Draft date: 8/4/2023

Virtual Meeting

FINANCIAL EXAMINERS HANDBOOK (E) TECHNICAL GROUP
Thursday, August 24, 2023
12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

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

NAIC Support Staff: Bailey Henning/Elise Klebba

AGENDA

1. Consider Adoption of Handbook Guidance – *Eli Snowbarger (OK)*
   a. Exhibit G – Consideration of Fraud and Related Guidance — Attachment 1
   b. Receivership Law (E) Working Group Referral and Proposed Revisions — Attachment 2
   c. Risk-Focused Surveillance (E) Working Group Referral and Revisions Related to Affiliated Service Agreements — Attachment 3

2. Consider Exposure of Handbook Guidance – *John Litweiler (WI)*
   a. Risk-Focused Surveillance (E) Working Group Referral and Proposed Revisions Related to Peer Review Takeaways — Attachment 4
   b. Climate and Resiliency (EX) Task Force Referral and Proposed Revisions — Attachment 5

3. Discuss 2023 Project Listing – *Eli Snowbarger (OK)* — Attachment 6

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

5. Adjournment

SECTION 4 – EXAMINATION EXHIBITS

EXHIBIT G
CONSIDERATION OF FRAUD

COMPANY NAME____

PERIOD OF EXAMINATION ____________________________________

EXAMINER-IN-CHARGE _____________________________________

In accordance with the Risk-Focused ~~Surveillance~~ examination approach~~Framework~~, the consideration of fraud in financial condition examinations should occur throughout all phases of the examination, primarily through identification and examination of fraud risk factors. Fraud risk factors are conditions that may indicate the occurrence of fraud, such as insufficient review of controls, failure to respond to known accounting irregularities, extraordinary growth or profitability, threat of regulatory action, and missing accounting documentation.

~~The examiner needs to consider fraud risk factors and develop examination procedures in order to adequately obtain reasonable assurance that material misstatements due to fraud are not included in the financial statements.~~ In the planning phase of the examination~~To ensure fraud risk factors identified through the financial analysis process are considered,~~ it is important that the exam team include a discussion of fraud in the planning meeting that takes place with the financial analyst. The analyst's review of unusual fluctuations, performance outside of industry average, etc. can help the examiner understand the tone of the organization as a whole and identify areas that may need to be investigated further during the examination. ~~Moreover, the manner in which the insurer's management identifies, considers and mitigates the risk of fraud should factor heavily into the examiner's understanding of the company and assessment of management.~~

It is also vital that the examiner gain an understanding of the fraud assessment and procedures already completed by the external auditor and the level at which it was completed (i.e., holding company or legal entity level). The external auditors are required by AU Sec. 316—*Consideration of Fraud in a Financial Statement Audit* to perform specific procedures to ensure that the audit has been responsibly planned and performed and to obtain reasonable assurance that the financial statements are free of material misstatement. In accordance with guidance from the American Institute of Certified Public Accountants (AICPA), documentation of the auditor's consideration of fraud should be included in the external audit workpapers, which examiners review within Exhibit E – Audit Review Procedures. ~~The examiner should review the work performed by the auditor and consider the auditor's documentation and findings. The examiner should obtain and review this information in accordance with the review of the external audit workpapers. Although t~~The examiner should utilize the external audit workpaper documentation to the fullest extent deemed reasonable if the auditor's risk assessment is at the appropriate level. However, reliance on the external audit workpapers does not preclude the examiner from identifying and inquiring about fraud risk factors noted during the examination or interviewing company management regarding the possibility of fraud or known fraud occurrences.

~~The consideration of fraud is primarily completed through the identification and examination of fraud risk factors. Fraud risk factors are conditions that may indicate the occurrence of fraud. Some examples include the insufficient review of controls, failure to respond to known accounting irregularities, extraordinary growth or profitability, threat of regulatory action, and missing accounting documentation.~~ Parts 1-3 of this exhibit should be completed regardless of the level of reliance on the external auditor. ~~I~~If the examiner determines that the external audit fraud assessment and/or related procedures are not sufficient, complete, or at the correct level, they should also utilize Part 4: Review Company Operations and Identify Fraud Risk Factors.~~ the following This exhibit includes a detailed checklist of fraud risk factors identified in previously detected fraudulent incidences to assist the examiner in determining applicable fraud risk factors.~~ It may also be beneficial to utilize~~Utilization of~~ the Risk Assessment Matrix (Exhibit K) ~~may be beneficial~~ to identify and assess inherent risks, assess controls, determine residual risks and identify test procedures for applicable fraud risk factors. ~~By properly considering and attesting to fraud risk factors, the examiner is able to obtain reasonable assurance that the financial statements are free from material misstatement due to fraud.~~

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Completion and approval of this document does not indicate that fraud has not been perpetrated on or within the company nor does it provide absolute assurance that committed frauds have been detected. It is possible to complete a properly planned and performed examination and not discover occurrences of perpetrated fraudulent activity. Additional guidance relating to fraud considerations is included in Section 1.

Note: Any examiner may complete the consideration of fraud during the examination, but the examiner-in-charge is required to review and sign-off on the prepared workpapers.

SECTION 4 – EXAMINATION EXHIBITS

PART 1: Consideration of Fraud - Planning

Note: The following section should be completed in accordance with the consideration of fraud while planning the examination. The examiner should provide documentation of the actual review during the planning process as indicated throughout this exhibit.

PLANNING PROCEDURES	COMPLETED BY	DATE
1. Obtain and review the external audit workpapers detailing the fraud consideration documentation. ~~Identify any fraud risk factors or other items noted, in the attached “Fraud Risk Factors” checklist below, that might be indicative of fraudulent activity by either fraudulent financial reporting, the misappropriation of assets or through fraudulent claims.~~ (Note: If the external auditor has performed a fraud risk assessment at the holding company level rather than the insurance company entity level, the external audit workpapers may not provide enough information to warrant a thorough review as outlined in the steps below. In this instance, the examiner may choose not to rely on the external auditor’s consideration of fraud and should document the rationale in the workpapers. The examiner may continue the consideration of fraud in ~~Part B –~~ Part 4: Review Company Operations and Identify Fraud Risk Factors.)		
a. Document any fraud risk factors noted and procedures performed by the external auditor to mitigate fraud risk.		
b. Document the results of communications amongst the external auditors, company officials, audit committee or others with respect to the risk of fraud in the entity and known fraudulent activity perpetrated on or within the company. The examiner should consider the level of management informed for all known fraudulent acts.		
c. Review and evaluate the other information, risks or conditions documented by the external auditor with respect to their consideration of fraud and utilize this information, if applicable, to develop and further enhance the planned examination procedures.		
d. Summarize the auditor’s consideration of mangement’s ability to override controls. Evaluate and document the auditor’s determination to perform (or not perform) additional procedures to address the risk of control deviations due to management overrides.		
e. Document other risks or conditions noted by the auditor that resulted in the auditor completing additional auditing procedures or documenting added responses.		
2. Review the company’s operations, both financial and non-financial, to identify any additional fraud risk factors. Consider input provided by the financial analyst during the examination planning meeting. ~~Review and adjust the planned examination procedures according to the noted risk factors.~~ Use the external audit workpapers to facilitate this review – if further investigation is warranted, identify any fraud risk factors or other items noted in Part 4: Review Company Operations and Identify Fraud Risk Factors that might be indicative of fraudulent activity by either		

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Commented [KE4]: Combined with bullet 2) d.

