NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: 9/26/22

Virtual Meeting

FINANCIAL EXAMINERS HANDBOOK (E) TECHNICAL GROUP
Wednesday, October 5, 2022
3:00 – 4:00 p.m. ET / 2:00 – 3:00 p.m. CT / 1:00 – 2:00 p.m. MT / 12:00 – 1:00 p.m. PT

ROLL CALL

Susan Bernard, Chair	California	Justin Shrader	Nebraska
John Litweiler, Vice Chair	Wisconsin	Colin Wilkins	New Hampshire
Blase Abreo	Alabama	Nancy Lee Chice	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 Adoption of Handbook Guidance – *John Litweiler (WI)*
   a. Group Solvency Issues (E) Working Group Referral and Proposed Revisions Related to ComFrame — Attachment 1

2. Consider Exposure of Handbook Guidance – *John Litweiler (WI)*
   a. Financial Analysis (E) Working Group Referral and Proposed Revisions Related to Enhanced Regulatory Guidance — Attachment 2
   b. Revisions Related to Capital Model Review Procedures — Attachment 3
   c. NAIC/AICPA (E) Working Group Referral and Proposed Revisions Related to Awareness Letter Expectations — Attachment 4
   d. Macroprudential (E) Working Group Referral and Proposed Revisions Related to Private Equity Issues — Attachment 5

3. Receive Referral from Climate and Resiliency (EX) Task Force – *John Litweiler (WI)* — Attachment 6

4. Receive Update on Related Working Group Activities – *John Litweiler (WI)*

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

6. Adjournment

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

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

From: Justin Schrader, Group Solvency Issues (E) Working Group Chair

Date: August 11, 2022

Re: Common Framework for the Supervision of Internationally Active Insurance Groups

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Beginning in 2020, the Group Solvency Issues (E) Working Group (GSIWG) has worked to develop proposed revisions to relevant NAIC publications to incorporate elements of the International Association of Insurance Supervisors' (IAIS's) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) deemed appropriate for the U.S. system of solvency regulation. This effort was undertaken by the GSIWG due to its responsibility for monitoring IAIS group-related activities, as well as the need to ensure consistency in implementation of ComFrame elements across financial analysis, financial examination, and ORSA-related processes. This need for consistency resulted in the GSIWG developing proposed changes to the NAIC's Financial Analysis Handbook, Financial Condition Examiners Handbook and ORSA Guidance Manual simultaneously.

The proposed revisions to the Financial Analysis Handbook were developed first because holding company analysis processes are viewed as those most directly impacted by ComFrame elements. The proposed analysis revisions were then exposed for two separate public comment periods in 2021, as well as one additional comment period in 2022, with the latter focused on ensuring consistency with changes subsequently developed for the Financial Condition Examiners Handbook and ORSA Guidance Manual.

Members, interested regulators, and interested parties of the Financial Examiners Handbook (E) Technical Group were provided notice during the public comment period to ensure open communication and collaboration. All comments received during the exposure period were fully vetted and addressed by the GSIWG before the guidance was finalized at the 2022 Summer National Meeting.

As the proposed revisions have been thoroughly reviewed and subject to public comment, we recommend they be considered by the Financial Examiners Handbook (E) Technical Group for adoption without additional public exposure or significant modifications, to ensure the guidance remains consistent with the revisions proposed for the Financial Analysis Handbook and ORSA Guidance Manual.

A summary of the proposed revisions is included as Attachment One. The full-text (in tracked-changes format) is included separately as Attachment Two due to size.

If there are any questions regarding this referral, please contact either me or NAIC staff (Bailey Henning at bhenning@naic.org) for clarification.

Attachment One -Overview of Proposed FCEH Edits

ICP	Topic(s)	Proposed Addition(s)
ICP 5 ICP 7	Corporate governance framework of the IAIG, including suitability of key individuals at the IAIG	FCEH Section 2, Part I – Understanding the Corporate Governance Function • Consideration of obtaining governance information and conducting review and assessment procedures at Head of IAIG level, when applicable. FCEH Section 4, Exhibit E – Audit Review Procedures • Guidance clarifying that (unless exempt from MAR requirements) Internal Audit members should not have other operational, risk management, or accounting responsibilities to be considered independent. FCEH Section 4, Exhibit M – Corporate Governance Assessment • Additional section that includes inquiries/procedures applicable to IAIGs. FCEH Section 4, Exhibit Y – Examination Interviews • Additional guidance indicating that interviews may be necessary at the Head of the IAIG, when applicable.
ICP 8 ICP 15 ICP 16	Risk management framework at IAIG, including groupwide considerations for internal control systems; internal audit, compliance, and actuarial functions; and outsourcing activities/functions. Consideration of policies and practices for relevant key activities: • Investments • Claims Management • Reinsurance • Actuarial Function • Capital Management	FCEH Section I, Part III.F – Outsourcing Critical Functions • Additional guidance to evaluate a company's/group's due diligence prior to entering into new, material outsourcing agreements. FCEH Section I, Part XI – Reviewing and Utilizing the ORSA • Additional guidance for reviewing and utilizing the Appendix C – IAIG Risk Management Assessment Considerations during a financial condition examination (See ORSA Guidance Manual and Financial Analysis Handbook). FCEH Section III – Examination Repositories • Added statement to examination repositories to indicate that risks identified with the † symbol may warrant additional consideration at the Head of the IAIG or the level at which the group manages its aggregated risks, and that when IAIGs have a decentralized business model, evaluation of risks may be appropriate at a subgroup or legal entity level. FCEH Section IV – Exhibit M: Corporate Governance Assessment • Additional section that includes inquiries/procedures applicable to IAIGs.
ICP 9	Group-wide risk assessment and inspections	FCEH Section I-I.F - Coordinated Examinations of Internationally Active Insurance Groups • Narrative guidance and procedures referencing the fact that some group-wide assessments are more appropriately conducted through coordinated onsite examinations, when relevant.

ICP	Topic(s)	Proposed Addition(s)
		FCEH Section 4 – Exhibit AA: Summary Review Memorandum • For coordinated examinations of IAIGs or other groups (as deemed appropriate), documentation on the SRM may need to be expanded to include groupwide conclusions.
ICP 23	IAIG and Head of IAIG determination	FCEH Section I-I.F - Coordinated Examinations of Internationally Active Insurance Groups • Added guidance from ComFrame and Model Act regarding IAIG determination for background purposes. • Clarified that inclusion of such guidance is for informational purposes only and should not be considered authoritative or to imply that future revision to referenced documents will be adopted by reference. • Added reference to the *Financial Analysis Handbook* as the primary source for related information and procedures for identifying the IAIG and Head of the IAIG.

Attachment Two – Full Text of Proposed FCEH Edits

Included as separate zip file due to size

I. EXAMINATION OVERVIEW

This section of the Handbook addresses the following subjects:

F. Coordinated Examinations of Internationally Active Insurance Groups

U.S. based insurance holding company systems that operate internationally are identified as Internationally Active Insurance Groups (IAIGs) if they meet the following criteria included in Model #440:

1. Premiums written in at least three countries;
2. The percentage of gross premiums written outside the United States is at least ten percent (10%) of the insurance holding company system's total gross written premiums; and
3. Based on a three-year rolling average, the total assets of the insurance holding company system are at least fifty billion dollars ($50,000,000,000) or the total gross written premiums of the insurance holding company system are at least ten billion dollars ($10,000,000,000).

For coordinated examinations of IAIGs where a state insurance regulator is acting as the global group-wide supervisor (typically the lead state in the case of a U.S. based insurance group), appropriate procedures related to group-wide activities and risks should be conducted. ~~Such~~ Elements, or topics, referencing the Insurance Core Principles (ICPs)~~areas~~, listed in the table below, are deemed appliable by state insurance regulators and are largely consistent with the corresponding measures included in the International Association of Insurance Supervisors' (IAIS) *Common Framework for the Supervision of Internationally Active Insurance Groups* (ComFrame)~~ deemed applicable by state insurance regulators~~. Information from these sources has been utilized in developing this guidance and regulators ~~are encouraged to~~may reference source documents as necessary to gather additional insight. However, IAIS materials are not deemed authoritative and should not be viewed as official NAIC guidance if they are not directly incorporated herein. While the financial analyst is typically responsible for many of the group-wide supervision activities, certain elements of ComFrame may be evaluated more effectively through onsite examination procedures. These procedures are incorporated throughout the Handbook (identified by †), as applicable, and are summarized in the chart below.

ICP Ref	Topic	Exam Procedure/Exhibit Reference
ICP 5 ICP7	Corporate governance framework at the IAIG, including suitability of key individuals at the Head of the IAIG	Section 2, Part I Exhibit E – Audit Review Procedures Exhibit M – Corporate Governance Assessment Exhibit Y – Examination Interviews
ICP 8 ICP 15 ICP 16	Risk management framework at the IAIG, including groupwide considerations for internal control systems; internal audit, compliance, and actuarial functions; and outsourcing activities/functions.	Section 1, Part III Section 1, Part XI ORSA Exhibit M – Corporate Governance Assessment Respective Key Activity Examination Repositories

	Considerations of policies and practices for relevant key activities: • Investments • Claims management • Reinsurance • Actuarial function	
ICP 9	Group-wide risk assessment and inspections	Section 1, Part I Exhibit AA – Summary Review Memorandum
ICP 23	Determination of an IAIG and the Head of the IAIG	Section 1, Part I

While the considerations and procedures outlined in the chart above are applicable to insurance groups identified as IAIGs (see state adoption of Model #440 Section 7.1), similar procedures applicable under the state's adoption of Model #440 Section 6 may also be appropriate for use in the supervision of other large insurance groups that do not meet the IAIG criteria. In assessing any such application, state insurance regulators must not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group.

