by extracting CAT claims or large or significant exposure type claims, for a separate reserve analysis.	<p>Test the operating effectiveness of the insurer's established procedures to prepare the claims data for actuarial review.</p> <p>Review the insurer's actuarial reserve analysis for incorporation of a separate review of CAT</p>	Obtain a detailed download of all claim transactions during the examination period. Utilize audit software to verify that claims data appropriately distinguishes CAT claims or large or significant exposure type claims and that these claims have been extracted from the general claims data

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					claims or large or significant exposure type claims.	and presented separately to the actuary.
Changes in the legal environment or changes in the insurer's underwriting, case reserving or claims-handling processes are not appropriately considered within the insurer's reserving assumptions and methodologies.	OP RV ST	VA PD AC	RA	<p>The insurer has procedures in place to monitor and communicate changes in the legal environment (e.g., changes in case law, award amounts, trends in the number of claims being litigated) are being taken into consideration by management in a timely manner.</p> <p>The insurer has procedures in place for the underwriting, case reserving and claims-handling units to communicate changes in their processes to the reserving unit in a timely manner.</p>	<p>Review the insurer's process to monitor changes in the legal environment that may affect the reserving process and reflect changes appropriately in management's determination of carried reserves.</p> <p>Review evidence of communication between the reserving unit and other relevant insurer units.</p>	Through a review of documentation supporting management's carried reserves, determine whether changes in the legal environment or changes in the insurer's internal processes have been properly incorporated.
The loss and loss adjustment expense (LAE) reserve computations are not performed correctly or the selected estimates are unreasonable.	OP RV	AC VA	RA	<p>The insurer has an established process (although assumptions and methodologies may change) to estimate the loss reserves on an annual basis.</p> <p>The insurer has established processes to estimate the defense and cost containment (DCC) and the adjusting and other (AO) loss adjustment expense reserves on an annual basis.</p> <p>The insurer maintains a</p>	<p>Review the process in place (which may include performance of a walkthrough) to estimate the loss reserves.</p> <p>Review the processes (which may include a walkthrough) in place to estimate both the DCC and AO loss adjustment expense reserves.</p> <p>Review the credentials,</p>	<p>Utilize the insurance department actuary or an independent actuary to perform an independent estimate of the loss reserves.</p> <p>Utilize the insurance department actuary or an independent actuary to prepare an independent estimate of LAE.</p> <p>Perform analytical procedures to review the reasonableness of loss</p>

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				<p>fully staffed, well-qualified actuarial department that is under the direction of a fellow (or associate) of the Casualty Actuary Society (FCAS) and is experienced in the lines of business written by the insurer.</p> <p>Senior management uses either internal or independent actuaries to conduct reserve analyses of all major lines on an annual basis.</p> <p>The actuarial calculations are subject to a peer review process.</p> <p>The insurer's board of directors (or committee thereof) receives an annual presentation on the actuarial analysis process.</p> <p>Management receives regular reports on loss ratios (including IBNR) by line or class of business for accident year and calendar year, as well as other key ratios, and reviews unusual fluctuations on a timely basis to review reserves for</p>	<p>background and responsibilities of the insurer's actuarial department staff for appropriateness.</p> <p>Obtain actuarial reports to verify insurer is using either independent or in-house actuaries to perform the reserve calculations on all major lines of business annually and verify senior management review of reports from actuaries.</p> <p>If performed in-house, review and test the actuarial peer review process and related sign-offs.</p> <p>Review meeting minutes of the board of directors (or committee thereof) to verify that a presentation was given on the actuarial analysis process.</p> <p>Verify management review of loss reserve reporting and test the operating effectiveness of procedures in place.</p>	<p>reserve estimates.</p>

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				adequacy.		
Management does not have reasonable support for its carried reserves.	OP ST LG	VA PD	RA	<p>The insurer has a process in place for determining carried reserves, and management is able to explain its selection.</p> <p>The board of directors (or committee thereof) reviews management's best estimate of reserves and challenges such estimates based upon reports received, including the actuarial report from the Appointed Actuary.</p>	<p>Review management's guidelines regarding the determination of carried reserves. Verify that any material changes from the prior year's reserves and any material differences between carried reserves and the Appointed Actuary's point estimate are properly documented.</p> <p>Review meeting minutes of the board of directors (or committee thereof) minutes for evidence of a presentation and review of information supporting management's best estimate of the booked reserves (e.g., the actuarial report).</p>	Review the documentation supporting management's carried reserves, including management's analysis of the reasonableness of the reserve estimates.
The insurer does not maintain an adequate premium deficiency reserve.	RV RQ OP	VA CO CM	RA	<p>The insurer has a process in place to review for premium deficiencies on an annual basis in accordance with SSAP No. 53.</p> <p>Qualified personnel perform, review, and sign off on premium deficiency reserve calculations.</p>	<p>Review the process in place and verify key controls surrounding the calculation of premium deficiency reserves.</p> <p>Obtain the premium deficiency reserve calculations, and verify approval and sign-off.</p>	<p>Perform an analytical review of loss ratios.</p> <p>If necessary, utilize the insurance department actuary or an independent actuary to perform a detailed review or an independent calculation/estimate of the premium deficiency reserves.</p>

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 impact 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 Casualty Contracts – Premiums (*P&C Companies*)
- No. 54R Individual and Group Accident and Health Contracts (*Health Companies*)
- No. 65 Property and Casualty Contracts (*P&C Companies*)

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Other Than Financial Reporting Risks						
<p>The insurer has not developed and followed its overall underwriting strategy.</p>	<p>ST PR/UW OP</p>	<p>Other</p>	<p>UPSQ</p>	<p>The underwriting strategy indicates the types and lines of business (coverages), geographical areas and other rating classes the organization seeks to write in.</p> <p>The overall underwriting strategy is reviewed, monitored and approved by the board of directors on a regular basis.</p> <p>The underwriting department has established and documented goals in accordance with the insurer's overall underwriting strategy.</p> <p>The insurer reviews its underwriting performance to identify non-compliance with its underwriting strategy.</p>	<p>Review documentation demonstrating that the insurer has developed a formal underwriting strategy.</p> <p>Review board minutes and/or packets for evidence that the board actively reviews and/or approves the insurer's underwriting strategy on a regular basis.</p> <p>Review the underwriting department's goals for compatibility with the insurer's overall underwriting strategy.</p> <p>Review the insurer's process to monitor compliance with underwriting strategy and determine if non-compliance is appropriately remediated.</p>	<p>Review the insurer's underwriting strategy for appropriateness.</p> <p>Review the information provided within underwriting reports reviewed by management and the board for accuracy and appropriateness.</p> <p>Review historical premium written detail as well as underwriting and profitability results and determine whether the underwriting strategy is being followed.</p>
<p>The insurer has not established and maintained appropriate risk exposure limits (including catastrophe coverage) that are consistent with risk</p>	<p>ST PR/UW</p>	<p>Other</p>	<p>UPSQ</p>	<p>The insurer has established and documented risk exposure limits by geography, other rating classes and line of business (coverages) that have been reviewed and approved by senior management.</p>	<p>Review documentation of risk exposure limits and evidence of senior management review/approval. Consider if the risk limits are consistent with the risk appetite and risk tolerance</p>	<p>Utilize 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</p>