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PLANNING PROCEDURES	COMPLETED BY	DATE
fraudulent financial reporting, the misappropriation of assets or through fraudulent claims. Review and adjust the planned examination procedures according to the noted risk factors.		
a. Document the fraud risk factors identified and the examination procedures designed to mitigate the fraud risk. (Note: These procedures typically entail inquiring of management and others about the risk or occurrence of fraud, performing an evaluation of analytical procedures, considering fraud risk factors, and considering other information deemed pertinent for the determination of fraud.)		
b. For those fraud risk factors identified, document the examination procedures or steps the examiner will perform to mitigate fraud risk. ~~Summarize the auditor's consideration of management's ability to override controls. Evaluate and document the auditor's determination to perform (or not perform) additional procedures to address the risk of control deviations due to management overrides.~~		
~~c. Document other risks or conditions noted by the auditor that resulted in the auditor completing additional auditing procedures or documenting added responses.~~		
~~d. Document any communications the external auditor had regarding fraud, or the risk of fraud, with the company's management, audit committee, or other individuals. The examiner should consider the level of management informed for all known fraudulent acts.~~		
~~e. For those fraud risk factors identified, document the examination procedures or steps the examiner will perform to mitigate fraud risk.~~		
3. Meet with company management to discuss the risk of material misstatement due to fraud in the entity and to inquire whether management is aware of any fraudulent activity that has been conducted on or within the company and if the company is maintaining compliance with federal anti-money laundering requirements. Determine that the company has established antifraud initiatives reasonably calculated to detect, prosecute and prevent fraudulent insurance acts.		
a. Identify the company managers utilized for this discussion and summarize the dialogue results. Include the discussion results in a memorandum for inclusion in the workpapers.		

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Commented [KE9]: Moved to 1) d.

Commented [KE10]: Moved to 1) e.

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FINANCIAL CONDITION EXAMINERS HANDBOOK

PART 2: Consideration of Fraud - Testing

Note: The following section should be completed in accordance with the consideration of fraud during testing of the examination. The examiner should provide documentation of the actual review during testing as indicated throughout this exhibit.

TESTING PROCEDURES	COMPLETED BY	DATE
1. Continue to identify fraud risk factors during the examination process. Adapt the planned examination procedures as necessary to mitigate fraud risk.		
a. Review the planned examination approach to determine if modification is necessary, in accordance with the additional identified fraud risk factors.		
b. Evaluate the assessed materiality levels as well as the overall risk assessment, to adequately reflect the discovery of additional fraud risk factors.		
c. Document any changes to the planned examination approach, materiality levels or the overall risk assessments in a memorandum for inclusion in the examination workpapers.		
2. Review the fraud initiatives established by the company to advertise, identify, investigate and report fraudulent acts.		
a. Verify that the established fraud program is advertised and promoted to the company's insureds.		
i. Determine whether claim forms and applications indicate that any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit or knowingly presents false information in an application for insurance is guilty of a crime and may be subject to fines and confinement in prison.		
b. Verify that the company has established a procedure to report fraudulent insurance acts to the insurance commissioner in the manner prescribed by the commissioner.		
3. If applicable, based on the offering of covered products, obtain and verify that the company has established and maintains a written anti-money laundering program that has been approved by senior management and contains the following elements: (i) internal controls based upon the company's risk assessment (that should also cover the brokers and agents used by the company), which are designed to detect and deter money laundering, terrorist financing and other financial crimes associated with its covered products; (ii) the appointment of an anti-money laundering compliance officer including details on the role he/she will play in the day-to-day supervision of the company; (iii) a documented anti-money laundering training program for appropriate personnel and agents; and (iv) documented policies and procedures to perform independent testing on a periodic basis to measure compliance. If the examiner determines that the company has not established, or is not maintaining, such an anti-money		

SECTION 4 – EXAMINATION EXHIBITS

TESTING PROCEDURES	COMPLETED BY	DATE
laundering program, the Financial Crimes Enforcement Network should be notified accordingly. See detail guidance regarding anti-money laundering programs in Section 1.		
a. Obtain copies of the company's risk assessment and independent test plans and review for reasonableness. Review the results of testing performed including any significant issues. If significant issues related to anti-money laundering are identified, the examiner should notify the appropriate federal agency as explained in Section 1, Part IV.		
b. Verify that the company is taking active measures to address all significant deficiencies noted in the independent testing results.		
4. Document the investigation of any potential fraudulent activity noted during the examination process. *(Note: This does not refer to additional fraud risk factors identified.)*		
a. If, after completing the review of fraud risk factors and examination procedures, the examiner identifies a potential fraud situation, the examiner and examiner-in-charge, depending on state guidelines, should either inform the appropriate state insurance department division responsible for investigating potential fraudulent activity, or perform procedures to further investigate the potential fraudulent activity. If the examiner is investigating the potential fraud, the examiner should:		
i. Discuss the nature and effect of the fraudulent activity with the appropriate level of management.		
ii. Attempt to obtain additional evidential matter regarding the fraudulent activity to determine the overall effect on the financial statements and the company operations.		
b. Verify that necessary information regarding the knowledge or reasonable belief that a fraudulent act has been, will be, or is being committed has been communicated to the insurance commissioner as required. (Note: If the state has adopted the NAIC Insurance Fraud Prevention Model Act (#680), information obtained by the commissioner in an investigation of a suspected or known fraudulent act is confidential by law and is not subject to subpoena. In addition, the commissioner, or individual gathering the information on behalf of the commissioner, is not permitted or required to testify in a private civil action regarding the confidential documents.)		

PART 3: CONSIDERATION OF FRAUD - WRAP-UP

Note: The following section should be completed in accordance with the consideration of fraud during the completion of the examination. The examiner should provide documentation of the actual review during the wrap-up procedures as indicated throughout this exhibit.

WRAP-UP PROCEDURES	COMPLETED BY	DATE
1. Review the fraud risk factors identified throughout the examination and the examination procedures completed to verify that the noted fraud risk factors have been adequately considered throughout the examination process.		
2. Although the focus of the examination is not to detect fraud, verify that the examination has been conducted in a manner to alleviate the risk of fraud through the consideration of fraud risk factors.		
3. Verify that the report of examination properly presents the financial condition of the company with regard to any known instances of fraud perpetrated on or within the company.		