ComFrame is to be applied flexibly and proportionately and therefore not every additional area of IAIG supervision will apply to each IAIG or will apply in the same way or to the same extent. Group-wide supervisors have the flexibility to tailor implementation of supervisory requirements and application of insurance supervision. ComFrame is not a one-size-fits-all approach to IAIG supervision as the goal is to achieve the outcomes set forth in ComFrame. IAIGs have different models of governance (e.g., more centralized or more decentralized). ComFrame does not favor any particular governance model and is intended to apply to all models. The organization of an IAIG can be structured in various ways as long as the intended outcomes are achieved. Proportionate application, which is called for in IAIS guidance, involves using a variety of supervisory techniques and practices tailored to the insurer. The techniques and practices applied should not go beyond what is necessary in order to achieve the intended outcomes of the IAIS' Insurance Core Principles and ComFrame.

Additional guidance and discussion regarding the state insurance department's supervision of IAIGs, including procedures for identifying IAIGs, identifying the scope and Head of the IAIG, determining the group-wide supervisor, the applicable roles and responsibilities, and authority related to the supervision review process can be found in the *Financial Analysis Handbook.*

III. GENERAL EXAMINATION CONSIDERATIONS

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

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

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F. Outsourcing of Critical Functions

The examiner is faced with additional challenges when the insurer under examination outsources critical business functions to third-parties. It is the responsibility of management to determine whether processes which have been outsourced are being effectively and efficiently performed and controlled. This oversight may be performed through a number of methods including performing site visits to the third-party or through a review of SSAE 18 work that has been performed. In some cases, performance of site visits may even be mandated by state law. However, regardless of where the business process occurs or who performs it, the examination must conclude whether financial solvency risks to the insurer have been effectively mitigated. Therefore, if the insurer has failed to determine whether a significant outsourced business process is functioning appropriately, the examiner may have to perform testing of the outsourced functions to ensure that all material risks relating to the business process have been appropriately mitigated.

When conducting an examination of insurers that are part of a holding company group, including Internationally Active Insurance Groups (IAIGs), the exam team should evaluate whether appropriate due diligence has been performed prior to entering new material outsourcing agreements. The exam team should also take steps to determine the extent to which management at the applicable level (e.g., Head of the IAIG, ultimate parent company level, insurance holding company level, legal entity level, etc.) is able to provide ongoing risk assessment and oversight of outsourced functions and any contingency plans for emergencies and service disruptions.

The guidance below provides examiners additional information about the outsourcing of critical functions a typical insurance company may utilize. The guidance does not create additional requirements for insurers to comply with beyond what is included in state law, but may assist in outlining existing requirements that may be included in state law and should be used by examiners to assess the appropriateness of the company's outsourced functions. Within the guidance, references to relevant NAIC Model Laws have been included to provide examiners with guidance as to whether compliance in certain areas is required by law. To assist in determining whether an individual state has adopted the provisions contained within the referenced NAIC models, examiners may want to review the state pages provided within the NAIC's *Model Laws, Regulations and Guidelines* publication to understand related legislative or regulatory activity undertaken in their state.

XI. REVIEWING AND UTILIZING THE RESULTS OF AN OWN RISK AND SOLVENCY ASSESSMENT

This section of the Handbook provides general guidance for use in reviewing, assessing and utilizing the results of an insurer's confidential Own Risk and Solvency Assessment (ORSA) in conducting risk-focused examinations. Therefore, this guidance may be used in support of the risk management assessments outlined in other sections of the Handbook (e.g., Phase 1, Part Two: Understanding the Corporate Governance Structure, Exhibit M – Understanding the Corporate Governance Structure) at the discretion of Lead State examiners.

A Background Information
B General Summary of Guidance for Each Section
C Review of Background Information
D Review of Section I – Description of the Insurer's Risk Management Framework
E Review of Section II – Insurer's Assessment of Risk Exposure
F Review of Section III – Group Assessment of Risk Capital
G ORSA Review Documentation
H Utilization of ORSA Results in the Remaining Phases of the Examination

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2. **Risk Identification and Prioritization**

The ORSA Guidance Manual defines this as key to the insurer, and responsibility for this activity should be clear. The risk management function is responsible for ensuring the processes are appropriate and functioning properly, and that key risks of the insurer are identified, prioritized and clearly presented. Therefore, an approach for risk identification and prioritization may be to have a process in place that identifies risk and prioritizes such risks in a way that potential reasonably foreseeable and relevant material risks are addressed in the framework. Key considerations and possible test procedures for use in reviewing and assessing risk identification and prioritization might include, but are not limited to:

Consideration	Description	Possible Test Procedure(s)
Resources	The insurer/group utilizes appropriate resources and tools (e.g., questionnaires, external risk listings, brainstorming meetings, regular calls, etc.) to assist in the risk identification process that are appropriate for its nature, size and structure.	• Obtain and review information and tools associated with the risk identification and prioritization process for appropriateness. • Determine whether appropriate external sources have been used to assist in risk identification (e.g., rating agency information, emerging risk listings, competitor 10K filings, etc.) where applicable. • Obtain and review lists of key risks (or risk register) at different dates to identify which risks have been added/removed to understand and assess the process.
Stakeholder Involvement	All key stakeholders—i.e., directors, officers, senior management, business unit leaders, risk owners, etc.—are involved in risk identification and prioritization at an appropriate level.	• Interview select process owners/business unit leaders to verify their role in risk identification and prioritization. • Interview risk management staff to understand and evaluate how risks are identified and aggregated across the insurer.
Prioritization Factors	Appropriate factors and considerations are utilized to assess and prioritize risks (e.g., likelihood of occurrence, magnitude of impact, controllability, speed of onset, etc.).	• Assess the insurer's process and scale by which it prioritizes the key risks identified. • Review the approach for, and results of, the insurer's likelihood, severity and speed of onset risk assessments, if applicable.
Process Output	Risk registers, key risk listings, and risk ratings are maintained, reviewed and updated on a regular basis.	• Obtain and review a current copy of the insurer's risk register. • Verify that the insurer's risk register is updated/reviewed on a regular basis by requesting copies at various dates.

Emerging Risks	The insurer has developed and maintained a formalized process for the identification and tracking of emerging risks.	• Obtain and review tools and reports utilized to identify and evaluate emerging risks to determine whether appropriate stakeholders and resources are utilized in this process.

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Review of Appendix C – IAIG Risk Management Assessment Considerations (if applicable)

~~The ORSA Summary Report is expected to be filed at the Head of the IAIG and should describe the risk management strategy and framework for the Head of the IAIG and legal entities within the IAIG.~~ While the considerations provided throughout this section are generally applicable to all insurers/insurance groups filing an~~d~~ ORSA Summary Report, there are additional risk management assessment considerations that apply to U.S. based groups identified as Internationally Active Insurance Groups (IAIGs). The ORSA Summary Report is expected to be filed at the Head of the IAIG and should describe the risk management strategy and framework for the Head of the IAIG and legal entities within the IAIG; however, examiners must not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group. Therefore, the group-wide supervisor may need to conduct certain assessments at the head of the IAIG or level at which the group manages its aggregated risks to ensure that group-wide considerations are appropriately evaluated and verified through examination procedures, if not already addressed above.

Topics/Considerations	**Possible Test Procedure(s)**
The group-wide risk management strategy and framework encompasses the levels of the Head of the IAIG and legal entities within the IAIG, promotes a sound risk culture, and covers: • diversity and geographical reach of activities; • nature and degree of risks in entities/business lines; • aggregation of risks across entities; • interconnectedness of entities; level of sophistication and functionality of IT/reporting systems at the group level; and • applicable laws and regulations	• Review the risk dashboard used by legal entities to report risk exposures to the group to ensure that material exposures (including legal and regulatory exposures, when applicable) are incorporated into the group exposures. • Review how the group manages aggregated exposures against group risk limits and appetite, including those arising from intra-group transactions. • In conjunction with the IT Review performed in Phase 1 of the exam, consider the ability of the IT/reporting systems to collect risk data from legal entities and aggregate at the group level.
The group-wide risk management strategy is approved by the IAIG Board and implemented at the group-wide level; with regular risk management reporting provided to the IAIG Board or one of its committees	• Review meeting minutes and packets to determine whether group-wide risk management strategy is evaluated and approved by the IAIG Board. • Review the frequency and content of the reporting packet submitted to the IAIG Board or one of its committees.
The risk management function, the actuarial function and the internal audit function are involved in the risk management of the IAIG.	• Obtain and review a listing of internal audit reports to determine active and independent involvement in the risk management function and take additional steps (i.e., conduct interviews, review internal audit reports, etc.), as deemed necessary to verify. • Obtain an understanding of and evaluate the role of the actuarial function in the risk management of the IAIG including quantification of risk exposure and capital needs by conducting interviews, reviewing of actuarial reports, etc.
The group-wide risk management function coordinates and promotes consistent implementation of risk management practices at the group and legal entity level, with any material differences in practices being clearly documented and explained.	• Review the group's risk management policy documentation and correspondence between the group and legal entity risk management functions.