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appetite.				<p>Risk exposure limits established by the insurer consider the direct and indirect impacts of climate change risk.</p> <p>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.</p> <p>The insurer utilizes risk models to track compliance with exposure limits established by the insurer.</p>	<p>levels articulated in the company’s ERM process and consider alignment with the company’s reinsurance program.</p> <p>Perform a walkthrough of the underwriting process and observe how the impact of climate change risk is considered when establishing risk exposure limits.</p> <p>Review the credentials, background and responsibilities of the insurer’s underwriting function (internal and/or external).</p> <p>Test the operating effectiveness of the insurer’s controls to track compliance with the exposure limits by reviewing modeling data.</p>	<p>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.</p> <p>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.</p>
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	ST PR/UW	Other	UPSQ	<p>The insurer has developed comprehensive pricing practices that have been approved by senior management.</p> <p>Pricing practices include consideration of future changes in loss</p>	<p>Review documentation of pricing practices and evidence of senior management review/approval.</p> <p>Perform a walkthrough of the pricing process and observe how the impact of</p>	<p>Review the underwriting and pricing guidelines established by the insurer for appropriateness.</p> <p>Perform analytical procedures to review the insurer’s profitability and history of indicated rates vs.</p>

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<p>actuarial specialist to assist with test procedures related to this risk.</p>				<p>development including the impact of climate change risk.</p> <p>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.</p> <p>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.</p> <p>Regulatory changes are factored into pricing decisions.</p>	<p>claim trends including climate change risk and weather variability is considered when establishing rates/prices.</p> <p>Review the credentials, background and responsibilities of the insurer’s pricing actuarial department for appropriateness.</p> <p>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.</p> <p>Perform a walkthrough of the company’s pricing process and observe how regulatory changes are factored into pricing decisions.</p>	<p>selected/filed rates to evaluate the sufficiency of premium rates.</p> <p>If rates have been subject to insurance department approval, consider whether reliance can be placed on this work.</p> <p>If deemed necessary, utilize the insurance department actuary or an independent actuary to perform a review or independent calculation of base premium rates.</p> <p>Compare base premium rates utilized by the insurer to industry averages and advisory organization recommendations for reasonableness.</p>
<p>Policies are issued that do not comply with</p>	<p>OP PR/UW</p>	<p>Other</p>	<p>UPSQ</p>	<p>The insurer utilizes a fully staffed, well-qualified</p>	<p>Review the credentials, background and</p>	<p>Test a sample of new policies underwritten to</p>

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underwriting and pricing guidelines.				<p>underwriting function that has experience in all lines of business (coverages), geographic locations and other rating classes served by the insurer.</p> <p>The insurer provides initial and ongoing training programs to qualify its underwriting staff to follow the insurer guidelines established.</p> <p>Underwriters are restricted in the type and amount of policies that they underwrite by authority levels built into the system.</p> <p>The insurer has established a QA process to review new policies underwritten for compliance with underwriting guidelines on a sample basis.</p> <p>The insurer designates an individual to be responsible for tracking and maintaining licenses for all jurisdictions in which it transacts business.</p> <p>The insurer has a process in place that requires deviations from pricing or acceptability guidelines to</p>	<p>responsibilities of the insurer’s underwriting function (internal and/or external).</p> <p>Review documentation outlining the insurer’s training of underwriting staff.</p> <p>Test the operating effectiveness of automated controls (i.e., authority levels) through reperformance and observation.</p> <p>Re-perform, on a sample basis, testing of policies reviewed by the QA function for proper implementation of the insurer’s underwriting guidelines.</p> <p>Review the insurer’s process for tracking and maintaining licenses to write business.</p> <p>Review the insurer’s process for reviewing deviations from pricing or acceptability guidelines.</p>	<p>determine whether the final underwriting decision (including any deviations from accepted guidelines) was made by someone at an appropriate authority level.*</p> <p>Test a sample of new policies underwritten for compliance with appropriate underwriting guidelines.*</p> <p>Test a sample of new policies underwritten for appropriate pricing.</p> <p>Review certificates of authority for the states and jurisdictions where the insurer is licensed to write business as of the examination date.</p>