SECTION 4 – EXAMINATION EXHIBITS

PART 4: Review Company Operations and Identify Fraud Risk Factors

Review the company's operations, both financial and non-financial, to identify fraud risk factors. Common fraud risk factors are indicated in the following chart. The fraud risk factors are categorized according to the three conditions typically present when fraud occurs:

- Incentives/pressures to commit fraud.
- Opportunities exist to perpetrate fraud.
- Attitudes/rationalizations that fraud is ethical or acceptable.

For risk factors that are applicable to the insurer under examination provide relevant information regarding that risk in the comments section.

	COMPANY APPLICABILITY			
FRAUD RISK FACTORS	**Y**	**N**	**N/A**	**COMMENTS**
Misstatements from Fraudulent Financial Reporting				
Incentives / Pressures				
1. Are any of the following conditions present that may indicate a personal incentive for management to engage in fraudulent financial reporting?				
a. Are compensatory management bonuses and incentives derived from the company's ability to accomplish aggressive operating or performance results?				
b. Do any other conditions exist that may indicate a motivation for management to engage in fraudulent financial reporting?				
c. Are unduly aggressive financial targets and expectations for operating personnel established by management?				
d. Is management or the board of directors' personal financial situation threatened by the individual's financial interests in the entity?				
2. Is the financial stability or profitability of the company threatened by economic, industry or entity operating conditions?				
a. Is the company subject to new accounting, statutory or regulatory pronouncements that could hinder the company's profitability or financial stability?				
b. Is the company encountering significant competition or market saturation and declining margins?				
c. Is the insurance industry experiencing an increase in the number of insolvencies?				
d. Is the industry experiencing rapid changes in technology?				

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IV. STANDARD EXAMINATION PROCEDURES

Certain general procedures should be considered on all full-scope examinations. The examination program should include a section that explains the nature and extent of these general examination procedures. Automation tools are recommended when conducting examinations to ensure more efficient examinations. This part of the Handbook addresses the following subjects, which are applicable to most examinations:

A. Examiner Request Log
B. Examination Documentation
C. Review of General Ledger and Journal Entries
D. Related Party/Holding Company Considerations
E. Consideration of Fraud
F. Examination Review Responsibilities
G. Letter of Representations
H. Review of Subsequent Events
I. Review of Premium Taxes
J. Summary of Unadjusted Errors

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E. Consideration of Fraud

Examiners should consider the impact and possibility of fraudulent activity while conducting financial condition examinations. In order to effectively complete this task, the examiner should obtain and review the documentation provided by the independent CPA that illustrates their consideration of fraudulent activity. ~~In addition, the examiners should perform a preliminary fraud risk assessment in order to obtain reasonable assurance that the financial statements do not contain misstatements due to fraud.~~ Parts 1-3 of Exhibit G – Consideration of Fraud, included in this Handbook, may be used for documenting ~~conducting and documenting fraud risk factors, as well as~~ the overall consideration of fraud. Additionally, Exhibit G: Part 4 may be utilized to conduct and document fraud risk factors if the CPA workpapers completed in this area are deemed insufficient, incomplete or at the incorrect level (i.e. holding company or legal entity level). ~~.~~

The examiner should consider the risk of fraud for fraudulent company reporting and fraudulent claims incurred by the company. If applicable, based on the offering of covered products, the examiner should also consider the insurer's anti-money laundering program and its ability to detect, monitor, and report suspicious activity, in an effort to prevent the company from being used to facilitate money laundering or the financing of terrorist activities.

a. Fraudulent Company Reporting – Occurs as a misstatement, or omission of amounts or disclosures, in the financial statements (fraudulent financial reporting) or with the theft of assets (misappropriation of assets) that results in the financial statements being improperly stated. Fraudulent company reporting is instigated within a company. It is important for the examiner to understand the controls established within a company to determine whether proper control procedures and supervisory techniques have been implemented to mitigate the risk of this type of fraud. Although proper control procedures may assist in reducing the risk of this fraud, the risk of fraudulent company reporting can never be totally eliminated, due to collusion and other factors.

b. Fraudulent Claims – Occurs when improper or unsupported insurance claims are submitted to the company. These types of claims are more difficult to identify than fraudulent financial reporting, as they typically occur through the collusion of outside individuals (e.g., claimant and doctor). However, the company should have controls and documentation procedures established for claim processing to mitigate these fraud occurrences. The examiner will want to identify the processes in place and verify that they are properly being followed. In addition, the examiner will want to ascertain the company's methods to address identified instances of fraudulent activity and those who perpetrate them.

c. Anti-Money Laundering (AML) Program

Background on Companies Qualifying for AML Review

Although the USA PATRIOT Act of 2001(The Act) requires AML programs for all financial institutions, the Act only applies to those insurance companies offering covered products. These products include: (i) A life insurance policy with any type of cash surrender value; (ii) any annuity contract, other than a group annuity contract; and (iii) any other insurance product with features of cash value or investment. In general, the most significant money laundering and terrorist financing risks in the insurance industry are found in life insurance and annuity products because such products allow a customer to place large amounts of funds into the financial system with the potential of transferring those funds to another person/entity, thus, masking their true origin. Each insurance company issuing or underwriting a covered product must develop and implement an AML program reasonably designed to prevent the insurance company from being used to facilitate money laundering or the financing of terrorist activities. The insurer does not have to implement a company-wide program but, rather, a program that applies only to the insurer's covered products. Exhibit G provides a detailed checklist of the minimum requirements for the AML program as noted below. The examiner should utilize this checklist when evaluating the company's AML program.

EXHIBIT A
EXAMINATION PLANNING PROCEDURES CHECKLIST

COMPANY NAME______________________________

PERIOD OF EXAMINATION ______________________________

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

	Examiner	Date
<u>Pre-planning Procedures</u>		
1. At least six months prior to the as-of date, notify the company and its external auditors, with company personnel's assistance, that an examination will take place and that the auditor workpapers will be requested when the exam begins.		
2. If the examination is to be performed on a company that is part of a holding company group, send an informal notification at least six months prior to the as-of date to other states that have domestics in the group.		
3. Call the examination in the Financial Exam Electronic Tracking System (FEETS) at least 90 days prior to the exam start date.		
a. If the examination is to be performed on a company that is part of a holding company group, document your attempts to coordinate the exam with the Lead State and other domestic state(s) within your group. Utilize Exhibit Z – Examination Coordination to assist with this process.		
4. Send preliminary information requests to the company with sufficient lead-time to allow information to be provided prior to the start of examination fieldwork. Exhibit B – Examination Planning Questionnaire and Exhibit C, Part One – Information Technology Planning Questionnaire can be utilized to assist in developing pre-planning requests. **Note**: The examiner is encouraged, with input from the financial analyst when possible, to customize Exhibit B to the insurer being examined prior to submitting the information request.		
<u>Phase 1 – Understand the Company and Identify Key Functional Activities to be Reviewed</u>		
Part 1: Understanding the Company		
Step 1. Gather Necessary Planning Information		
Meet with the Financial Analyst		
1. Meet (in person or via conference call) with the assigned financial analyst (and/or analyst supervisor) to gain an understanding of company information available to the department. In addition, discuss risks and concerns highlighted in the Insurer Profile Summary as well as the company's financial condition and operating results since the last		

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12. Request trial balance and other accounting records used to prepare annual financial statements.