	• Review the organization chart of the group's risk management function to identify reporting relationships between the group and legal entities. • Interview individuals responsible for risk management at different levels in the organization to verify application of the group's risk management policy and identify areas of practice departing from the policy.
The group-wide risk management function is adequately independent from risk-taking activities.	• Review the organization chart of the group's risk management function and/or conduct interviews to identify reporting relationships and ensure staff are adequately independent from risk-taking and other operational activities.
The group-wide risk management framework is reviewed to ensure that existing and emerging risks as well as change in structure and business strategy are taken into account. • Internal review ~~required~~ annually. • Independent review ~~required~~ once every three years. (Note: The independent review may be carried out by an internal or external body as long as the reviewer is independent and not responsible for, nor actively involved in, the groupwide ERM framework)	• Obtain and review board/committee minutes to verify ongoing review and approval of the group-wide risk management framework on an annual basis. • Obtain and review documentation of modifications to the risk management framework to ensure changes are adequately supported and made in a timely manner. • Obtain and review support of third-party/independent validation of the risk management framework to determine whether it is subject to periodic review, at least once every three years.
IAIG's risk management framework and ORSA adequately incorporate the following: • cross-border risk exposures • economic capital model • fungibility of capital • stress and reverse stress testing • counterparty exposures • liquidity risk exposures and contingency funding plans • summary of recovery plan options	• Follow up on specific recommendations made by the analyst • Consider possible test procedures within section III above to assist in verifying appropriate elements are incorporated in the IAIG's risk management framework. • Conduct exam procedures as deemed appropriate to evaluate the reasonableness of contingency funding and viability of the recovery plan options ~~presented~~summarized in the ORSA. • Verify that recovery plan options are ~~presented~~summarized for all severe stress scenarios that pose a serious risk to the viability of the IAIG or any material part of its insurance business.

PHASE 1 – UNDERSTAND THE COMPANY AND IDENTIFY KEY FUNCTIONAL ACTIVITIES TO BE REVIEWED

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B. Part 2: Understanding the Corporate Governance Structure

This section's purpose is to assist the examiner in documenting the understanding and assessment of an insurer's board of directors and management and its corporate governance policies and practices, including its ERM function. A favorable overall assessment of governance does not, by itself, serve to reduce the scope or extent of examination procedures; rather, specific governance controls need to be assessed for their adequacy in managing specific risks, in conjunction with other controls designed to manage the same. See Exhibit M – Understanding the Corporate Governance Structure for additional guidance in understanding the corporate governance structure of the company. When completing this assessment, the examiner should utilize the Corporate Governance Annual Disclosure (CGAD), which is required to be filed with the Department of Insurance (DOI) annually in accordance with *Corporate Governance Annual Disclosure Model Act* (#305) and *Corporate Governance Annual Disclosure Model Regulation* (#306). The CGAD provides a narrative description of the insurer's or insurance group's corporate governance framework and structure and may enhance examination efficiencies when leveraged. Examiners should inquire of the financial analyst to gain an understanding of and leverage the analyst's work in assessing the company's corporate governance.

Holding Company Considerations

In conducting examinations of insurers that are part of a holding company group, including Internationally Active Insurance Groups (IAIGs), the work to gain an understanding and perform an assessment of corporate governance should focus on the level at which insurance operations are directly overseen (e.g., Head of the IAIG, ultimate parent company level, insurance holding company level, legal entity level, etc.). However, in certain areas it may be necessary to also review governance activities occurring at a level above or below the primary level of focus. Many critical aspects of governance usually occur at the holding company level, lead company, or service company within the corporate structure of the group. Furthermore, if the insurer under examination belongs to a holding company group that has been ~~identiifed~~identified as an IAIG, group level governance practices must be evaluated. The guidance herein does not favor any particular governance model and is not intended to apply to all models; the organization of an IAIG can be structured in various ways. Because of these factors, the exam team should seek to coordinate the review and assessment of group corporate governance in accordance with the exam coordination framework and lead state approach outlined in Section 1 of this Handbook.

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Enterprise Risk Management

One aspect of a company's/group's corporate governance is enterprise risk management (ERM). The way a company/group identifies, monitors, evaluates and responds to risks can be very important to the ongoing solvency of the company/group. ERM is, therefore, an important area for an examiner to review during the course of the examination. Exhibit M – Understanding the Corporate Governance Structure contains a section with specific areas of consideration in reviewing the risk management function. For large companies subject to the requirements of the ORSA, including IAIGs, the summary report provided by the company may be used in the evaluation of risk management. Examiners should ~~complete~~ leverage the work completed by the department analyst, as well as consider the possible test procedures outlined in ~~the ORSA Documentation Template located in~~ Section 1, Part XI of this Handbook in ~~conjunction with the review of the ORSA summary report~~evaluating the company's/group's risk management framework.

EXAMINATION REPOSITORY – CAPITAL AND SURPLUS

Own Risk and Solvency Assessment (ORSA)

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

Annual Statement Blank Line Items

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer does not have access to sufficient capital to support its ongoing and future business needs. † **Please Note**: Examiners should utilize information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement.	ST	Other	CMT	Management performs ongoing analysis of various sources of capital (e.g., issuing bonds, selling common stock, parent contributions, borrowing, etc.) to ensure the insurer maintains a current understanding of the options available. The board of directors (or committee thereof) reviews and approves the strategic capital management plan, including sources of capital, on an annual basis.	Review documentation describing the insurer's overall capital management strategy and the options available to raise capital. **Please Note**: When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository. Review the board of directors' (or committee thereof) meeting minutes for evidence of the Board's approval of the overall capital strategy plan and the various options available to raise capital, should the need arise.	Perform a review of management's available sources of capital and assess the feasibility of each option to confirm the insurer has access to sufficient capital, should the need arise. **Please Note**: When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository.

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EXAMINATION REPOSITORY - INVESTMENTS

Annual Statement Blank Line Items

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

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

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

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

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

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

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				diversification to protect against the impact of climate change. The insurer's/group's investment strategy establishes criteria for intra-group investments, when applicable, including: • Liquidity • Contagion or reputational risk • Valuation uncertainty • Impact on capital resources • Nature of the group (or IAIG) business • Financial condition of the legal entities within the group.		
The board of directors (or committee thereof) and management do not effectively implement/enforce the investment policy/strategy†.	OP ST	Other	AIPS	The board of directors (or committee thereof) reviews and approves the insurer's investment policy on an annual basis with consideration of changing market conditions. The insurer monitors investments purchased, those sold and what the insurer holds. It also monitors compliance with the investment strategy that	Inspect documentation indicating the board of directors' (or committee thereof) approval of the insurer's investment policy on an annual basis. Consider the level of expertise in relation to the complexity of the company's investment strategy, as appropriate. Obtain a copy of the report that is used by the insurer to report investment policy compliance to the board of directors (or committee thereof), and verify the	Review written policy for reasonableness. Obtain the underlying reports used by the board of directors (or committee thereof) to review the investment strategy results. Discuss with members of the board of directors (or committee thereof) to determine their level of involvement in the monitoring of the investment strategy/risks. Determine if there is sufficient focus on all relevant investment risks.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				has been established by the board of directors (or committee thereof). This monitoring can be performed by senior management, an investment advisory board or internal auditors and is reported to the board of directors (or committee thereof). The board of directors (or committee thereof) receives a quarterly summary of the investment activity over the past quarter and reviews an analysis of current year vs. prior year results and budget to actual results, noting the impact of activity on the overall profile of the investment profile. This should also take into account scheduled and unscheduled repayments.	board's review of the investment activity. Verify that a discussion of investments and performance took place at the quarterly board of directors (or committee thereof) meeting by reviewing the minutes.	Verify the underlying data included in the investment reports to senior management and the board of directors (or committee thereof). Perform an analytic comparing the investment characteristics of the portfolio with the written investment strategy. Determine whether the investment strategy is being met by the insurer. Perform an analytical review of the insurer's diversification of investments.

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EXAMINATION REPOSITORY – REINSURANCE (ASSUMING INSURER)

Annual Statement Blank Line Items

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

NOTE: ALL RISKS IN THIS REPOSITORY ARE PROPOSED TO HAVE † SYMBOL

EXAMINATION REPOSITORY – REINSURANCE (CEDING INSURER)

Annual Statement Blank Line Items

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

NOTE: ALL RISKS IN THIS REPOSITORY ARE PROPOSED TO HAVE † SYMBOL

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

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

NOTE: ALL RISKS IN THIS REPOSITORY ARE PROPOSED TO HAVE † SYMBOL

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

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

NOTE: ALL RISKS IN THIS REPOSITORY ARE PROPOSED TO HAVE † SYMBOL

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 and 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

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

NOTE: ALL RISKS IN THIS REPOSITORY ARE PROPOSED TO HAVE † SYMBOL

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 and 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*)

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

NOTE: ALL RISKS IN THIS REPOSITORY ARE PROPOSED TO HAVE † SYMBOL

EXHIBIT E
AUDIT REVIEW PROCEDURES

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	Examiner	Date
Internal Auditor Workpaper and Report Review		
14. Obtain and document an understanding of the internal audit department's role in the internal control structure, including recent changes in the internal audit department, such as personnel, approach and reporting relationship changes.		
a. Determine that the board of directors and senior management are restricted from delegating their responsibilities for establishing, maintaining and operating effective audit activities (e.g., establishment of an annual audit plan that is reviewed by the audit committee).		
b. Determine that audit activities are performed by an independent and qualified staff that is objective in evaluating the insurer's financial reporting risks and internal controls, including management information systems. In order to be independent, Internal Audit members should not have other operational, risk management or accounting responsibilities (unless exempt in accordance with NAIC Model #205).		
15. If the internal audit department is deemed independent and qualified, obtain documentation of all the internal audits conducted by the internal audit department since the previous examination. Perform a high-level review of selected internal audit reports to determine whether:		
a. Audit activities help maintain or improve the effectiveness of insurer risk management processes, controls and corporate governance.		
b. Audit activities provide reasonable assurance about the accuracy and timeliness of recorded transactions and the accuracy and completeness of financial reports.		
c. Audit activities provide assistance, guidance and/or suggestions where needed.		
16. After review of internal audit reports, if the examiner has determined that the internal audit department is competent, the internal audit department may be used for preparing examination workpapers.		