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				be pre-approved, reviewed, and/or spot-checked.		
Underwriting results are not monitored and updated in order to measure success or failure of business written.	PR/UW ST	Other	UPSQ	<p>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.</p> <p>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 that may affect portfolio performance.</p> <p>The company has a process in place to take corrective actions to address product and underwriting problems identified in the portfolio.</p>	<p>Review company reports to determine sufficient oversight of the company’s portfolio.</p> <p>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.</p> <p>Review underwriting department’s underwriting file review process and how management uses results to drive performance and compliance with company goals and direction.</p> <p>Verify the company has implemented changes to underwriting guidelines to address policies with</p>	<p>Review underwriting results for profitability. Consider profitability from a variety of perspectives, including product lines, geographic areas and distribution channels.</p> <p>Discuss any significant variances or discrepancies between planned strategies/budgets/pricing assumptions and actual results with senior management.</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
					unanticipated loss exposures.	
<p>The insurer has developed or implemented marketing or distribution plans that are not feasible or consistent with its business and underwriting strategy.</p>	OP PR/UW	Other	UPSQ	<p>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.</p> <p>Marketing and distribution plans are reviewed and updated on a regular basis to account for changes in the marketplace and consumer preferences.</p> <p>The insurer has cross-unit meetings prior to product roll out and periodically thereafter on all product lines to ensure business decisions are aligned across units/departments and changes are communicated in a timely manner</p>	<p>Review the marketing and distribution plans and obtain evidence of management approval.</p> <p>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.</p> <p>Review evidence of cross-unit communication and consider the frequency/depth of communication in evaluation of the company's control.</p>	<p>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.).</p> <p>Review the company's marketing and distribution plans for feasibility and appropriateness in light of market conditions and competition.</p> <p>Review company's ongoing performance against projections to evaluate the effectiveness of the company's marketing and distribution efforts.</p>
<p>The insurer does not effectively oversee its producers, including managing general agents (MGAs) and third-party administrators (TPAs), to ensure that appropriate underwriting and</p>	OP RP PR/UW	Other	UPSQ	<p>The insurer has developed comprehensive underwriting, pricing and premium processing guidelines and practices that have been approved by senior management and communicated to the MGAs and TPAs.</p>	<p>Review documentation of underwriting, pricing and premium processing guidelines and practices for evidence of senior management review/approval, as well as evidence of communication and training provided to the MGAs and TPAs.</p>	<p>Perform analytical procedures to review the underwriting and premium processing results of significant MGAs and TPAs.</p> <p>If deemed necessary, perform a site visit to examine the underwriting</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
premium processing standards are practiced.				<p>The insurer monitors the underwriting and premium processing results of its MGAs/TPAs through a regular review of relevant ratios.</p> <p>The insurer requires a Type II SOC 1 report be issued for the service provider and reviews annually.</p> <p>The insurer performs regular reviews of its MGAs/TPAs to determine whether insurer underwriting standards are being consistently followed and whether premiums are processed and remitted in accordance with company standards.</p>	<p>Review documentation that provides evidence of regular review of MGA/TPA underwriting and premium processing results by the insurer.</p> <p>Review the service provider’s audited financial statements and Type II SOC 1 report to determine the service provider appears to have a solid financial position and appropriate internal controls.</p> <p>Review any audit reports and other documentation to determine whether the insurer provides sufficient oversight of its MGAs/TPAs.</p>	and premium processing functions at the MGA/TPA.
The company has not established appropriate rates for its long-term care insurance (LTCI) policies	ST PR/UW	Other	UPSQ	<p>The insurer utilizes a fully staffed, well-qualified actuarial pricing function that has significant experience and expertise in LTCI.</p> <p>The company conducts experience studies and utilizes credible data as the basis for its rate assumptions.</p> <p>The company files accurate</p>	<p>Review the credentials, background and responsibilities of the insurer’s actuarial pricing function for appropriateness.</p> <p>Select a sample from experience studies to verify support for and consistency with rate assumptions used by the company.</p> <p>Communicate with</p>	<p>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.</p> <p>Compare the premium rates utilized by the insurer to industry averages and those of competitors (if known) for reasonableness.</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>and complete rate increase requests with all departments in a timely manner.</p>	<p>department staff in charge of LTCI rate review requests (in multiple states if appropriate) to assess the quality and timeliness of the insurer’s rate requests.</p>	<p>If rates have been subject to insurance department approval, consider whether reliance can be placed on this work.</p> <p>If deemed necessary, utilize the insurance department actuary or an independent actuary to perform a review or independent calculation of premium rates.</p> <p>Compare rate increase assumptions to reserve assumptions, (e.g., review the rate requests and compare against <i>Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves</i> (AG 51) filings) to ensure that assumptions used for pricing and reserving do not materially conflict.</p> <p>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.</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Financial Reporting Risks\						
Policy data are not properly and completely entered into the system (<u>See also Examination Repository – Reserves – Claims (Life)</u>).	OP PR/UW	AC CO	UPSQ RA	<p>The insurer’s system contains edit checks that require policy data to be complete and reasonable before being entered into the system.</p> <p>The insurer has a QA process in place that tests policy data entered into the system on a sample basis.</p>	<p>Test the operating effectiveness of edit checks through reperformance and observation. ¹</p> <p>Re-perform, on a sample basis, QA testing of the application data entered into the system.</p>	<p>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. <u>Utilize an actuary to determine the most significant lines of business and data points used in the estimate and focus accuracy testing on those.</u></p> <p><u>Perform analytical procedures over the population of policy data to identify any unusual trends or anomalies that should be further investigated.</u></p> <p>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.</p>
Policies are underwritten with high deductibles that expose the company to significant collectibility/credit risk.	ST PR/UW CR	Other	UPSQ	<p>The insurer reviews the credit quality of potential policyholders before underwriting high-deductible policies.</p> <p>The insurer requires collateral to be posted and maintained to ensure that deductibles on significant</p>	<p>Review evidence of credit assessment prior to the approval of high-deductible policies.</p> <p>Obtain evidence of the insurer’s process to require and maintain collateral at a sufficient level for high-</p>	<p>Consider reviewing a sample of high deductible policies and evaluate sufficiency of collateral based on ongoing claims activity and credit risk of the insured.</p> <p>Perform an analytic to review and assess historical</p>

¹ For Life companies, consider performing this test in conjunction with testing performed in the Examination Repository Reserves (Life) which often include similar data elements.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				claims can be collected. Collateral levels and associated claims activity are reviewed on a regular basis to ensure collectibility.	deductible policies.	collections. Review the quality/liquidity/availability of collateral held for high deductible policies.

D. Coordination of Holding Company Group Exams

A coordinated group examination should attempt to be a comprehensive and simultaneous examination of insurance entities in a holding company group, which may be domiciled in multiple states. The phrases “holding company group” and “group” are used interchangeably throughout this section and are meant to include insurers that meet the definition for inclusion in an “insurance holding company system” as defined in the *Insurance Holding Company System Regulatory Act* (#440), as well as other groups under common control that do not meet this definition but would benefit from coordinated examination efforts. Coordination among the states should include the timing, scope and extent of examination procedures, utilization of specialists (e.g., information systems and actuarial) and their work products, and allocation of work among examiners. This coordination promotes communication among the states and the efficient use of resources, provides an avenue for multiple perspectives to be shared, and minimizes the duplication of work.

Commented [HB1]: Recommend that related accreditation guideline be revised such that Exhibit Z is only applicable when a group contains insurers from multiple states (as opposed to simply containing multiple insurers).

Exam coordination among insurers of a group or holding company system is critical for effective solvency regulation. When examinations are conducted on a group of insurers, the goal is to gain efficiencies and prevent duplication of testing wherever possible. Group examinations not only provide information on each insurer individually, but also provide an avenue for regulators to understand and evaluate the risks of the holding company group as a whole. Under Model #440, regulators have the authority to examine “any insurer registered under Section 4 and its affiliates to ascertain the financial condition of the insurer, including the enterprise risk to the insurer by the ultimate controlling party, or by any entity or combination of entities within the insurance holding company system, or by the insurance holding company system on a consolidated basis.” Therefore, in conducting a coordinated group exam, the lead state or exam facilitator should work with the assigned financial analyst to identify and address any significant concerns at the group level with the potential to threaten the solvency of the insurers being examined. In this situation, a group examination report may be issued by the lead state, but does not reduce the need to obtain evidence about the solvency of each insurer or eliminate requirements for individual examination reports.

States should coordinate examinations of all types of insurers operating in holding company groups when possible, including health insurers that operate primarily as health maintenance organizations (HMOs). Even though these organizations are often composed of single-state entities, they could still share processes, controls and decision-making that might be more efficiently reviewed through a coordinated group examination.

When conducting a coordinated examination, states participating in the examination will often have access to information that is considered sensitive and/or confidential. The NAIC Financial Regulation Standards and Accreditation Program requires that the states allow for the sharing of otherwise confidential information and administrative or judicial orders to other state regulatory officials, providing that those officials are required, under their law, to maintain its confidentiality. The NAIC Master Information Sharing and Confidentiality Agreement allows for signatory states to share confidential information with another signatory state that can demonstrate that its laws will protect the confidentiality of the shared information. This agreement is designed to eliminate the need for states to sign numerous multi-state agreements on a myriad of regulatory subjects.

Commented [HB2]: Existing guidance moved from Exam Facilitator #10 (edits tracked)

Before, during and after a group examination, the Lead State, Exam Facilitator and any other regulators that have domestics in the group—whether participating in the group exam or not—should be prepared to discuss relevant information with the NAIC Financial Examiners Coordination (E) Working Group. This information could include, but is not limited to, scheduling a group exam, the progress of a group exam, and why coordination did or did not occur between states for a particular group.