13. If required based on anticipated risk-assessment, request pertinent information to confirm investment and bank accounts.

14. Discuss relationship with the internal and external auditors.

Meet with the Company's Appointed Actuary

15. Arrange a meeting with the appointed actuary to review the objectives and scope of the actuary's work and to obtain an understanding of the methods and assumptions used in establishing the actuarially determined asset or liability. Consider:

    a. The materiality and risks (e.g., nature and type of business, loss development, reinsurance, etc.) associated with the accounts.

    b. The actuaries' professional qualifications, reputation and relationship with the insurer.

    c. Any changes in methodology or assumptions from the prior examination.

    d. The actuaries' interaction with the internal and external auditors.

    e. Any changes to the reserving platform (i.e. computer program) since the prior examination.

Consideration of Fraud

16. Complete planning procedures for the consideration of fraud utilizing Exhibit G – Consideration of Fraud: Part 1 (or similar document).

Consideration of Related Parties

17. Obtain relevant information to assist in identifying related party relationships and transactions (e.g., identify parent, affiliates, subsidiaries and ultimate controlling person, principal owners, large shareholders, board of directors, officers, etc.). **Note:** Review of this information may have already been performed by the department analyst.

Step 2. Review of Gathered Information

18. Utilizing the gathered information, obtain an understanding of the company's business and corresponding risk exposures. Exhibit CC – Issue/Risk Tracking Template (or similar document) should be used to accumulate significant risks or issues identified through the review of information gathered.

19. Prepare a time budget and allocate work assignments for the examination and obtain the chief examiner or designee's approval.

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EXHIBIT E
AUDIT REVIEW PROCEDURES

COMPANY NAME____
PERIOD OF EXAMINATION ____
EXAMINATION FIELD DATE ____
PREPARED BY____
DATE____

GUIDANCE

NAIC: Annual Financial Reporting Model Regulation (#205)
AICPA: Statement of Position (SOP) 95-4 – Letters for State Insurance Regulators to Comply with the NAIC Model Audit Rule
AICPA: Practice Alert 94-1 – Dealing with Audit Differences
AICPA: Statement on Auditing Standards (SAS) 89 – Audit Adjustments Federal Law: Sarbanes-Oxley Act of 2002 (SOX)
AICPA: AU Sec. 316 – Consideration of Fraud in a Financial Statement Audit
AICPA: Audit Risk Alert – Obtain current year alert
AICPA: SAS 104–111 – Risk Assessment Standards
AICPA: SAS 114 – The Auditor’s Communication with those Charged with Governance
AICPA: Ethics Interpretation No. 501-8 – Failure to Follow Requirements of Governmental Bodies, Commissions, or Other Regulatory Agencies on Indemnification and Limitation of Liability Provisions in Connection with Audit and Other Attest Services

OVERVIEW

The intent of the risk assessment process in a risk-focused examination is to identify areas of higher risk in order to enable more efficient use of examiner resources. A key to determining whether potential for material misstatement exists within the financial statements is to evaluate the insurer’s audit function, which is made up of both internal and external audits.

The NAIC *Annual Financial Reporting Model Regulation* (#205) (commonly referred to as the Model Audit Rule (MAR)) was implemented in order to improve state insurance department surveillance of financial insurers by requiring an annual statutory audit of financial statements, which report the financial position and results of operations of insurers by independent certified public accountants. The primary objective of a statutory audit is to enable the external auditors to express an opinion as to whether the insurer’s statutory financial statements are presented fairly in all material respects in conformity with the accounting practices prescribed or permitted by the applicable state of domicile. Effective in 2010, the MAR has additional requirements, including a mandatory Attestation of Internal Control by management for insurers with premiums greater than $500 million. Portions of the MAR are referenced throughout this document.

External auditors conduct audits in accordance with Generally Accepted Auditing Standards (GAAS) for non-public companies, and the rules and auditing standards of the Public Company Accounting Oversight Board (PCAOB) for publicly traded companies. GAAS require that the audit be conducted with independence, due professional care, ethical standards, objectivity and adequate planning/supervision. The PCAOB is responsible for the development of auditing and attestation standards related to quality control, ethics and independence for publicly traded companies. When these standards are adhered to, the external auditor’s opinion lends credibility to such financial statements and thereby assists in promoting confidence that the insurer’s financial condition is fairly presented.

Insurance companies often establish an internal audit function to assist in fulfilling such responsibilities as safeguarding assets, ensuring reliability of financial records, verifying compliance with internal procedures and assessing the efficiency of internal controls. Depending on the nature and extent of the internal auditor’s work, the examiner may utilize their work to gain an understanding of the internal control structure or to assess control risk for specific identified risks.

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	Examiner	Date

internal audit department. (See the "Internal Auditor Workpaper and Report Review" section for additional procedures relating to the internal audit function.)

d. Review the workpapers at a high level to identify the internal controls reviewed or tested by the external auditor. Consider whether the external auditor had reviewed different control procedures in prior year audits and obtain the relevant workpapers from prior years as appropriate.

Guidance Point: **Note that external auditors often test internal controls on a rotational basis. Therefore, it may be necessary for the examiner-in-charge to request prior year workpapers from the external auditor in addition to the current year workpapers. The examiner may place reliance on testing from prior years if they are able to determine that the controls have not significantly changed.**

e. Document and evaluate any discrepancies or findings noted during the high-level review of the workpapers.

9. Obtain a copy of the external auditor's documentation in relation to AU Sec. 316—*Consideration of Fraud in a Financial Statement Audit*. The AU 316 documentation should assist the examiner in completing Exhibit G – Consideration of Fraud, Parts 1-3. If the assessment and related fraud procedures completed by the auditor are deemed insufficient, incomplete, or at the incorrect level (i.e., holding company or legal entity level), the examiner should also complete the fraud risk factor checklist within Exhibit G - Consideration of Fraud, Part 4.

Guidance Point: **The fraud risk factors identified by the external auditor in relation to AU 316 and by the examiner in Exhibit G should impact the examiner's consideration of risks inherent within the entity and impact the overall risk assessment and examination procedures completed by the examiner.**

10. Obtain copies of all legal letters obtained by the external auditor.

a. Review the legal letters to identify common themes or pending issues pertaining to insurer operations or class-action lawsuits that may impact the assessment of identified or potential risks.

b. Review the legal letters to determine the scope of further communication with legal counsel regarding litigation, claims, assessments and unasserted claims.