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EXHIBIT M
UNDERSTANDING THE CORPORATE GOVERNANCE STRUCTURE

Overview

The purpose of this exhibit is to assist the examiner in documenting the understanding and assessment of an insurer's corporate governance policies and practices, including its ERM function. As insurers are expected to demonstrate different corporate governance practices in accordance with the nature and extent of their operations, examiners should not expect the practices of each individual insurer to specifically match the guidance provided in this exhibit. Therefore, the focus of an examination team's considerations in this area should be to determine whether the practices implemented by the insurer are reasonable and effective.

The examination team should first attempt to utilize information obtained through Exhibit B – Examination Planning Questionnaire, Exhibit Y – Examination Interviews and other planning sources (including information provided to the financial analyst and any other information available to the examiner) before requesting any additional information that may be necessary to gain an understanding and perform an assessment of corporate governance. A favorable overall assessment of governance does not, by itself, serve to reduce the scope or extent of examination procedures; rather, specific governance controls need to be assessed for their adequacy of the management of specific risks, in conjunction with other controls designed to manage the same.

Holding Company Considerations

In conducting examinations of insurers that are part of a holding company group, including Internationally Active Insurance Groups (IAIGs), as defined in Model #440, the work to gain an understanding and perform an assessment of corporate governance should focus on the level at which insurance operations are directly overseen (e.g., Head of the IAIG, ultimate parent company level, insurance holding company level, legal entity level, etc.). However, in certain areas, it may be necessary to also review governance activities occurring at a level above or below the primary level of focus. Many critical aspects of governance usually occur at the holding company level. Furthermore, if the insurer under examination belongs to a holding company group that has been identified as an IAIG, group level governance practices must be evaluated. Because of these factors, ~~T~~the exam team should seek to coordinate the review and assessment of group corporate governance in accordance with the exam coordination framework and lead state approach outlined in Section 1 of this Handbook.

Where possible, in a coordinated examination, the lead state's work on the corporate governance assessment should be utilized to prevent duplication of effort and to leverage examination efficiencies. ~~Additionally, the examiner should utilize the Corporate Governance Annual Disclosure (CGAD), which is required to be filed with the Department of Insurance (DOI) annually in accordance with the *Corporate Governance Annual Disclosure Model Act* (#305) and *Corporate Governance Annual Disclosure Model Regulation* (#306). The CGAD provides a narrative description of the insurer's or insurance group's corporate governance framework and structure and may enhance examination efficiencies when leveraged.~~ Examiners should ~~also~~ ensure they understand/leverage the work performed by the lead state's analyst, including the Holding Company Analysis ~~work performed by the lead state's financial analyst~~ and~~,~~ ~~as well as~~ the lead state's review of the ORSA filing~~,~~ and Corporate Governance Annual Disclosure (CGAD).

The CGAD is required to be filed with the Department of Insurance (DOI) annually in accordance with the *Corporate Governance Annual Disclosure Model Act* (#305) and *Corporate Governance Annual Disclosure Model Regulation* (#306). The CGAD provides a narrative description of the corporate governance framework and structure for insurers and insurance groups, including IAIGs, and may enhance examination efficiencies when leveraged.~~to understand and assess the company's corporate governance, as well as the filings noted above.~~

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F. CONSIDERATIONS FOR EXAMINATIONS OF INTERNATIONALLY ACTIVE INSURANCE GROUPS

This section identifies additional corporate governance requirements applicable to Internationally Active Insurance Groups (IAIGs). The guidance herein does not favor any particular governance model and is not intended to apply to all models; the organization of an IAIG can be structured in various ways. As noted above, when conducting coordinated group exams, the level at which the governance is evaluated may vary. However, if the holding company group under examination has been identified as an IAIG, governance practices must be evaluated at the Head of the IAIG, lead company, or service company within the corporate structure of the group, to ensure that appropriate policies and processes are in place to promote effective oversight of the group-wide operations and a sound risk culture. For additional guidance related to the examination of IAIGs, refer to Section 1, Part I in this Handbook.

1. IAIG Board of Directors

a. Do board members (individually and collectively) and other key individuals (senior management, key persons in control functions, etc.) have the necessary competence to fulfill their role?

b. Does the board of directors have access to information and processes in place to understand the group's corporate governance framework and corporate structure; activities of the legal entities and associated risks; supervisory regimes applicable to the IAIG; issues that arise from cross-border business and international transactions; and the risk management, compliance, audit, actuarial and related areas of the group?

c. Has the board of directors developed an adequate conflict of interest policy for officers, management and key personnel that includes processes to identify and avoid, or manage, conflicts of interest that may adversely affect the IAIG ~~as a whole or any of its legal entities~~?

d. Does the board of directors provide appropriate oversight of the group's internal control and internal audit functions?

e. Does the board of directors receive relevant information regarding the group's actuarial function annually on the following topics:
   i. Prospective actuarial analysis of the financial condition of the IAIG
   ii. the reliability and sufficiency of technical provisions (reserves)
   iii. the adequacy of reinsurance credit for technical provisions (reserves)
   iv. consideration of non-insurance legal entities and nonregulated legal entities, if applicable

EXHIBIT Y
EXAMINATION INTERVIEWS

Overview

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

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

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

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

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

The examiner should conduct the interview in a location where both parties are free to talk openly. The examiner should ask relevant questions, with the most general questions posed first as building blocks for additional conversation. The examiner may want to consider alternating between open-ended questions (e.g., "Explain to me how this process works.") vs. closed-ended questions (e.g., "How many claim processors do you have in your department?") to obtain the information. Open-ended questions are generally better suited for explanation and processes, while closed-ended questions are better suited to obtain concise information. The examiner should be prepared, listen carefully and focus on the speaker's entire message, as well as the non-verbal cues expressed during the interview process.

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

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

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Sample Interview Questions for an Internal Auditor

Experience and Background

- How has your experience and background prepared you to serve as an internal auditor for this company?

Duties and Responsibilities

- Briefly describe your duties and responsibilities.
- How is your performance evaluated? Is it based on the performance of the company?
- How much of your department's time is allocated to the NAIC *Annual Financial Reporting Model Regulation* (Model Audit Rule) process, business process reviews, compliance?
- Do you perform any ~~management~~operational, risk management or accounting functions?
- What is the role of the internal audit function in verifying the effectiveness risk management processes?
- How are audit findings communicated to the company and the board/audit committee?
- Please describe any special projects and/or key initiatives.

Reporting Structure

- Describe the reporting structure of the company, including to whom you report, as well as who reports to you.
- Describe your interaction with the board of directors/audit committee, external auditors and/or senior management.
- How do you monitor/follow up on audit findings? Are findings classified as to significance?

Ethics

- Does the company have a code of conduct/ethics in place? Is it enforced? Approved?
- Explain your commitment to ethics and explain how you convey that commitment to your employees.
- How does the company compare to others in terms of its position on ethics?
- Do you have any knowledge or suspicion of fraud within the company?

Risk Areas

- How are key risks faced by the company identified and monitored?
  - What are the key prospective risks the company faces?
  - How are these risks communicated to senior management and throughout the company?
- What key risks do you monitor in your position?
  - What reports or other means do you utilize to evaluate the risks?
- Do you monitor risks relevant to specific components or divisions within the entity?
- How do you determine which audits to perform and the appropriate scope for those audits?

Risk Mitigation Strategies (Internal Controls)

- How does the internal audit department address the potential for override of internal controls?
- Do you discuss with the audit committee/board of directors how the internal control system serves the company? How often?
- How has the NAIC *Annual Financial Reporting Model Regulation* (Model Audit Rule) affected the company, if at all? How has it affected the holding company and/or the internal audit department?
- Describe any internal control issues discussed during the most recent audits.
- Do you review the company's application of accounting guidance?

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EXHIBIT AA
SUMMARY REVIEW MEMORANDUM

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When the insurer is part of a holding company, documentation should reference the level at which conclusions are reached. Additional assessment may be necessary at the individual entity level, but the primary focus of the assessment will commonly be at the holding company level in a coordinated examination. Documentation should clearly indicate the exam's utilization and reliance on the company's ORSA/ERM processes to assist in the identification of key risks and/or controls.

It may also be appropriate to provide additional risk specific commentary related to ERM/ORSA review within the Branded Risk Assessments. Documentation should provide summary level information for key risks, with reference to examination workpapers for additional detail, when necessary. Risk specific commentary should include consideration of the following areas, if applicable:

- New risks for the analyst to consider in its ongoing financial surveillance.
- Risk specific controls/risk mitigation strategies that were validated during the examination.
- Evaluation of risk assessment techniques, including appropriateness of stress scenarios and underlying quantification techniques and assumptions.
- Risks that may require further ongoing surveillance or recommended follow-up by the Department.
- Other sources of information to evaluate key risks not referenced in the ORSA (e.g., key risk indicators, presentations to the BOD, project plans, etc.).