Determining the Lead State and Subgroups of Companies

Every insurance holding company system has individual characteristics that make it unique. Therefore, an evaluation of traits is required to determine how examinations for the group should be coordinated and which individual state, known as the Lead State, should assume the leadership role in coordinating group examinations. The Lead State assigned this responsibility will be known as the Lead State and is charged with the coordination of all financial exams for the holding company group, as well as other regulatory solvency monitoring activities (e.g., group supervision, including holding company analysis, group profile summary (GPS), assessments of the group’s corporate governance and ERM functions, etc.) as defined within the Financial Analysis Handbook.

In most situations to date, the Lead State has emerged by mutual agreement (i.e., self-initiative on its part and recognition by other states), generally as a result of the organizational structure of the group or as a result of the domicile of primary corporate and operational offices. The input of domestic regulators within the group also plays critical role in determining which state should be chosen to fulfill the role of the Lead State. Other factors that may be considered when determining the Lead State are:

- State with the largest number of domestic insurance companies in the group.
- State of large or largest premium volume or exposure.
- Domiciliary state of top-tiered insurance company in an insurance holding company system.
- Physical location of the main corporate offices or largest operational offices of the group.
- Expertise in the area of concern and experience of staff in like situations.
- State whose regulatory requirements have driven the design of the organization's infrastructure.

~~Input from domestic regulators in the group, as well as holding company personnel, should be considered when determining how the companies in the group might be broken up into subgroups for financial exam purposes, if necessary.~~ Because each group has its own unique characteristics, as do the companies within each group, it might be appropriate to separate the group into smaller factions and identify an Exam Facilitator for each subgroup examination. In order to gather information to make this decision and to assist in planning the coordinated examination, the Lead State might review group information contained in the Lead State Summary Report on iSite+, as well as request that holding company group personnel provide information to be considered in grouping companies within the holding company group for financial examinations. At a minimum, the information provided should include the topics of corporate governance of the group, risk management and decision-making, key functional activities and processes, lines of business, and computer systems. This information request is also included in Exhibit Z, Part One.

Responsibilities of the Lead State

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

1. Develop, maintain and communicate group coordination plan:

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

The frequency at which the coordination plan is updated and communicated to domestic regulators within the group may vary based on the size and complexity of the group. At minimum, the group coordination plan should be updated and communicated at least 4 months prior to the as-of date of an expected examination. However, updates should be made and appropriately communicated based on relevant changes to the group and/or examination schedule.

The Lead State should be prepared to discuss relevant information pertaining to the globalgroup coordination plan and the status of coordination efforts with the NAIC Financial Examiners Coordination (E) Working Group as

requested. If selected, the Lead State would be required to present such information to the Financial Examiners Coordination (E) Working Group at an NAIC national meeting.

Commented [HB3]: Existing guidance was formerly #3 (edits tracked)

2. ~~Monitor the status of existing examinations activities performed on all entities within the group—~~
~~This requires the Lead State is to have an understanding expected to be aware of the progress of all ongoing exams performed on all entities within the group. The Lead State should also and to understand be aware of the significant results of all recently completed exams. If consistent problems are identified during examination efforts, the Lead State may need to become involved in addressing the issues at the group level.~~

3. ~~Identify subgroups when appropriate; that may be appropriate for performing coordinated examinations—~~
 In situations where it is not feasible for all legal entities within a group to be examined at one time, ~~it is the Lead State's responsibility to determine subgroups for ongoing examination purposes, should play the primary role in determining which entities should be grouped together for examination purposes.~~ The Lead State should consider company use input from the company including responses to (i.e., Exhibit Z, Part One), as well as in making this determination. In addition, the Lead State should receive input from other domestic regulators within the group when making this decision. ~~The use of subgroups should be reflected in the group coordination plan (i.e., Exhibit Z, Part Two-A). However, it is the Lead State's responsibility to determine subgroups for ongoing examination coordination purposes.~~

~~Encourage participation from all states within the group— The Lead State should actively encourage all states within the group to participate in coordinated group examinations when possible. To help facilitate participation by all states, the Lead State should develop and maintain a global coordination plan, which could include information about potential subgroups, anticipated schedule, primary location of fieldwork, etc. Such a plan would allow ample time for the states to make the necessary arrangements to participate in future coordinated efforts. The Lead State should be prepared to discuss relevant information pertaining to the global coordination plan and the status of coordination efforts with the NAIC Financial Examiners Coordination (E) Working Group as requested. If selected, the Lead State would be required to present such information to the Financial Examiners Coordination (E) Working Group at an NAIC national meeting.~~

Commented [HB4]: Moved and incorporated into #1

~~One tool that can be used to help facilitate participation and the development of a global coordination plan is the Group Exam Report in the NAIC Financial Exam Electronic Tracking System (FEETS). The Group Exam Report assists regulators in actively communicating and tracking scheduled examinations for insurance company groups. The report also allows for changes to the examination schedule that may occur as a result of changes to company operations and financial condition. The group examination schedule should not preempt consideration of a state's prioritization schedule or postpone examinations of troubled companies, nor should it interfere with the state's obligation to conduct a full scope examination of its domestic insurance companies in accordance with state statutes.~~

Commented [HB5]: Volunteers recommend deletion

Commented [HB6]: Moved to #4

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

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

Commented [HB7]: Existing guidance that was formerly under “Additional Considerations for Scheduling a Coordinated Exam”

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

Commented [HB8]: Existing guidance moved from above

5. Notify others regulators and the companies in the group of an upcoming examination (informal notification):-

The Lead State should notify other states that have domestics in the group of the exam well in advance of significant planning work to allow them the opportunity to participate on the examination. Advance notification should also be extended to the companies that will be examined as part of the group examination to allow them to prepare. An The informal notification to the other state regulators and the companies should occur as early as possible and is recommended at least six months prior to the “as-of” date (e.g., 12/31/20xx) of the examination. In most circumstances, the formal calling of the group examination in FEETS should occur at least 90 days before the anticipated start date of the group examination by the Lead State. The timing difference between the informal notification and the calling in FEETS allows the Lead State time to determine specific attributes of the group exam, such as the primary contact person and the anticipated start date of the exam that may not be known six months before the “as of” date. If an exam is scheduled due to specific concerns with a group of companies that do not allow the exam to be called in FEETS at least 90 days before the anticipated start date, the Lead State should document an explanation for inclusion in the group exam workpapers and notify other state insurance regulators as soon as possible.

Commented [HB9]: Moved to #6

The Lead State or Exam Facilitator (if known at the time) should also notify the companies that will be examined as part of the group examination to allow them and their respective external auditors time to prepare. This notification should occur at least six months before the “as-of” date of the group examination.