Guidance Point: **Risks identified within legal letters would most likely be classified as legal, reputation or operational risks.**

11. If the external auditor relied on a report of internal controls (SOC 1) provided by the insurer's service provider (data processing, claims processing, etc.), consider the adequacy of the external auditor's use and reliance of the report within their audit workpapers to facilitate the examination process.

a. Consider the documentation within the external or internal auditor's workpapers describing the consideration of any SOC reports and any assessment of risks resulting from the SOC report findings in completing the overall risk assessment.

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

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

FROM: Kevin Baldwin and Laura Slaymaker, Co-Chairs of the Receivership Law (E) Working Group (RLWG)

DATE: November 15, 2022

RE: Pre-Liquidation Coordination and Information Sharing Memorandum of Understanding

The Receivership Law (E) Working Group of the Receivership & Insolvency (E) Task Force adopted a template for a Memorandum of Understanding ("MOU") that can be utilized to facilitate transitional planning and preparation, communication and information sharing with guaranty funds, starting when a troubled property and casualty insurer faces a material risk of being liquidated as insolvent. The insurance financial regulators, insurance receivers and the guaranty funds need advance planning for the transition from a troubled insurance company to liquidation. The MOU template is flexible and can be tailored to the individual state insurance department and the specific troubled property and casualty insurer situation. The attached MOU is also posted to the Receivership and Insolvency (E) Task Force webpage as a resource for state insurance departments.

The MOU was subsequently adopted by the Financial Condition (E) Committee on Nov. 15, 2022. The RLWG encourages the FEHTG to consider including reference to this MOU template when updating existing *Financial Condition Examiners Handbook* guidance regarding considerations to promote early communication in property and casualty insurer pre-liquidation situations.

If there are any questions regarding this referral, please contact NAIC staff (Jane Koenigsman) to discuss.

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990

Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600

New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000

III. GENERAL EXAMINATION CONSIDERATIONS

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

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

DETAIL ELIMINATED TO CONSERVE SPACE

I. Considerations for Potentially Troubled Insurance Companies

A troubled insurance company is broadly defined as an insurance company that is either in or is moving towards a financial position that subjects its policyholders, claimants and other creditors to greater-than-normal financial risk, including the possibility that the company may not maintain compliance with the applicable statutory capital and/or surplus requirements (*Troubled Insurance Company Handbook*). The "Prioritization Framework" as discussed in the NAIC's *Financial Analysis Handbook* identifies troubled companies as Priority 1.

In situations in which an examination is being planned for a troubled insurance company (i.e., Priority 1 company), the NAIC's *Accreditation Program Manual* (Part B3: Department Procedures and Oversight) indicates that "the department should generally follow and observe procedures set forth in the NAIC *Troubled Insurance Company Handbook.*" However, regulators may also consider leveraging the insights in the *Troubled Insurance Company Handbook* for Priority 2 companies, which are defined in the *Financial Analysis Handbook* as "high-priority insurers that are not yet considered troubled but may become so if recent trends or unfavorable metrics are not addressed."

The following guidance provides an overview of key elements to consider during an examination. Additional insights to assist in enhancing a state's monitoring and surveillance of troubled insurance companies, including regulatory actions available to Departments of Insurance (DOIs), can be found in the *Troubled Insurance Company Handbook*.

<u>Communication Expectations</u>

If an examination is planned or ongoing for a troubled or potentially troubled company, or through the course of the examination that the domestic regulator elevates the priority level of the company to troubled or potentially troubled, it is critical that the domestic regulator communicates proactively and timely with other impacted state insurance regulators. It is also important that the non-domiciliary state communicates with the domestic regulator prior to taking any action against the insurer. This can be particularly important if the corrective action plan implemented by the domestic regulator depends on continued operations of the insurer in other states. Depending on the circumstances, it may also be appropriate to communicate certain information with other parties, such as other regulatory bodies, company management, and state guaranty funds. Establishing a coordinated communication system among the relevant parties will help facilitate the domestic regulator's surveillance of the troubled company.

The timeliness of communication with other regulators should be commensurate with the severity of the event, and it should include information about the troubled company's situation and the proposed corrective action. It may also include a request for other jurisdictions to assist in the implementation of the plan. When determining which states to notify, the department may consider those in which the company: 1) has a significant amount of written, assumed or ceded insurance business; 2) has significant market share; 3) is licensed; 4) has affiliates; 5) utilizes fronting entities; 6) has pooled companies; and 7) is seeking to write business or obtain a license. If it is reasonably anticipated that corrective plans will not prevent a finding of insolvency or insolvency is reasonably possible, advance communication to the guaranty funds is critically necessary for a successful transition to liquidation. If the guaranty funds are notified in a timely manner, they may be able to provide additional guidance and assistance in preparing the company for liquidation. The Memorandum of Understanding (MOU), which is maintained on the Receivership and Insolvency (E) Task Force web page, is an optional tool available to regulators that can help to facilitate this communication and information sharing as well as transitional planning and preparation.

Pre-Receivership Considerations

Depending on the circumstances of the troubled company's situation, the department may determine that the appropriate course of action is to place the company in receivership. There are several steps that the department can take to ensure a smooth transition to receivership, should that be necessary. Having a thorough understanding of the company's rights and ownership of its assets, as well as its liabilities and obligations can help the department manage the possible transactions that could occur if the company is placed in receivership. It may also help the regulator understand if inappropriate transactions occur in anticipation of receivership, such as preferential payments to related entities and payment of management bonuses or expense reimbursements. As part of the corrective plan, the department may consider requesting the implementation of controls surrounding the troubled company's operations. For instance, it may be necessary for management to establish controls around acceptance of new business or new commitments by the company, as well as recordkeeping requirements if the insurer is involved with reinsurance.

If an examination is planned or ongoing for a troubled or potentially troubled company, the examination should increase its review of risks and controls surrounding financial reporting processes in the areas discussed above. For example, the exam may have a greater focus on the following areas:

- Gaining an understanding of the location (i.e., bank accounts, deposits, custodial accounts, letters of credit, etc.) and ownership (i.e., funds held with reinsurers, intermediaries, MGAs/TPAs, etc.) of company assets.
- Gaining an understanding of possible encumbrances on company assets that may be triggered if the financial position of the company continues to deteriorate.
- Gaining an understanding of the provisions within various agreements that the company has entered into (i.e., reinsurance agreements, agreements with service providers, investment advisors, etc.) that could be impacted by being placed into receivership.
- Reviewing transactions involving the movement of company assets.
- Identifying primary responsibility for obligations and liabilities, such as tax payments, pension plan contributions, pledges of assets, etc.
- Additional testing to ensure the completeness of policy and claims data.