For coordinated examinations of Internationally Active Insurance Groups (IAIGs), or other groups as deemed appropriate, additional documentation may be necessary. This may include discussion of the group's supervisory plan, an overall assessment of the group's risk management framework and the critiera considered in reaching that conclusion (e.g., capital adequacy and availability, regulatory capital requirements at the group and legal entity level, complexity of the group and its impact on the effectiveness of the group's corporate governance, etc.), and other relevant reporting requirements deemed applicable by the group-wide supervisor.

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MEMORANDUM

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

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

DATE: May 9, 2022

RE: Enhanced Regulatory Guidance

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

1. **Guidance on Terrorism Reinsurance** – The FAWG has elected to remove guidance on the federal Terrorism Risk Insurance Act from the regulator-only Solvency Monitoring Risk Alert (Risk Alert) as the guidance is no longer deemed urgent or emerging. However, as the topic is not currently addressed in the Financial Condition Examiners Handbook (FCEH), the guidance is being referred to the Technical Group for consideration of whether any of it should be incorporated into the FCEH or other online exam tools (see Appendix A).

2. **Uncollected Premiums and Agent Balances** – The FCEH already includes some information on assessing uncollected premiums/amounts due from agents in its online supplement, as well as some narrative guidance on agent/producer relationships in Section I.F Outsourcing of Critical Functions. However, FAWG recently discussed troubled companies where a significant amount of affiliated agent balances (often in premium trust accounts) was subject to misappropriation and ultimately led to solvency issues at the insurers. As such, FAWG recommends that the Technical Group consider whether additional guidance is necessary to emphasize the importance of understanding and evaluating affiliated relationships in monitoring the services provided by and receivable balances due from key agents and producers.

3. **Monitoring of Startup Insurers** – FAWG has identified a recent trend of startup insurers that grow rapidly but are consistently reporting significant underwriting and net losses. While such losses are generally offset by capital contributions from a parent company, concerns have been raised as to whether the parent company will be able to continually fund operations until the insurer can achieve profitability. As such, FAWG recommends consideration of additional guidance in the FCEH related to evaluating the reasonableness of an insurer's business plan, projections, and strategy. Of particular importance is the projected timeline to profitability and the level of funding necessary to reach that target.

In considering these issues, FAWG recommends consideration of additional guidance for the NAIC's *Financial Condition Examiners Handbook* to ensure these concerns are adequately addressed, if necessary. Please note that these topics are also being referred to the Financial Analysis Solvency Tools (E) Working Group for its consideration. If there are any questions regarding the proposed recommendation, please contact me or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification.

Appendix A

Terrorism Risks (PR/UW, ST) – Under several lines of business and policy types (most notably commercial property), P/C insurers can be exposed to significant losses resulting from acts of terrorism. Before the attacks of Sept. 11, 2001, insurers generally neither charged for nor specifically excluded terrorism coverage. The scope of the 9/11 attacks and the resulting $46 billion estimated insured loss changed these practices dramatically as the availability of commercial reinsurance dried up in the wake of the attacks. In an effort to discourage insurers from excluding terrorism coverage from existing policies and ensure that sufficient coverage continued to be available, the federal government enacted the Terrorism Risk Insurance Act (TRIA) in 2002. The Act creates a federal "backstop" for insurance claims related to acts of terrorism and provides for a transparent system of shared public and private compensation for these claims. However, before this backstop can be accessed, several stipulations and limits are applied, many of which were adjusted under subsequent extensions of the Act to limit the support available to insurers. Therefore, certain insurers may be exposed to significant losses related to acts of terrorism even with the federal backstop in place. In 2019, the CIPR provided a summary that can help in illustrate the complexities of coverage under TRIA. State insurance regulators should carefully consider the impact of terrorism exposures in assessing the solvency of relevant insurers.

A. Possible Procedures – After reviewing premium writings and the lines of business offered by the insurer, state insurance regulators should consider performing additional procedures if significant risks/concerns are identified in this area. For example:

   i. Request additional data/information to get an understanding of the insurer's exposure to terrorism risks. If the insurer is subject to ORSA reporting, review information provided on terrorism exposure and risk assessment in the ORSA Summary Report or obtain the lead state's review of such (if applicable).
      a. If the insurer appears to be significantly exposed to terrorism risks, obtain and review additional information on terrorism risk modeling and stress testing performed by the insurer.
         1. Gain an understanding of the level of mitigation available to the insurer through TRIA.
         2. Assess the reasonableness of the ultimate exposure based on the company's business strategy and capital position.

   ii. If concerns related to the insurer's ultimate terrorism risk exposure are identified, obtain and review information on the company's plans to limit exposures.
      a. Consider the reasonableness/sufficiency of the insurer's plans to limit exposures, which may include policy limits, policy exclusions, location-based risk limits, pricing modifications, non-renewal of certain policies, plans for diversification, etc.

III. GENERAL EXAMINATION CONSIDERATIONS

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

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

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D. Business Continuity

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

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

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

1. Understanding the Organization

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

2. Determining Business Continuity Strategies

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

3. Developing and Implementing a Business Continuity Plan

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

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

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

4. Testing and Maintenance

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

<u>Examiner Review of Business Continuity Plans</u>

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

- Whether the plan is current, based on a business impact analysis, tested periodically and developed to address all significant business activities;
- Whether the business continuity plan clearly describes senior management's roles and responsibilities associated with the declaration of an emergency and implementation of the plan;
- Whether a list of critical computer application programs, data and files has been included in the plan;
- Whether a restoration priority has been assigned to all significant business activities;
- Whether user departments have developed adequate manual processing procedures for use until the electronic data processing function can be restored;
- If copies of the plan are kept in relevant off-site locations;
- If current backup copies of programs, essential documents, records and files are stored in an off-premises location;
- Whether a written agreement or contract exists for use by IT of a specific alternate site and computer hardware to restore data processing operations after a disaster occurs; and

- Whether the business impact analysis is periodically reviewed to determine the appropriateness of maximum recovery times.

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

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

Terrorism Specific Considerations

Under several lines of business and policy types (most notably commercial property), P/C insurers can be exposed to significant losses resulting from acts of terrorism. Before the attacks of September 11, 2001, insurers generally neither charged for nor specifically excluded terrorism coverage. However, these practices changed drastically as a result of the attacks and $46 billion estimated insured loss as the availability of commercial reinsurance dried up as a result. In an effort to discourage insurers from excluding terrorism coverage from existing policies and ensure that sufficient coverage continued to be available, the federal government enacted the Terrorism Risk Insurance Act (TRIA) in 2002. The Act creates a federal "backstop" for insurance claims related to acts of terrorism and provides for a transparent system of shared public and private compensation for these claims. However, before this backstop can be accessed, several stipulations and limits are applied, many of which were adjusted under subsequent extensions of the Act to limit the support available to insurers. Therefore, certain insurers may be exposed to significant losses related to acts of terrorism even with the federal backstop in place. Procedures within the Capital and Surplus Repository can help state insurance regulators to carefully consider the impact of terrorism exposures in assessing the solvency of relevant insurers.

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 and 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*)

Identified Risk	**Branded Risk**	**Exam Asrt.**	**Critical Risk**	**Possible Controls**	**Possible Test of Controls**	**Possible Detail Tests**
Other Than Financial Reporting Risks						

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The insurer has not established and maintained appropriate risk exposure limits (including catastrophe coverage) that are consistent with risk appetite.	ST PR/UW	Other	UPSQ	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. • For some unique lines of business or exposures (e.g., terrorism, casualty catastrophe, etc.) the insurer tracks exposure limits at a more granular level (e.g., geocode) to ensure that concentrations are within its risk appetite. Risk exposure limits established by the insurer consider the direct and indirect impacts of climate change risk. The insurer utilizes a fully staffed, well-qualified underwriting function that	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 levels articulated in the company's ERM process and consider alignment with the company's reinsurance program. Perform a walkthrough of the underwriting process and observe how the impact of climate change risk is considered when establishing risk exposure limits. Review the credentials, background and responsibilities of the insurer's underwriting function (internal and/or	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 companies, summarize by risk class, age, medical codes, etc.) for compliance with insurer limits. If the insurer has not identified risk exposure limits, test the risk exposures for appropriateness by considering applicable industry standards and comparison to peer groups. Perform detailed review of risk exposure models and management reports to monitor exposure by risk. Areas to consider include accuracy and completeness of input data, reasonableness of methodology and results as well as management discipline in adhering to risk exposure limits.

				has experience in all lines of business (coverages) and geographic locations (rating classes) served by the insurer. The insurer utilizes risk models to track compliance with exposure limits established by the insurer.	external). Test the operating effectiveness of the insurer's controls to track compliance with the exposure limits by reviewing modeling data.	

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The insurer does not effectively oversee its producers, including managing general agents (MGAs) and third-party administrators (TPAs), to ensure that appropriate underwriting and premium processing standards are practiced <u>and associated assets are appropriately safeguarded</u>.	OP RP PR/UW	Other	UPSQ	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. <u>The insurer has developed processes to ensure that agent balances are appropriately safeguarded and not commingled with the agency's assets.</u> The insurer monitors the underwriting and premium processing results of its MGAs/TPAs through a regular review of relevant ratios.	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. Review documentation that provides evidence of regular review of MGA/TPA underwriting and premium processing results by the insurer. <u>Verify that agent balances are held in trust or otherwise secured.</u> <u>Review documentation of monthly premium/agent balances collection and remittance reporting and settlement process for proper internal control and evidence of review/approval by the insurer's</u>	Perform analytical procedures to review the underwriting and premium processing results of significant MGAs and TPAs. If deemed necessary, perform a site visit to examine the underwriting and premium processing functions at the MGA/TPA. <u>If agent balances are significant, consider confirming balances held in trust.</u> <u>Review the reconciliation and bank statement of the fiduciary bank account(s) held by the MGA/TPA. If deemed necessary, consider confirming the balance held with the bank.</u> <u>Track the transfers/withdrawals from the fiduciary bank</u>

				The insurer requires a Type II SOC 1 report be issued for the service provider and reviews annually. 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.	management. 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. Review any audit reports and other documentation to determine whether the insurer provides sufficient oversight of its MGAs/TPAs.	account(s) to the insurer's bank account and/or G/L; and verify the settlement of the balance with the monthly premium reporting/reconciliation.