Commented [HB10]: Incorporated into paragraph above

6. Call group examination(s) in FEETS (formal notification): and determine the Exam Facilitator for each group examination called-

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

Commented [HB11]: Existing guidance that was formerly under “Additional considerations for scheduled a coordinated exam”

o Timing of the group exam call:

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

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

Commented [HB12]: Moved from #5 above

o Assign Exam Facilitator (if applicable):

One of the first responsibilities of the Lead State when a group exam is planned is to call the group examination in FEETS and to determine who will perform the role of Exam Facilitator. In many situations, it is expected that the Lead State will assume the Exam Facilitator role itself to conduct and lead the group examination. However, in situations where subgroups have been formed that don’t involve the Lead State, it is anticipated that the Exam Facilitator role will be delegated to an accredited state within the group. If the responsibility is delegated, the accepting state would then assume the

responsibilities associated with conducting that group examination. The role of Exam Facilitator is typically temporary in nature because it pertains only to a specific group examination being performed; once that exam has been closed, the need for an Exam Facilitator is no longer present and any assumed responsibilities remit back to the Lead State (if they were delegated). ~~For some groups that maintain clear long-term subgroups, the Exam Facilitator role may be more permanent.~~

The selection of the Exam Facilitator can be accomplished through a review of the documentation provided by the holding company group personnel and through discussions with the impacted states. The regulated entities should also be allowed to provide input on the Exam Facilitator determination process where appropriate. The designated contact person should be the chief examiner, or equivalent, for the Exam Facilitator of each group exam.

~~**Please Note:** Due to the design of FEETS, the application, the Lead State will always call the exam in FEETS, regardless of whether there is a different state designated to facilitate the group exam. If a different state has been delegated the responsibilities of the Exam Facilitator, the Lead State must designate the Exam Facilitator in the FEETS group exam call. Once the Exam Facilitator has been assigned in FEETS, that state will be able to make changes to the assigned group exam, including close the group exam upon completion.~~

o Other Considerations:

It is recommended that all group examinations be called in FEETS regardless of what type(s) of insurers are being examined. For example, if a group exam is being conducted for a group of HMOs that are all single-state entities, the group exam should still be called in FEETS for informational and tracking purposes. ~~Specific requirements regarding calling an exam in FEETS can be found in the "Responsibilities of the Lead State" section above.~~

Unaffiliated entities that have significant influence or could materially impact insurers in the group should also be considered for inclusion in the group examination. The examination of companies that are members of a holding company system having only a reinsurance relationship with the company under the examination may be conducted on a limited basis to verify the complete nature of transactions (obligations, liabilities and assets transferred between parties). ~~Consideration of inclusion should also be extended to affiliated companies that may share services or other financial relationships with companies in the group but do not belong to the same group or that do not have an NAIC cocode (i.e., captive insurance companies or other risk-bearing entities, warranties, etc.).~~

Commented [HB13]: Existing guidance that was formerly under "Additional considerations for scheduled a coordinated exam" (edits tracked)

~~1. Act as the Exam Facilitator for all group examinations as deemed appropriate. The responsibilities associated with this role are outlined later in this section.~~

Commented [HB14]: Moved to #8

7. Maintain communication with the group personnel:
~~to discuss exam coordination progress and other significant examination issues~~ The Lead State should serve as the primary regulatory contact with top management of the group on an ongoing basis regarding overall coordination activities for companies within the group. Additionally, the Lead State is responsible for elevating significant solvency concerns to top management of the group when issues are unable to be resolved at lower levels within the group.

8. Act as the Exam Facilitator, as deemed appropriate:
 As noted above, unless otherwise assigned, the Lead State will also act as the Exam Facilitator for coordinated examinations of companies within the group. ~~for all group examinations as deemed appropriate~~ The responsibilities associated with this role are outlined later in this next section.

Commented [HB15]: Existing guidance moved from above (edits tracked)

Additional Considerations for Scheduling a Coordinated Group Exam

~~For each holding company group, consideration should be given to the priority of each entity within the group when determining the frequency at which group examinations should be performed. The Lead State should obtain input from all of the key domestic regulators within a group (or subset of companies) before determining the “as-of” date for the next examination. This input may be obtained through the use of a supervisory college, conference calls conducted through the financial analysis process, or other meetings to discuss the financial regulation of a particular group. In addition to basing the frequency of full scope group examinations on the financial strength of the group, regulators should consider performing limited scope exams when specific concerns arise with the holding company group. Whenever conclusions are reached regarding the scheduling of full or limited scope group examinations, prompt notification should be provided to all states with domestics in the group (or subset of companies) to enable all domestic states the opportunity to participate in the group examination.~~

Commented [HB16]: Incorporated into #4

~~The chief examiner of the Lead State or designee is responsible for placing the group examination call to simultaneously examine the entire group (or subset) of insurance companies involved in an insurance holding company group. It is recommended that all group examinations be called in FEETS regardless of what type(s) of insurers are being examined. For example, if a group exam is being conducted for a group of HMOs that are all single state entities, the group exam should still be called in FEETS for informational and tracking purposes. Specific requirements regarding calling an exam in FEETS can be found in the “Responsibilities of the Lead State” section above.~~

~~Unaffiliated entities that have significant influence or could materially impact insurers in the group should also be considered for inclusion in the group examination. The examination of companies that are members of a holding company system having only a reinsurance relationship with the company under the examination may be conducted on a limited basis to verify the complete nature of transactions (obligations, liabilities and assets transferred between parties).~~

Commented [HB17]: Incorporated into #6

Responsibilities of the Exam Facilitator

The role of Exam Facilitator ~~will may~~ vary from exam to exam; however, certain responsibilities assigned to this role are shown below. As discussed in the “Review and Reliance on Another State’s Workpapers” section following this section, the Exam Facilitator is responsible for the overall quality of work performed in completion of a ~~fully~~ coordinated group examination. ~~Additionally, the~~ Exam Facilitator for all examinations must be an accredited state.

Commented [HB18]: Existing guidance moved here for emphasis.

1. Develop an examination team:

Once it has been ~~determined~~ decided that a coordinated group exam will be conducted, ~~a determination should be made of all of the states that will have a direct role in the examination. The~~ the Exam Facilitator should work with the states in the group to determine the necessary staffing requirements for the specific examination at hand, including which states within the group plan to have a direct role in the examination and whether additional specialists are needed.

The Exam Facilitator should contact the participating states to establish points of contact by name/role, determine the amount of interest in participating in the coordinated examination, and establish lines of communication with participating states. Preferably, the Exam Facilitator should designate a primary and a back-up point of contact for communications with the organization under review, ~~and~~ with other state regulators, and with other stakeholders Federal Reserve, federal and state banking agencies, functional regulators and the public. At a minimum, information for the primary contact person should ~~must~~ be provided for the group exam in FEETS.

While developing the exam team for a group examination, the Exam Facilitator should coordinate and utilize any available resources (within the group or contracted) that are necessary and appropriate to complete an effective and efficient examination. These may include, but are not limited to, financial analysts, financial or market conduct examiners, IT examiners, actuaries, legal counsel, rate and form experts, or valuation experts. Consideration should be given to the areas of expertise needed to complete the examination. If possible, states participating in the group exam should consider utilizing the same staffing resources when efficient to do so. For example, it may be efficient to utilize the work of one actuary who could become familiar with the general

processes utilized by the group of insurers instead of contracting several different actuaries who would all have to familiarize themselves with the same processes.