If receivership or liquidation is triggered, and assets are transferred to the receiver or guaranty fund to settle obligations, it is important that the company's data be maintained in such a format to ensure that policies can continue to be maintained and claims can continue to be paid. For example, the company should have the ability to export its claims data through a defined format (Uniform Data Standards [UDS]) that would allow the data to be received and utilized by a third-party guaranty fund. Therefore, the examination may include additional procedures as part of the IT review to identify and locate data storage and processes, understand the format of the data, and ensure that proper functionality exists for timely and efficient export of policy and claims data in the event of a receivership.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

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

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

DATE: August 16, 2023

RE: Affiliated Services Guidance

In 2021, the Risk-Focused Surveillance (E) Working Group received a referral from the Chief Financial Regulator Forum recommending updates to NAIC handbooks to provide more guidance to regulators on reviewing affiliated service agreements. The Chief Financial Regulator Forum noted the growing prevalence of market-based expense allocations in affiliated service agreements and the need for some additional guidance on how to review these agreements. Because the issue was important for both financial analyst reviews of Form D filings and the subsequent review of affiliated services during financial exams, the topic was referred to the Risk-Focused Surveillance (E) Working Group so that guidance could be developed together for both functions.

After a lengthy development period including two public exposure periods, numerous conference calls, and multiple in-person meetings to discuss, the Risk-Focused Surveillance (E) Working Group finalized updated drafts of proposed revisions to the NAIC's *Financial Analysis Handbook* (FAH) and *Financial Condition Examiners Handbook* (FCEH) at its August 14 meeting. The proposed edits to the FCEH are provided in **Attachment One** of this memorandum.

As the proposed revisions have been thoroughly reviewed and subject to multiple public comment periods, 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 FAH.

If there are any questions regarding the proposed recommendations, please contact us or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification. Thank you for your consideration.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Attachment One

Note: This document includes excerpts from the NAIC's *Financial Condition Examiners Handbook* to which revisions are being proposed to update guidance around transactions and service agreements with affiliates. The proposed revisions are shown as tracked changes throughout.

Exam 1 – Section 1.III – General Examination Considerations

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III. GENERAL EXAMINATION CONSIDERATIONS

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

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

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F. Outsourcing of Critical Services

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Affiliated Service Providers

Specific requirements related to an insurance company's utilization of cost sharing services and management services with affiliates are included in the NAIC's *Insurance Holding Company System Model Regulation* (Model # 450). Prior to entering into one of these agreements, an insurer must first give notice to the State Insurance Department of the proposed transaction via the Form D filing. As the receipt and review of the Form D filing is typically the responsibility of the Department Analyst, the examiner should leverage that review to the extent possible. If the agreement has not been obtained and reviewed by the analyst, or if significant agreements have not been modified since 12/31/~~14~~ 21 (date that new provisions were effective in Model #450), the examiner should obtain and evaluate whether the agreement includes the provisions listed below:

Agreements for cost sharing services and management services shall at a minimum and as applicable:

1. Identify the person providing services and the nature of such services;

2. Set forth the methods to allocate costs;

3. Require timely settlement, not less frequently than on a quarterly basis, and compliance with the requirements in the Accounting Practices and Procedures Manual;

4. Prohibit advancement of funds by the insurer to the affiliate except to pay for services defined in the agreement;

5. State that the insurer will maintain oversight for functions provided to the insurer by the affiliate and that the insurer will monitor services annually for quality assurance;

6. Define ~~books and~~ records and data of the insurer to include all ~~books and~~ records and data developed or maintained under or related to the agreement that are otherwise the property of the insurer, in whatever form maintained, including, but not limited to, claims and claim files, policyholder lists, application files, litigation files, premium records, rate books, underwriting manuals, personnel records, financial records or similar records within the possession, custody or control of the affiliate;

7. Specify that all ~~books and~~ records and data of the insurer are and remain the property of the insurer, and:

   a. ~~A~~Are subject to control of the insurer;

   b. Are identifiable; and

   ~~a.~~c. are segregated from all other persons' records and data or are readily capable of segregation at no additional cost to the insurer;

~~7.~~8. State that all funds and invested assets of the insurer are the exclusive property of the insurer, held for the benefit of the insurer and are subject to the control of the insurer;

~~8.~~9. Include standards for termination of the agreement with and without cause;

~~9.~~10. Include provisions for indemnification of the insurer in the event of gross negligence or willful misconduct on the part of the affiliate providing the services and for any actions by the affiliate that violate provisions of the agreement required in Subsections 19B(11), 19B(12), 19B(13), 19B(14) and 19B(15) of the regulation;

~~10.~~11. Specify that~~,~~ if the insurer is placed in supervision, seizure, conservatorship or receivership ~~or seized by the commissioner under the~~ pursuant to [supervision and receivership acts]:~~State Receivership Act:~~

   a. A~~a~~ll of the rights of the insurer under the agreement extend to the receiver or commissioner to the extent permitted by [law of the state]; ~~and,~~

   b. All records and data of the insurer shall be identifiable and segregated from all other persons' records and data or readily capable of segregation at no additional cost to the receiver or commissioner;

   c. A complete set of ~~all books and~~ records and data of the insurer will immediately be made available to the receiver or the commissioner, shall be made available in a usable format and shall be turned over to the receiver or commissioner immediately upon the receiver or the commissioner's request and the cost to transfer data to the receiver or the commissioner shall be fair and reasonable; and

   ~~b.~~d. The affiliated person(s) will make available all employees essential to the operations of the insurer and the services associated therewith for the immediate continued performance of the essential services ordered or directed by the receiver or commissioner;

~~11.~~12. Specify that the affiliate has no automatic right to terminate the agreement if the insurer is placed into supervision, seizure, conservatorship or receivership pursuant to [supervision and receivership acts]~~the State Receivership Act~~; ~~and~~

13. Specify that the affiliate will provide the essential services for a minimum period of time [specified in the agreement] after termination of the agreement, if the insurer is placed into supervision, seizure, conservatorship or receivership pursuant to [supervision and receivership acts], as ordered or directed by the receiver or commissioner. Performance of the essential services will continue to be provided without regard to pre-receivership unpaid fees, so long as the affiliate continues to receive timely payment for post-receivership services rendered, and unless released by the receiver, commissioner or supervising court;

14. Specify that the affiliate will continue to maintain any systems, programs, or other infrastructure notwithstanding supervision, ~~a~~ seizure, conservatorship or receivership pursuant to [supervision and receivership acts], ~~by the commissioner under the State Receivership Act,~~ and will make them available to the receiver or commissioner as ordered or directed by the receiver or commissioner ~~,~~ for so long as the affiliate continues to receive timely payment for post-receivership services rendered, and unless released by the receiver, commissioner or supervising court; and~~.~~

15. Specify that, in furtherance of the cooperation between the receiver and the affected guaranty association(s) and subject to the receiver's authority over the insurer, if the insurer is placed into supervision, seizure, conservatorship or receivership pursuant to [supervision and receivership acts], and portions of the insurer's policies or contracts are eligible for coverage by one or more guaranty associations, the affiliate's commitments under Subsections 19B(11), 19B(12), 19B(13) and 19B(14) of the regulation will extend to such guaranty association(s).