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EXAMINATION REPOSITORY – CAPITAL AND SURPLUS

Own Risk and Solvency Assessment (ORSA)

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

Annual Statement Blank Line Items

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer is not effectively monitoring and reporting its capital and surplus needs, including how changes may impact ~~RBC and~~capital adequacy and financial strength ratings from rating agencies. ~~**Please Note:** Examiners should utilize information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement.~~	LQ	Other	CMT	Management ~~performs capital modeling calculations, including assessing capital and liquidity~~ assesses capital adequacy ~~assesses capital adequacy needs~~ in normal and stressed environments, to understand the insurer's current and prospective capital needs. The board of directors (or committee thereof) reviews and approves the capital ~~modeling~~ adequacy assessment performed by management on an annual basis. Management prepares financial projections that include investment, underwriting and expenses, and their projected impact on surplus. Financial projections are reviewed by the board of directors.	Obtain evidence of the capital ~~modeling~~ adequacy assessment~~calculations~~ performed by management, including self-validation efforts. Review the board of directors' (or committee thereof) meeting minutes for evidence provided to the board and evidence of the board's approval of the capital ~~modeling~~ adequacy assessment results. Obtain evidence of financial projections and planning by management. Review the board of director meeting minutes for evidence of financial projects provided to the board as well as board review and approval.	~~Consider utilizing an actuarial specialist to assist with detail test procedures. Consider applying a wide range of scenarios, including severely stressed scenarios, to verify the insurer's available capital is adequate to meet its current and prospective capital needs. Consider the impact of different scenarios on RBC and/or rating agency assessments.~~ ~~Review the insurer's capital modeling and evaluate the appropriateness of input assumptions, methodologies and considerations used in quantifying available capital and risk capital. In the case of stochastic or deterministic modeling, document consideration of appropriateness of diversification of risks.~~ Review the underlying assumptions found in the financial projections for reasonableness and consistency with the insurer's business plan and strategy. Review prior year projections and capital adequacy assessments for a comparison of assumptions and whether management is historically on target.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
The capital model/ metrics used by insurer/group for capital adequacy are not appropriate to measure the capital at risk, given the risk profile. † **Please Note**: This risk is generally intended for insurers with a more complex capital modeling framework. Examiners should utilize information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement and related review guidance in section 1-XI of this Handbook.	ST	Other	CMT	The insurer's/group's board of directors (or committee thereof) reviewed the insurer's overall capital adequacy framework used to determine capital needs currently and prospectively. The insurer/group periodically reviews and approves the appropriateness of the capital model/metrics framework and documents its conclusions. • The capital model/metric incorporates all key risks of the insurer/group. • Individual risk components are subject to reasonable/appropriate modeling scenarios and stress tests. • Inputs to the capital model/metrics are reconciled to data sources. • The capital model/metric is calibrated to an appropriate security standard. • The risk aggregation process and resulting	Review the board of directors' (or committee thereof) meeting minutes for evidence of the board's approval of the capital adequacy framework. Conduct a model walkthrough and receive a model demonstration from the insurer to gain an understanding and evaluate the insurer's/group's design, governance, validation and use of the model. Obtain and review documentation and approval of the work performed to assess the appropriateness of the capital model/metric. Obtain and review documentation identifying which risks are modeled and which are not modeled. Verify that reconciliations exist to ensure that inputs are loaded into the capital model correctly. Obtain and review risk correlation studies supporting the risk aggregation process used by the insurer—i.e., correlation matrixes or copulas—to address risk correlations.	Consider utilizing an actuarial specialist to assist with detail test procedures. Review the insurer's capital modeling and evaluate the appropriateness of inputs, assumptions and calibrations, modeling scenarios, calculation methodologies, and supplemental stress tests used in quantifying risk capital. Compare the risks modeled in the capital model to the insurer's list of key risks and to the examiner's understanding of the insurer's risk profile. Reconcile inputs to the capital model back to the respective data sources to verify completeness and accuracy. Review the risk aggregation process and resulting diversification benefit taken for reasonableness.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				diversification benefit is supported by risk correlation studies. • Outputs of the capital model/metrics are independently validated on a regular basis.	Obtain and review relevant validation and/or audit reports.	
The insurer/group does not effectively use the results of the capital model/metric or capital adequacy assessment to make informed business decisions. † **Please Note**: Some elements of this risk are generally intended for insurers with a more complex capital modeling framework. Examiners should utilize information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement and related review guidance in section 1-XI of this Handbook.	ST	Other	CMT	The insurer/group uses the capital model outputs or capital adequacy assessment results in setting and adjusting its business strategy, by: • Establishing risk appetite, tolerances and limits • Allocating capital to products, lines of business and entities. • Establishing rating agency, regulatory, and jurisdictional capital targets. • Projecting capital needs.	Interview senior management/board members to understand how capital model outputs or capital adequacy assessment results are used in setting and adjusting its business strategy. Obtain documentation senior management/board members utilize to understand the outputs and results. Obtain and review documentation used in supporting business decision making (e.g., risk dashboards, capital allocation reports, strategic planning documents, etc.) to ensure that model outputs or capital adequacy assessment results are being considered.	Verify that capital adequacy assessment results are reflected in changes in business strategy, updated business plans, recent or pending transactions, etc.
The insurer/group does not have access to sufficient capital or a plan to access	ST	Other	CMT	Management performs ongoing analysis of various sources of capital (e.g., issuing bonds, selling	Review documentation describing the insurer's/group's ~~overall~~ analysis of ~~capital~~	Perform a review of management's available sources of capital and assess the feasibility of each option

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
additional capital to support its ongoing and future business needs under stressed conditions. † **Please Note**: Examiners should utilize information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement. **Please Note**: When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository.				common stock, parent contributions, borrowing, etc.) to ensure the insurer maintains a current understanding of the options available, including the quality and liquidity thereof. The board of directors (or committee thereof) reviews and approves the strategic capital management plan, including sources of capital, on an annual basis. The insurer/group has a protocol for reallocating capital among legal entities and jurisdictions to meet capital needs in times of stress. Companies with business plans calling for rapid growth or new start ups have developed realistic projections to determine capital needs to reach profitability.	~~management strategy and~~ the options available to raise capital, including the quality and liquidity thereof. ~~**Please Note**: When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository.~~ Review the board of directors' (or committee thereof) meeting minutes for evidence of the Board's approval of the overall capital strategy plan and the various options available to raise capital, should the need arise. Obtain and review the insurer's/group's protocol for reallocating capital across the group should the need arise. Verify that management has developed projections to determine profitability and breakeven point and updates as needed based on latest results.	to confirm the insurer has access to sufficient capital, should the need arise. ~~**Please Note**: When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository.~~ Assess the fungibility of group capital (if necessary) by understanding the jurisdictional constraints on capital, if applicable. Obtain and review the insurer's projections and evaluate for reasonableness by comparing to historical results or benchmarking against competitors. **Text in BLUE relates to bullet #3 of FAWG Referral**

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Susan Bernard, Chair of the Financial Examiners Handbook (E) Technical Group
FROM: Doug Stolte, Chair of the NAIC/AICPA (E) Working Group
DATE: September 15, 2022
RE: Exhibit E – Audit Awareness Letter Guidance

During its Sept. 15, 2022 meeting, the NAIC/AICPA (E) Working Group discussed a concern raised by CPA firms related to inconsistencies in state expectations regarding the frequency of audit awareness letter filings. The Model Audit Rule (NAIC #205) includes a requirement that a letter be filed by the external auditor indicating that they are aware of the provisions of the insurance code and the regulations of the insurance department of the state of domicile as they relate to accounting and financial matters and that they will express their opinion on the financial statements in terms of their conformity to those provisions and regulations.

However, the Model Audit Rule does not directly prescribe when or how often such a letter should be provided by the external audit firm. To gain a better understanding of practices in this area, the Working Group conducted a survey in 2020 regarding state expectations. While most states indicated that they only expected a new letter to be filed whenever there is a change in audit firm, several states indicated that their preference or requirement is to receive an annual awareness letter.

In response to these results, the NAIC's Guide to Compliance with State Audit Requirements publication was updated to highlight these states' expectations. However, CPA firms have noted that other states are requesting audit awareness letters more frequently than outlined in the Guide to Compliance, which makes it difficult for firms to comply in this area. The Working Group discussed that one of the reasons for this could be due to a procedure step in Exhibit E of the NAIC's Financial Condition Examiners Handbook (Handbook), which encourages verification that an audit awareness letter has been received but does not clarify frequency expectations.