~~The Exam Facilitator should contact the participating states to establish points of contact by name/role, determine the amount of interest in participating in the coordinated examination, and establish lines of communication with participating states. Preferably, the Exam Facilitator should designate a primary and a back-up point of contact for communications with the organization under review and with other state regulators, Federal Reserve, federal and state banking agencies, functional regulators and the public. At a minimum, information for the primary contact person must be provided for the group exam in FEETS.~~

Commented [HB19]: Moved above

2. Seek input from other regulators:—

During the planning stages of an exam, the Exam Facilitator should request input from other regulators regarding any areas of concern that should be addressed during the group exam. Input should be requested from any states with domestics in the group or subgroup, as applicable, even if a state is unable to participate in the ~~fully~~ coordinated exam. This responsibility includes obtaining input from each state regarding the key activities and inherent risks it anticipates for each of its domestic companies. Consistent with the guidance in Phase 1, identification of key activities and risks should primarily be determined by areas that represent significant solvency concerns. The Exam Facilitator should also contact regulators of holding company groups that include an entity or entities that are at least in part regulated outside the state insurance regulatory structure for items to consider or address during the examination.

Once the Exam Facilitator has accumulated information from each regulator, in addition to information related to its own domestics, it should determine which key activities/inherent risks will and will not be addressed as part of the group examination and notify the other state insurance regulators. Testing performed by participating states in areas deemed insignificant to the overall group examination are considered state-specific procedures and, therefore, the oversight of such work is outside of the Exam Facilitator's responsibility.

3. Delegate responsibilities among the examination team:—

Once the ~~multi-state examination~~ "team" has been established, the Exam Facilitator should clearly delegate responsibilities between itself and any participating examiners, with input from participating states. The Exam Facilitator should develop a process to manage information requests going to holding company group personnel to prevent redundancy. ~~4-The Exam Facilitator~~ should also attempt to coordinate the timing of work that will be performed by all states participating on the group exam to the extent possible. This includes organizing a review of shared processes and controls and determining which state(s) are responsible for which key activities and processes. When delegating responsibilities, the Exam Facilitator should consider the resources needed and available for the task among the participating states as well as the expertise and ability to supervise personnel as necessary. Although certain tasks may be delegated among participating states, the Exam Facilitator remains responsible for the overall quality of work performed in completion of a coordinated group examination and should review such work accordingly.

One of those responsibilities includes meeting with internal and external auditors. The Exam Facilitator should ensure completion of Exhibit E – Audit Review Procedures for the group examination. The Exam Facilitator should also coordinate the communication of obtaining and reviewing any relevant auditor workpapers to prevent redundancy between states.

In Phase 5, detail testing may be necessary ~~to obtain additional exam evidence~~ for any particular identified risk. With input from the participating states, the Exam Facilitator should determine whether detail testing will be performed as part of the group examination or if the testing will be performed separately by each domestic regulator. Regardless of which method is used, if detail testing will involve substantive testing of individual account balances, the testing should be applied at an individual company level based on the residual risks determined during the group exam ~~(assuming the identified risk was one that was assessed during the group exam). In other words, the materiality levels for each individual company should be utilized~~

~~When~~ When selecting what substantive testing should be performed, the materiality levels for each individual company should be utilized so that exam evidence will be obtained for each insurer based on its dollar value. However, if detail testing will consist of testing the attributes (or accept/reject testing) of underlying data utilized in other calculations (e.g., loss reserves, unearned premiums), the testing may be performed at the group level because the examiner is testing the occurrence of a particular attribute in a population subject to the same control processes. For pooling arrangements, see the “Exceptions to Consider Related to Coordinating Group Exams” section below.

4. Establish lines of communication with top management in the group:

~~related to the group exam being performed~~—The Exam Facilitator should ensure that ~~there are~~ regular and candid discussions occur with top management of the insurance companies regarding the results of the ongoing group examination. A structure for obtaining updated information from company management regarding the ongoing exam should also be established. If significant solvency concerns arise that are unable to be resolved by the Exam Facilitator, the issue should be raised to the Lead State, if different, to address with top management of the group.

5. Obtain a thorough understanding of the companies being examined: ~~as part of the group exam as they relate to the organization as a whole~~—

The Exam Facilitator should obtain as much insight as possible ~~into~~ about the ~~organization as a whole group/subgroup~~ when leading a coordinated group exam effort. To gain this understanding, the Exam Facilitator should focus on the holding company, or ultimate controlling entity, and subsequently on its underlying subsidiaries that will be included in the group exam. The Exam Facilitator should also take the ~~predominant primary~~ role in obtaining and reviewing analysis work pertaining to ~~the organization as a whole group/subgroup~~ in preparation for ~~the group exams~~ by working with the individual domestic states, ~~and foreign regulators to complete a collective understanding of the holding company group.~~

6. Coordinate and conduct C-level interviews: ~~Interview management and board members at the holding company level~~—

The Exam Facilitator should perform interviews of the upper-level management and members of the board, and its committees, at the level at which oversight and management of the group’s primary insurance activities are performed. Participating states may provide questions to the Exam Facilitator that they would like asked during interviews. These states may also participate in the interviews in limited situations when deemed appropriate. These interviews should be conducted in-person if possible, ~~and it may be beneficial to schedule them during regularly scheduled board/committee meetings if convenient for scheduling purposes.~~ When these interviews are completed, the information should be distributed and shared among regulators as necessary to prevent unnecessary duplication of efforts. When subgroups are utilized, the Exam Facilitator of the subgroup should consult with the Lead State to determine whether a corporate governance assessment has been performed at the holding company level and if it would be appropriate to leverage at the subgroup level.

7. Share information with participating states during the group exam:—

Procedures should be established regarding how information will be shared, including ensuring that all participating states have real-time access to the information. This step is critical to establish the Exam Facilitator as a true “facilitator” by supplying the states and other functional regulators with the appropriate information. This can be accomplished through periodic status meetings (i.e., monthly) among the participating states and/or verbal or written updates from the Exam Facilitator to the broader group of state insurance regulators.

Real-time access of workpapers could also be accomplished through the use of a shared hosting environment ~~the NAIC Citrix server~~ or other tools available to individual states. When possible, the examination team should conduct work within the same examination file to allow for enhanced collaboration among exam participants. Utilizing the same examination file may also reduce the possibility of duplicative documentation and enable other participants to observe and review work in real time. Insurance departments should develop methods to receive, as well as to communicate, pertinent information regarding holding companies and insurance groups to other affected states and other functional regulators.

8. Review the work performed by participating states:—

~~As noted previously, the Exam Facilitator is responsible for the overall quality of work performed in completion of a fully-coordinated examination. Therefore, the Exam Facilitator should perform a sufficient level of review of work completed by participating states on behalf of the coordinated exam effort to gain comfort that the quality of work meets the examination objectives and the Exam Facilitator's expectations. When determining the extent of review, the Exam Facilitator should consider its comfort and experience with the quality of work performed by each participating state. The accreditation status of participating states may also be considered in determining the level of review necessary to gain comfort in the quality of the work performed. As discussed in the "Review and Reliance on Another State's Workpapers" section following this section, the Exam Facilitator is responsible for the overall quality of work performed in completion of a fully coordinated group examination.~~

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9. Promote consistency in examination deliverables:—

The Exam Facilitator should communicate with all states involved in the coordinated effort to promote consistency of information shared in management letters and examination reports. ~~If the Exam Facilitator determines that examination deliverables will include reporting at the group level (i.e., a group management letter), in addition to the legal entity examination deliverables, the Exam Facilitator should consult with the Lead State (if different) and other states participating in the examination to determine which results and observations will be included. Additional guidance for preparing management letters can be found in Section 2-7.~~

10. Distribute information to participating states and other functional regulators, when applicable:—

~~In limited situations, participating states may opt to work in a standalone examination file that is separate from the coordinated group examination file. If this happens, o~~ Once the work of the group is completed, the Exam Facilitator is required to ~~give provide all the~~ participating state(s) an electronic copy of the corresponding workpapers related to the group examination for inclusion in the workpapers for their respective individual company exams. The Exam Facilitator should also communicate the completion of the group exam procedures to the holding company group personnel ~~and to indicate~~ that any work after that point is ~~being~~ performed by individual states for their individual domestics.