If certain provisions are missing from affiliate service agreements that are new regulatory requirements since the agreement was previously filed or approved, the examination team should encourage/require revisions to include all appropriate provisions, depending upon the date of the agreement and provisions required by Model #450 at that date. In addition, in accordance with the risk-focused examination process and utilizing guidance from the Related Party Repository, the examiner should consider whether terms of significant ~~affiliated~~ agreements with affiliates are fair and equitable. Examiners should also note that additional guidance for reviewing individual affiliated transactions is in the next section on "Affiliated Service Agreements" and is also located in Section 1, Part IV D in this Handbook.

Affiliated Service Agreements

Both analysts and examiners are involved in assessing whether an affiliated agreement complies with statutory requirements (financial and non-financial) and is implemented by the parties in a manner that is consistent with representations made in the Form D as approved by, and considering any conditions imposed by, the regulator. Because both the analysis and examination functions are involved, care should be taken by each to leverage the knowledge and capabilities of the other, to share findings and concerns, and to minimize redundant or unnecessary efforts as well as regulatory burdens on the parties involved.

Because of the necessity of a regulated entity to file a Form D for approval (or non-disapproval), the analyst generally is the initial and primary point of contact and is involved throughout the Form D review process. The analyst would thus be most knowledgeable about the agreement from its outset, including how it was initially framed and presented in the Form D, what was learned during the review process, whether any changes were made or required for it to be approved (or not disapproved), any conditions or stipulations that may have been imposed by the regulator as part of that approval/non-disapproval process, as well as about any amendments that may have occurred or inquiries or concerns that may have been received from other states relating to the agreement.

Also, as part of the Form D review process the analyst may have identified issues for which, after implementation of the agreement and in the next examination, it would be appropriate for examiners to follow-up and provide feedback to the analyst. These follow-up procedures could be aimed at determining whether the agreement was implemented consistent with its own terms and its compliance with regulatory requirements, financial or risk impacts to the insurer, and whether the underlying economics of the transactions pursuant to the agreement are consistent with representations in the Form D as approved (or non-disapproved). For example, it may be appropriate to review significant affiliated transactions that utilize ~~market~~other than cost-based expense structures for in-depth examination review (see Related Party Repository for possible procedures). If several years have elapsed since entering into the affiliated service agreement, the examiner can review whether and to what extent the service provider profited due to the terms of the agreement or if the insurer is trending towards being deemed in a hazardous financial condition as a result of the charges. However, any requested follow-up procedures suggested by the analyst may be more tailored to a particular agreement than the sample procedures that are included in the examination repositories and should thus be a primary consideration by the examiner in developing the examination plan with respect to agreements with affiliates. Any findings from the examination review should be reported back to the analyst via the Summary Review Memorandum (SRM), exit conference, etc.

Cost or Other than Cost Considerations

An affiliated service agreement should specify whether the charges are based on ‘cost or ~~market~~other than cost’. Agreements with a cost-based structure utilize the actual cost to the service provider, requiring less judgment in setting the price charged by the affiliate. As such, there is no profit or loss to the service provider with the transaction. Within cost-based expense agreements, ensuring proper allocation of costs is essential so the insurance company is not being charged for additional or inappropriate costs.

Agreements utilizing an other than cost approach, however, require more judgment when setting the price charged by the affiliate. If a market-based structure is utilized, the rationale for using market instead of cost, as well as the justification for the company’s determination that amounts are fair and reasonable, should be thoroughly documented by management and demonstrate that the price charged by the affiliate does not result in the transfer of excessive profits from the insurance company to the affiliate. Similar expectations also apply to ‘cost-plus’ arrangements whereby the rate charged under the agreement is based upon the cost to perform the service plus a negotiated fee/profit margin intended to recognize the risk of providing the service.

Typically, the department analyst (or other assigned regulator) conducts the initial assessment of such agreements through its review and approval of Form D filings. As such, the examiner should meet with the analysts and obtain their input as to which agreements, or aspects of agreements, they would prioritize for review during the examination.

For example, the analyst may suggest that the exam team confirm the regulatory approval by performing additional procedures to evaluate the ongoing fairness/reasonableness of the pricing used in an other than cost-based agreement after it has been placed in service. Based upon recommendations from the department analyst during examination planning and/or the examination’s risk assessment procedures, it may be appropriate to review significant affiliated transactions that utilize other than cost-based expense structures for in-depth review (see Related Party Repository for possible procedures). For example, if several years have elapsed since entering into the affiliated service agreement, the examiner can review whether and to what extent the service provider profited due to the terms of the agreement or if the insurer is trending towards being deemed in a hazardous financial condition. Any findings from this review should be reported back to the analyst via the Summary Review Memorandum (SRM), exit conference, etc.

Exam 2 – Section 2 – Phase 1 - Understand the Company

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

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Consideration of Related Parties

A consideration of related parties should begin in Phase 1 of the examination. Related parties are defined as entities that have common interests as a result of ownership, control, affiliation or by contract. Related party transactions are subject to abuse because reporting entities may be induced to enter transactions that may not reflect economic realities or may not be fair and reasonable to the reporting entity or its policyholders. The examiner's review of the company in Phase 1 includes gaining an understanding of the insurer's significant related party agreements and/or transactions (e.g., pooling agreements, reinsurance contracts, intercompany management and service agreements, tax-sharing agreements, etc.). Special consideration should be given to evaluating the nature and terms of the service/management agreements with affiliates (e.g., cost, other than cost, etc.) and whether the analyst has noted any concerns or follow-up for examination (see Section 1, Part III F in this Handbook for more information). In gaining this understanding, the examiner should leverage information already obtained by the financial analyst to the extent possible. If necessary, the examiner may confirm directly with the insurer under examination to determine the completeness and accuracy of such information. For additional guidance regarding the consideration of related parties, refer to Section 1, Part IV D in this Handbook.

Exam 3 – Section 3 – Examination Repositories - Related Party Considerations

Note: Although not included here for purposes of conserving space, the introductory note cross-referencing to Section 1, Part III, F – Outsourcing of Critical Functions is also proposed for inclusion in the Reinsurance Ceding and Reinsurance Assuming repositories, due to their inclusion of affiliated reinsurance contract considerations.

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EXAMINATION REPOSITORY – RELATED PARTY

Identification of Risks:

To ensure that the examiner appropriately identifies and addresses all relevant risks, it is important that examiners consider information contained within the Own Risk and Solvency Assessment (ORSA), Group Profile Summary (GPS), and insights shared from the Department's Financial Analysts. An understanding of the group, including the Ultimate Controlling Party, will provide the examiner with a roadmap to help in effectively addressing the risks posted to the insurer by its related parties.