After discussing this matter, the Working Group felt that Handbook guidance should be updated to indicate that the exam team should only verify that an audit awareness letter has been received if there has been a change in audit firm since the prior exam. In addition, the Handbook could reference the Guide to Compliance as an additional source of information on state expectations regarding the frequency of audit awareness letter filings. See the proposed edits shown as tracked changes below:

2. If not already performed by the financial analyst, obtain the following correspondence as required by the NAIC Annual Financial Reporting Model Regulation. Evaluate the content of the correspondence for consideration in the planning phases of the examination.
   ~~a. An "Awareness Letter" noting the external auditor's understanding of the insurance codes and regulations applicable to the insurer and affirming that the opinion expressed on the financial statements is in terms of their conformity to the statutory accounting principles.~~
   ~~b.~~a. If there was a change in auditor since the last examination, obtain the following documents:
      i. An "Awareness Letter" noting the external auditor's understanding of the insurance codes and regulations applicable to the insurer and affirming that the opinion expressed on the financial statements is in terms of their conformity to the statutory accounting principles.

1. For additional information on frequency expectations for "Awareness Letter" filings by state, please review the NAIC's Guide to Compliance with State Audit Requirements

ii. A "Notification Letter" from the insurer to the commissioner stating whether, in the 24 months preceding the change in auditor, there were any disagreements with the former auditor.

iii. A "Confirmation Letter" from the former auditor stating whether they agree with the statements contained in the insurer's "Notification Letter" and, if not, stating the reasons for which he or she does not agree.

As the Technical Group has ownership of the Handbook, we'd like to refer this issue and corresponding recommendations to the Technical Group for further consideration. If there are any questions regarding the referral, please contact either me or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification. Thank you for your consideration of this request.

EXHIBIT E
AUDIT REVIEW PROCEDURES

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Examiner	Date

External Auditor Workpaper and Report Review

1. Obtain the external auditor's engagement letter to ensure that there are no indemnification clauses or other unusual items included in the engagement letter.

***Guidance Point*: An indemnification clause between an insurer and an external auditor automatically breaches the independence of that auditor. If an indemnification clause exists, whether directly or indirectly, the examiner must evaluate whether it is reasonable to place reliance on the work of the external auditor. Additionally, the inclusion of an indemnification clause in a statutory auditing engagement letter is a breach of independence as outlined in the AICPA Ethics Interpretation 501-8.**

2. If not already performed by the financial analyst, obtain the following correspondence as required by the NAIC Annual Financial Reporting Model Regulation. Evaluate the content of the correspondence for consideration in the planning phases of the examination.

   ~~a. An "Awareness Letter" noting the external auditor's understanding of the insurance codes and regulations applicable to the insurer and affirming that the opinion expressed on the financial statements is in terms of their conformity to the statutory accounting principles.~~

   ~~b.~~a. If there was a change in auditor since the last examination, obtain the following documents:

      i. An "Awareness Letter" noting the external auditor's understanding of the insurance codes and regulations applicable to the insurer and affirming that the opinion expressed on the financial statements is in terms of their conformity to the statutory accounting principles.

         1. For additional information on frequency expectations for "Awareness Letter" filings by state, please review the NAIC's Guide to Compliance with State Audit Requirements.

      ~~i.~~ii. A "Notification Letter" from the insurer to the commissioner stating whether, in the 24 months preceding the change in auditor, there were any disagreements with the former auditor.

      ~~ii.~~iii. A "Confirmation Letter" from the former auditor stating whether they agree with the statements contained in the insurer's "Notification Letter" and, if not, stating the reasons for which he or she does not agree.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

To: Amy L. Beard, Commissioner, Examination Oversight (E) Task Force Chair and

Karima M. Woods, Commissioner, Examination Oversight (E) Task Force Vice Chair

From: Marlene Caride, Commissioner, Financial Stability (E) Task Force Chair and

Justin Schrader, Macroprudential (E) Working Group Chair

CC: NAIC Support Staff: Bailey Henning

Date: August 1, 2022

Re: Referral from the Plan for the List of MWG Considerations

The NAIC Macroprudential (E) Working Group (MWG) of the Financial Stability (E) Task Force (FSTF) was charged with coordinating the various NAIC activities related to private equity (PE) owned insurers. As an initial step, the MWG developed a list of 13 regulatory considerations. These considerations are frequently referenced as private equity (PE) concerns, but the Working Group developed the list with an activities-based frame of mind, recognizing that any ownership type and/or corporate structure could participate in these activities, including but not limited to PE owned insurers. The MWG members discussed detailed elements of the considerations and potential regulatory work, including explicit reference to the 2013 guidance added to the NAIC Financial Analysis Handbook for Form A reviews when a private equity owner was involved, and interested parties added useful comments to these during an exposure period. The MWG and FSTF adopted a final plan for addressing each of the 13 considerations, including many referrals to other NAIC committee groups.

The Financial Condition E Committee adopted this plan with no changes made during its virtual meeting on July 21, 2022. NAIC staff support drafted this referral letter to accomplish the actions captured in the adopted plan. It is unlikely any further modifications will occur to the adopted plan when it is considered for adoption by the full Plenary, but it is a possibility. Please begin work to address these referrals, recognizing the adoption by Plenary is still outstanding.

Each MWG consideration referred to your group is listed below. The summarized notes from the MWG regulator-only discussions follow the consideration in blue font and any interested party comments are also provided in purple font. Please consider these discussion points and comments in addition to your own discussion ideas when developing proposals to address the MWG consideration.

NAIC staff support for the MWG will follow the work your group performs and summarize your activities for reporting up to the FSTF. If you have any questions or need further direction, please contact Todd Sells (tsells@naic.org).

MWG Consideration Items Referred:

8. Though the blanks include affiliated investment disclosures, it is not easy to identify underlying affiliated investments and/or collateral within structured security investments. Additionally, transactions may be excluded from affiliated reporting due to nuanced technicalities. Regulatory disclosures may be required to identify underlying related party investments and/or collateral within structured security investments. This would include, for example, loans in a CLO issued by a corporation owned by a related party.
    a. An agenda item and blanks proposal are being re-exposed by SAPWG. The concept being used for investment schedule disclosures is the use of code indicators to identify the role of the related party in the investment, e.g., a code to identify direct credit exposure as well as codes for relationships in securitizations or similar investments.

Regulator discussion results:

- Like the previous consideration, regulators are looking forward to using these code disclosures to help target areas for further review. However, specific to CLO/structured security considerations, regulators support a referral to the Examination Oversight (E) Task Force. Specific items discussed include:
    - Since investors in CLOs obtain monthly collateral reports, regulators should consider asking for such reports when concerns exist regarding a company's potential exposure to affiliated entities within their CLO holdings.
    - Regulators would like to have more information regarding the underlying portfolio companies affiliated with a CLO manager to help quantify potential exposure between affiliates and related parties.
    - Regulators request NAIC staff to consider their ability to provide tools and/or reports to help regulators target CLOs/structured securities to consider more closely.

RRC Comments on "collateralized loan obligations (CLOs) as a source of concern and therefore a focus for additional disclosure. "While there has been a continuing level of concern about CLOs in general, RRC encourages the working group to take a broader view as well. As a general matter, investments in CLOs are at least subject to disclosure and conflicts of interest standards under various securities laws and regulations. On the other hand, there are other potentially problematic investments that do not benefit from that regulatory oversight.

- ♣ Private funds – Some of the issues noted with respect to concerns about overlapping interests in CLOs may also be prevalent in various kinds of funds, especially privately placed funds that are reported on Schedule BA. Such investment vehicles may have significant areas that have the potential for a conflict of interest that would not be captured by securities laws. Such investment vehicles may also include substantial management fees for management of the fund.

- Collateral Loans – The U.S. insurance industry's reported exposure to Collateral Loans that are reported on Schedule BA has grown substantially in the last ten years. In addition to the same potential conflicts, it may be appropriate to revisit valuation and reporting guidance.

10. The material increases in privately structured securities (both by affiliated and non-affiliated asset managers), which introduce other sources of risk or increase traditional credit risk, such as complexity risk and illiquidity risk, and involve a lack of transparency. (The NAIC Capital Markets Bureau continues to monitor this and issue regular reports, but much of the work is complex and time-intensive with a lot of manual research required. The NAIC Securities Valuation Office will begin receiving private rating rationale reports in 2022; these will offer some transparency into these private securities.)
    a. LATF's exposed AG includes disclosure requirements for these risks as well as how the insurer is modeling the risks.
    b. SVO staff have proposed to VOSTF a blanks proposal to add market data fields (e.g., market yields) for private securities. If VOSTF approves, a referral will be made to the Blanks WG.

Regulator discussion results:

- Regulators focused on the need to assess whether the risks of these investments are adequately included in insurers' results and whether the insurer has the appropriate governance and controls for these investments. Regulators discussed the potential need for analysis and examination guidance on these qualifications.
- To assist regulators in identifying concerns in these investments, regulators expressed support for the VOSTF proposal to obtain market yields to allow a comparison with the NAIC Designation. Once such data is available, regulators ask NAIC staff to develop a tool or report to automate this type of initial screening. Also, regulators again recognized the SAPWG Schedule D revamp work will help in identifying other items for initial screening.
- The regulators discussed LATF's exposed AG, noting the Actuarial Memorandum disclosures that would be required for these privately structured securities along with the actuarial review work, and recognizing how those would be useful for analysts and examiners when reviewing these investments. Additionally, the Valuation and Analysis (E) Working Group would be able to serve as a resource for some of these insights for states without in house actuaries.
- As a result of the above discussions, regulators agreed to a referral to the Examination Oversight (E) Task Force to address the disclosures that will be available from LATF's exposed AG. They agreed to wait for any further work or referral until they have an opportunity to work with the results of the VOSTF proposal and the SAPWG Schedule D revamp project.
- Since reserves are not intended to capture tail risk, refer this item to the NAIC RBC Investment Risk and Evaluation (E) Working Group and monitor the Working Group's progress. (Regulators adopted this recommendation from the RRC comment letter.)