~~The NAIC Financial Regulation Standards and Accreditation Program requires that the states allow for the sharing of otherwise confidential information and administrative or judicial orders to other state regulatory officials, providing that those officials are required, under their law, to maintain its confidentiality. The NAIC Master Information Sharing and Confidentiality Agreement allows for signatory states to share confidential information with another signatory state that can demonstrate that its laws will protect the confidentiality of the shared information. This agreement is designed to eliminate the need for states to sign numerous multi-state agreements on a myriad of regulatory subjects.~~

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11. Resolve any disputes or disagreements regarding the group examination:—

The Exam Facilitator should settle any disagreements among participating states ~~prior to finalizing the coordinated examination, when possible, when conducting a group exam.~~ If the Exam Facilitator is unable to resolve the issue at hand, it should defer the issue to the Lead State (if different than the Exam Facilitator). If the issue is not able to be resolved at that level, the Financial Examiners Coordination (E) Working Group can be consulted for timely resolution.

12. Hold an exit conference with the participating states:—

Once the group exam work is completed, the Exam Facilitator should host an exit conference to discuss the overall results of the group exam and possible steps for regulating the holding company group in the future. The Lead State should be invited to participate in the exit conference if ~~they it was were~~ not already participating in the examination. During this meeting, the Lead State and the Exam Facilitator should discuss with the participating states when the next group exam should be scheduled ~~and update the group coordination plan accordingly, based on the topics included in the "Additional Considerations for Scheduling a Coordinated Group Exam" section above.~~ If the regulators have difficulty coming to an agreement regarding the next group exam date, they should ~~reach out to consult~~ the Financial Examiners Coordination (E) Working Group for input and assistance.

13. Close the group examination in ~~the NAIC (FEETS):—~~

Upon the completion of the group examination, the Exam Facilitator should ensure that each participating state has linked its individual examination(s) to the group examination in FEETS. Once work in support of the coordinated group exam has been completed and each participating state has linked its individual examination(s) to the group exam, the Exam Facilitator should close the group examination. Each domestic state is responsible for closing its individual examination(s) upon completion, as noted within the “Responsibilities of States Participating in a Coordinated Exam” section below.

Responsibilities of States Participating in a ~~Fully~~-Coordinated Exam

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

Indicate willingness to participate in the coordinated examination

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

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The Lead State (or Exam Facilitator, if different) will also issue a formal notification (sent via email by FEETS) of an upcoming coordinated examination at least 90 days prior to the examination as-of date. The participating state(s) should respond to the Exam Facilitator within 30 days of receiving the email notification (sent by FEETS) regarding the calling of a group examination. Each participating state is encouraged to be flexible when attempting to coordinate and should consider the long-term benefits of coordination.

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

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

Participation in exam planning

3. Actively participate in the planning phases of the group exam—Provide input to the Exam Facilitator:
During the planning phases, the participating state(s) should communicate key activities, inherent risks or other areas of concern for each domestic company that the participating state(s) would like to be addressed during the group exam, as well as The participating state(s) should also provide an overview of any state-required-specific procedures (i.e., required compliance testing) the participating state plans to perform.

Consistent with the guidance in Phase 1, identification of key activities and risks should primarily be determined by areas that represent significant solvency concerns. The states should be notified by work with the Exam Facilitator to determine which risks will and will not be addressed as part of the group examination. This information should help the state in determining whether additional risks will need to be addressed outside of the group examination efforts.

Testing performed by participating state(s) in areas deemed insignificant to the overall group examination are considered state-specific procedures and, therefore, the quality of such work is the responsibility of the participating state.

Active involvement in the planning phases of the exam may include documenting correspondence with the Exam Facilitator and other participating states, reviewing and signing off on the planning memo, participating in the discussion of risk identification, etc.

4. Coordinate the use of ~~any~~ examination resources: ~~including contracted examiners and specialists, with the Exam Facilitator~~

The participating state(s) should provide ~~specific expertise and~~ resources to assist the Exam Facilitator and other states throughout the group examination process as requested. The participating state(s) should coordinate the use of contracted examiners and specialists, when possible.

5. Coordinate information requests with the Exam Facilitator:

~~Offer constructive suggestions for information requests, interview questions, coordinated actions and timeliness of information~~—Any ~~g~~General communication on behalf of the group exam should be discussed with the Exam Facilitator prior to contacting company personnel to prevent duplication, if possible. This includes any information requests being sent as part of the group examination.

6. Consider ~~interviewing~~ individuals at the legal-entity level:

~~who are unique to the participating state's particular insurer, if necessary~~—The participating state(s) should ~~also~~ provide the Exam Facilitator with interview questions to cover during C-Level interviews performed for the coordinated group exam, if any. The participating state(s) may also consider conducting interviews with individuals at the legal-entity level, if deemed necessary.

Completion of testwork and other responsibilities

7. Complete ~~delegated~~ group responsibilities:

The participating state(s) are expected to complete group responsibilities delegated by the Exam Facilitator to the satisfaction of the Exam Facilitator, ~~which may include:~~—~~In addition to~~

- ~~o completing assigned testing, such responsibilities may also include clearing review points~~
- ~~o addressing feedback provided by the Exam Facilitator;~~
- ~~o performing detail reviews of testwork completed by its own staff's testwork and~~
- ~~o other responsibilities as communicated by the Exam Facilitator.~~

8. Leverage work performed in fulfillment of the coordinated effort:

—The participating state(s) should leverage work performed in fulfillment of the coordinated effort, even when completed by other states within the group. Participating state(s) should avoid creating duplicative documentation and instead include a limited number of hyperlinks and/or key workpapers that are necessary to understand where coordinated work is located.

9. Provide adequate oversight ~~of the work~~ of its own staff, contract examiners, specialists and consultants:—

It is not the responsibility of the Exam Facilitator to supervise personnel from other states on a day-to-day basis. Each state must provide adequate oversight of its examiners, regardless of whether they are state employees or contract examiners, and should consider the allotted time that has been budgeted for the work of that state's resources. Each state will be held accountable for the performance of personnel it has scheduled on any group examination.

10. Be engaged throughout the examination:

The participating state(s) should be informed and prepared to share information and perspectives pertinent to the group examination and the respective domestic insurers. ~~—~~This includes actively participating in conference calls and meetings arranged by the Exam Facilitator.

Participation at the conclusion of the exam

11. Participate in the exit conference:

Demonstrate participation in the exit conference hosted by the Exam Facilitator by providing any relevant information, input and conclusions on the group exam discussion.

12. Close individual examination(s) in FEETS:

~~At the conclusion of the examination(s), issue report(s) of domestic(s) by uploading the report(s) to FEETS and closing the exam(s) in FEETS~~—Upon the completion of the individual examination(s), the participating state should ensure that the individual examination(s) for its domestic(s) being examined as part of the group examination are linked to the group exam call in FEETS (if not already done). The participating state must distribute the report(s) of its domestic(s) to the states in which the insurer(s) are licensed and/or transacting business by uploading the exam report(s) to FEETS and closing the exam. This shall occur no more than 30 days beyond the adoption date of the exam report(s). When closing the examination(s) in FEETS, include the next planned “as-of” date for each domestic, ~~that should be~~ consistent with what was discussed during the exit conference.

Exceptions to Special Considerations Related to Coordinating Group Exams

Differing exam cycles:

The Lead State should take state statutes into consideration because they may differ regarding how often a financial examination is required (e.g., three to five years). Several insurers within a holding company system with different states of domicile may be on varying cycles when their exams are performed. If it is deemed beneficial for states to participate on a group exam even though their legal entities are not yet due for an examination, those states are encouraged to accelerate their next exam “as-of” date in order to match the “as-of” date of the group examination.

Use of subgroups:

~~In striving toward examination coordination, it~~ is important to note that complete coordination may not improve the examination efficiencies for some groups. In some circumstances, ~~different Exam Facilitators the Lead State~~ may separate ~~those the~~ companies within a group on different examination ~~coordination~~ schedules. Regulators will be able to utilize the NAIC Group Exam Report in FEETS to assist with determining how companies within the group may have been separated into subgroups based on previous group exams performed. The use of subgroups should also be described in the coordination plan for the group. ~~This is in accordance with examination coordination efforts illustrating that coordination efficiencies have been achieved for those companies with similar systems, management, and/or control processes across legal entities, business units or lines of business within a group.~~

Responding to a specific issue/concern not relevant to the entire group:

A situation may arise where a domestic regulator has concerns about a particular insurer within a group that is not determined to be significant to the group overall. In these situations, in order to attempt to keep domestic insurers coordinated as part of a group examination, the domestic regulator should consider performing a limited-scope exam on that entity, if possible. However, if a limited-scope exam is insufficient and a full-scope examination of the domestic entity is warranted outside the normal group exam schedule, the Lead State should be notified and the examination should be performed by the domestic regulator utilizing work previously completed by the group as appropriate. After the examination is performed, the domestic regulator should attempt to coordinate future examinations with the group if at all possible.

Non-participating states utilizing group examination work:

Although a state may be unable to participate on a group examination at a certain point in time, that state may benefit from receiving group exam workpapers completed at any time during the exam period for its individual domestic exam(s). In these cases, the non-participating state should contact the Lead State and Exam Facilitator directly to obtain access to

those workpapers and they should be made available. The non-participating state should give adequate time for the request to be fulfilled and for the requested workpapers to be adequately reviewed before the work is provided to the non-participating state. This does not require a review of all the exam work, but only the specific work requested so the work can be received timely.

Similar to utilizing the work from external/internal auditors, if an examiner plans to utilize documentation that was performed on a group exam from a year prior to the current examination “as-of” date, the examiner should obtain evidence that the item documented (e.g., internal controls) has not changed subsequent to the prior period testing. The more reliance that is placed on the prior period documentation received from the group exam, the more examination evidence should be obtained. Verification that the item documented has not changed should be obtained by a combination of inquiry, observation, reperformance and examination of documents, and should be clearly documented in the examination workpapers. If it has significantly changed since the prior period, the examiner should not utilize the prior period workpapers for that area as examination evidence.

Pooling arrangements and the use of group materiality:

When conducting an examination of a group that pools 100% of its business through the use of a pooling arrangement, it may be acceptable to calculate materiality at the group level. Group materiality may be beneficial for these situations because the risks are consistently shared throughout the group, and any detail testing that is based on materiality will take all the transactions of the group into consideration. With the Exam Facilitator leading the discussion, the regulators within the group should determine if this is appropriate for the group of insurers in a pooling arrangement and if exam evidence is being obtained for all insurers under examination.

E. Review and Reliance on Another State’s Workpapers

~~For a number of reasons, s~~State insurance regulators have recognized ~~that a growing need to more fully coordinating~~ their regulatory efforts. ~~One such reason is the realization that the analysis helps ensure a more complete understanding~~ of an individual company ~~may not be complete without understanding~~ within the context of the insurance holding company group of which the individual company is a part. Insurers within an insurance holding company group may have common management and similar information systems and/or control processes. Therefore, if the insurer under examination is part of an insurance holding company group, the domestic state could benefit from the work of another state if that other state’s examination procedures address the domestic insurer’s financial statements or internal control procedures.

Depending on how the examination is coordinated, the extent of documentation required to explain the reliance of a domestic state on the work of another state varies. There are three general scenarios that may affect the extent of documentation.

1. ~~Lead State/Exam Facilitator: conducting a fully coordinated group examination—~~
 -When ~~the a coordinated~~ group examination is conducted ~~in this manner~~, the Lead State/Exam Facilitator ~~is~~ responsible for the overall quality of the work performed in support of the coordinated exam conclusions. Any work performed that is solely related to an individual domestic is excluded from the Lead State/Exam Facilitator’s responsibility. For a discussion of specific responsibilities of the Lead State/Exam Facilitator, refer to the “Responsibilities of the Lead State” and the “Responsibilities of the Exam Facilitator” sections above. Additionally, Exhibit Z, Part Two – Section A and/or Exhibit Z, Part Two – Section B should be completed in this scenario.
2. ~~Participating State in a fully coordinated group examination:—~~
 To demonstrate adequate participation, the participating state should complete Exhibit Z, Part Two – Section C to assist in documenting compliance with the responsibilities outlined in the “Responsibilities of States Participating in a Fully Coordinated Exam” section above. Such documentation may be supplemented by a separate memo, ~~if~~ deemed necessary, to demonstrate compliance. In addition, the participating state assumes ownership of any state-specific procedures that are performed and is responsible for the quality of such work.
3. ~~States not participating in a fully coordinated group examination:—~~

States in this category conducted a standalone examination separate from the ~~fully~~-coordinated group examination. States in this category are responsible for all work contained in the examination file. If a state is utilizing existing work but was not directly involved in the planning, oversight and review of the examination work, this state takes ownership of the project and is responsible for the overall quality of work performed in support of examination conclusions.

This state should perform a review of the testing state's work program and conclusions to ensure the work being relied upon is sufficient to meet the needs of its examination. When determining the extent of review, the state utilizing the work of another state should consider its comfort and experience with the quality of work performed by that state. In addition, the accreditation status of other states may also be considered in determining the level of review to be performed by the relying state. Exhibit Z, Part Two – Section D should be completed in this scenario.