RRC Comments on "privately structured securities which introduce other sources of risk or increase traditional credit risk, such as complexity risk and illiquidity risk, and involve a lack of transparency."

- While the lack of available public data does present a significant issue and does mean there is in theory a lower degree of liquidity, we caution at being overly concerned about the private nature of such transactions.
  - Any highly structured transaction is going to lack liquidity.
  - The NAIC had at one time a disclosure for Structured Notes. This allowed regulators to see when that represented an excessive risk. We encourage the reinstitution of that disclosure.
- A potential consideration related to complex asset structures would be to incorporate this risk factor into the criteria for additional liquidity risk analysis outlined in the NAIC 2021 Liquidity Stress Test Framework (Framework). Considering the amount of effort spent on developing the Framework, it may be helpful to leverage its requirements for situations in which significant complex securities are used to back insurer liabilities.

AIC Comment on "Privately Structured Securities" (the comment and its 6 bullets follow) – *Regulators asked the AIC to follow the work of the NAIC Examination Oversight (E) Task Force* and the NAIC Valuation of Securities (E) Task Force and provide comments on specific recommendations if needed.

Insurers are increasingly seeking the services of alternative asset managers with significant asset origination capabilities and private credit expertise to manage a portion of their assets, which provide a number of benefits to the insurer and their policyholders. Those benefits include:

- A natural alignment between the long-dated insurance liabilities and the long-term investment approach taken by alternative asset managers, including in the private credit space;
- Alternative asset managers have the ability to source, underwrite and execute private credit transactions that require skill sets, experience, and scale that many insurance companies do not possess in-house;
- Private equity and private credit firms also provide an opportunity for smaller and midsized insurers to access these asset classes, which historically have been the primary purview of large insurers that have the scale to afford in-house asset management functions that can originate these assets, making the industry more competitive to the ultimate benefit of policyholders;
- Engaging asset managers with differentiated capabilities can be more cost efficient than making significant investments in an internal asset management function. By availing themselves of these advantages, insurers can benefit from cost-effective sourcing and origination capabilities in attractive asset classes, resulting in enhanced long-term adequacy margins for policyholders, increased spread/earnings, and more competitive product pricing that inures to the benefit of policyholders;
- Asset-backed security default rates are substantially similar to corporate investment grade debt default rates while CLO default rates are substantially lower than corporate default rates; and

- The focus on private investments is belied by the fact that institutions with higher allocations to private investments have outperformed (with less volatility) those with less.

EXAMINATION REPOSITORY - INVESTMENTS

Annual Statement Blank Line Items

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

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

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

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

DETAIL ELIMINATED TO CONSERVE SPACE

The board of directors (or committee thereof) and management do not effectively monitor or supervise contracted third parties (including affiliates) in the implementation of the investment policy/strategy. *See Section 1 Part III of the Handbook for additional guidance relevant to reviewing third-party investment advisers and associated contractual arrangements.	CR MK	Other	AIPS	Prior to entering into a contract with a third party, management reviews the third party's credentials to ensure that they are qualified to perform the service and verifies that no conflict of interest exists. Management ensures that third-party contracts include appropriate provisions and recognize fiduciary responsibility to the insurer. Contracts are reviewed for appropriate provisions related to: • Investment guidelines/selection. • Authority for transactions. • Reporting of transactions in sufficient detail and frequency. • Conflicts of interest. • Appropriateness of fees. • Review of performance. • Termination. The insurer monitors investments purchased, those sold, the performance of the investment portfolio	Review procedures that ensure management reviews the credentials, including confirming registration as investment advisor/manager, of the third party and that no conflict of interest exists. Verify the insurer control to ensure appropriate contract provisions. Specifically consider any situations and transactions where the potential of conflict of interest exists. This includes transactions with other accounts managed by the third-party manager, through brokers affiliated with the third-party manager and investments in funds managed separately by the third-party manager. Obtain a copy of the report that is used by the insurer to report investment policy compliance to the board of	Assess the suitability of investment advisers through a review of information provided to the U.S. Securities and Exchange Commission (SEC) in Form ADV (if available) or other available information. Determine if there are any disciplinary actions or background information that might call into question the advisers' suitability for providing services rendered. Review significant investment advisory/management agreements for appropriate provisions. Review recent performance and benchmark reports in comparison with the company's plan. Test the insurer's investments for compliance with its investment policy guidelines. Assess significant changes in portfolio profile year over year and over the course of recent years to

				against prior year or budgeted results, and what the insurer holds. It also monitors compliance with the investment strategy that has been established by the board of directors (or committee thereof). This monitoring can be performed by senior management, an investment advisory board or internal auditors and is reported to the board of directors (or committee thereof).	directors (or committee thereof), and verify the board's review of the investment activity. Verify that a discussion of investments took place at the board of directors (or committee thereof) meeting by reviewing a sample of meeting minutes.	determine suitability of changes for the company.
Structured security investments originated and managed by an affiliate or related party may present an increased exposure to solvency risks	CR ST MK	Other	AIPS VIIA	The insurer verifies that its affiliate/related party asset manager has adequate experience and knowledge in originating and managing the types of investments held by the insurer. The insurer verifies that its affiliate/related party asset manager follows appropriate underwriting practices in originating investments. The insurer has established guidelines for investments originated and managed by affiliates/related parties to ensure that: • The fee structure is transparent and equitable • Concentration of such investments is	Review documentation demonstrating that management reviews the credentials of the affiliate/related party, including confirming registration as investment advisor/manager and that no conflict of interest exists. Review IA work, Board Minutes and/or other documentation demonstrating effective oversight of the affiliated asset origination process. Review documentation demonstrating that the insurer has reviewed the investments originated and managed by an affiliate or related party for compliance with regulatory investment limitations and reporting requirements.	Review significant investment advisory/management agreements for appropriate provisions. Test the insurer's investments for compliance with its investment policy guidelines and regulatory requirements. If necessary, use an investment specialist to analyze the insurer's structured securities portfolio. Review Jumpstart reports to identify potential designation exceptions for structured securities and address exceptions, as appropriate. If deemed necessary, review individual securities for compliance with NAIC

				in accordance with affiliated investment limitations • Investments offered to the public are in compliance with applicable requirements The insurer has a process in place to have its structured securities effectively rated by a qualified third party and assesses the appropriateness of ratings and designations. The insurer has a process in place to ensure that investments managed and originated by affiliates/related parties are properly identified and reported in accordance with statutory accounting guidelines. • This includes proper classification of holdings reported in the "Investments Involving Related Parties" column of each investment schedule in the annual statement.	Obtain documentation demonstrating management's review and approval of third-party ratings for structured securities. Review the insurer's process for identifying reporting investments managed and originated by affiliates/related parties and determine whether it is operating effectively. Obtain documentation demonstrating how management determines the classification of investments in the annual statement.	designation reporting requirements. If deemed appropriate, select a sample of material investments and review the underlying details to determine if the investments are properly classified in the respective investment schedules in the annual statement.

DETAIL ELIMINATED TO CONSERVE SPACE

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						

DETAIL ELIMINATED TO CONSERVE SPACE

The assumptions used by the insurer for high-yielding complex assets are not accurate or appropriate for use in meeting asset adequacy requirements	RV	VA AC	RA	The company maintains documentation supporting the assumptions utilized in determining asset adequacy of high-yielding complex assets, including: • Expected gross returns and related risk (including default rates) • Factors supporting margin • Extent to which high-yielding assets are supporting major product categories • Rationale supporting changes in assumptions year over year, if applicable. The company performs sensitivity testing for high-yielding complex assets in accordance with AG 53 requirements. The company has an internal process that is reviewed and approved by management for determining the fair value of	Obtain and review the company's documentation and approval of work performed to support the assumptions utilized in determining asset adequacy of high-yielding complex assets. Obtain and review documentation describing inputs used in sensitivity testing for high-yielding complex assets, as well as the results of such testing. Obtain and review documentation of management's review and approval of the company's internal process for determining the fair value of high-yielding complex	Utilize the insurance department actuary or an independent actuary to review assumptions and methodologies for reasonableness, appropriateness, accuracy and compliance with the *Valuation Manual.* Perform stress testing/scenario analysis on the insurer's high-yielding complex assets (by using an investment or actuarial specialist if necessary) to identify potential solvency risks. Utilize the insurance department actuary or an independent actuary to evaluate the impact that a change in assumptions could have on the company's asset adequacy and solvency position. Review the company's AG 53 documentation for reasonableness Review the company's AG 53 reporting to identify assumptions underlying the

				high-yielding assets originated by the company, within the company's group or with an entity closely tied to the company's group that includes: • Practices for valuing such assets • Fair value determination • Contractual agreements and revenue sharing (e.g., performance fees between insurer and entity responsible for providing investments or other services) The company utilizes an independent actuarial firm (other than its appointed actuary) to periodically review its assumptions.	investments. Obtain and review documentation supporting the valuation of the company's high-yielding complex assets. Review any third-party actuarial work to verify and substantiate the appropriateness of company assumptions.	asset adequacy testing memorandum that appear to be outliers. Coordinate with the Valuation Analysis (E) Working Group of the NAIC regarding any reviews it has performed on the company's AG 53 filings.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

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

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

DATE: May 23, 2022

RE: Referral on Proposed Climate Risk Enhancements

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

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

Financial Condition Examiners Handbook

Planning Phase of the Examination:

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

Fieldwork Phase of the Examination:

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

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