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:

Receivables from Parent, Subsidiaries and Affiliates
Payable to Parent, Subsidiaries and Affiliates
Amount Provisionally Held for Deferred Dividend Policies *(Life Companies)*
Dividends to Stockholders Declared and Unpaid *(Life Companies)*

Please Note:

- Transactions resulting from related party tax sharing and reinsurance agreements are typically reported on the appropriate tax and reinsurance financial statement line items, which are not listed above.
- The examiner should consider the company's compliance with the state statutory guidelines when reviewing affiliate and other related-party contracts.
- Before considering the scope of examination work involving agreements with affiliates, examiners are advised to refer to Section 1, Part III, F – Outsourcing of Critical Functions herein with regard to the need to consult with the departmental analysts so as to benefit from their experience with approved agreements in place at the company and their knowledge of factors that they have considered in suggesting follow-up work that may be necessary during the examination, which may vary from one agreement to the other.
- For additional guidance on related party and intercompany transactions, see Section 1, Part IV, D - Related Party/Holding Company Considerations.

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

No. 15 Debt and Holding Company Obligations
No. 25 Affiliates and Other Related Parties
No. 64 Offsetting and Netting of Assets and Liabilities
No. 67 Other Liabilities
No. 70 Allocation of Expenses
No. 97 Investments in Subsidiary, Controlled and Affiliated Entities

Financial Reporting Risks						
The insurer is not properly recording and disclosing related-party activities.	OP ST	AC VA PD CM CO	RPHCC	For identified related parties, the insurer maintains records (e.g. consolidated schedule of intercompany allocations, balances, etc.) so that individual allocations and balances are easily identifiable and amounts that have been offset are identifiable. The insurer has procedures, including supervisory review, in place to ensure that all related-party activities are properly disclosed and reported. Management reviews contract terms periodically to ensure that they are reasonable and properly reflect current operations.. The insurer has a process that identifies transactions that are subject to regulator approval and ensures that transactions are approved as appropriate.	Verify that a review of intercompany balances is performed. Consider whether service transactions are occurring but are not being given accounting recognition, such as receiving or providing accounting, management or other services at no charge to a related party. Determine the materiality of such transactions and the impact on the insurer. Review the procedures to ensure that related party activities are properly disclosed, reported and reviewed by supervisory personnel. Verify that contracts are periodically reviewed and updated for changes in operations. Review a sample of past transactions to confirm management's process was executed, as appropriate.	For a sample of identified related parties, review transactions to ensure they are being properly reported and disclosed. Review all other related-party disclosures for reasonableness.* Confirm whether the related-party relationship is disclosed in the insurer's holding company registration statement. Review the insurer's transactions with the suspected related party and determine whether the transactions are subject to any prior approval requirements in the domiciliary state's insurance code and have been filed with the department in a timely manner. Review the contracted transactions with affiliates and determine whether they are at arm's length and properly reported as economic or non-economic, in accordance with SSAP No. 25. Obtain the loan document(s) or written guarantee and verify that the terms of the contract

				The insurer has a policy in place that requires written approval from the board of directors (or committee thereof) prior to entering into any loan transaction (lending or borrowing), or guarantees (parental/affiliated surplus support or loan repayment/collateralization) to ensure that transactions meet “fair and reasonable” and “arm’s-length” standards.	Review meeting minutes of the board of directors (or committee thereof) for evidence of written approval of related-party loans or guarantees.	are equitable and reasonable. Verify the guarantee or loan was properly disclosed in the annual financial statement and filed with the domiciliary state insurance department, if applicable.
The insurer engages in transactions and service agreements with affiliates that have inequitable terms.	OP ST	CM AC VA	RPHCC	Management reviews related-party transactions~~agreements~~ to ensure they ~~that all agreements~~ are at arm’s length and properly reported as economic or non-economic. Management reviews affiliated service agreements to ensure the terms of the agreement are fair and reasonable. The insurer maintains written contracts for significant transactions (expense allocations, tax-sharing agreements, etc.) with related parties that are reviewed to ensure fair and reasonable terms and are approved by the board of directors (or committee	Obtain evidence of management’s review of related-party transactions and/or service agreements with affiliates, as applicable. Obtain and review the significant contracts between the insurer and its affiliates. Verify that the insurer reviews the agreements to ensure fair and reasonable terms and approval by the board of directors (or committee thereof) or other appropriate personnel. Verify that contracts are periodically reviewed and updated for changes in operations and filed	Select a sample of ~~agreements and~~ transactions for review to verify they ~~agreements~~ are consummated at arm’s length and ~~the transactions are~~ in accordance with ~~the~~ approved agreements. If the related party transaction is not at arm’s length, verify that the transaction is appropriately accounted for as non-economic. Select a sample of affiliated service agreements and perform procedures to ensure the terms are fair and reasonable, such as: • Obtain and review financial information

				thereof) or other appropriate personnel. Management reviews contract terms and actual transactions periodically to ensure that they are reasonable and properly reflect current operations and are in compliance with related party agreements and filed and/or approved as required by the state. Management is subject to specific authority limits regarding the ability to execute affiliated agreements Management documents its rationale and maintains supporting documentation (i.e., a third-party quote, third-party opinion, etc.) for the rate utilized in the affiliated agreement.	with domiciliary regulator(s) as required. Test the controls in place to ensure that affiliated agreements are executed in accordance with documented authority limits. Obtain the company's supporting documentation and evaluate the appropriateness of the rate used.	from insurers and their affiliates to evaluate the impact of the contract terms on the entities' ongoing financial results. o For example, obtain support from the affiliated service provider to evaluate the reasonableness of the service provider's profit margin on services rendered. • Obtain a sample of related party /affiliated contracts and compare the terms to unaffiliated contracts. Inquire about any material differences. • Obtain a third-party quote or access benchmarking data (if available) for similar services and compare to the rate utilized in the affiliated service agreement. • If a third-party quote or benchmarking to comparable services

						is not available, consider reviewing the Company's internal analysis of fair and reasonable compensation, which could include but is not limited to, other observable market factors and/or entity-specific cost or margin information for a similar product or service including industry sales price averages, market conditions, profit objectives, margin achieved on similar products, etc. • If available, obtain and evaluate the analysis supporting the review and approval of contract terms by another regulator (e.g., other state department, IRS, CCIO)
Intercompany allocation of general and administrative expenses among affiliates is inappropriate or is not in accordance with approved agreements.	OP	VA PD CO	RPHCC	Management reviews ~~cost-allocation~~ contracts with affiliates to ensure that the basis for expense allocation is fair and reasonable. Expenses to be allocated are identified and reasonable	Review the insurer's expense allocation worksheets and supporting documentation to determine whether the method of allocation	Test the insurer's calculation of material expense allocation for compliance with the terms of the contract. Reconcile amounts to the general ledger and Underwriting &

				metrics are defined, developed and used for each type of expense. Management also reviews the basis of allocation periodically to ensure that it is still reasonable and properly reflects current operations.	follows the contract and is reasonable. Inquire with management regarding changes in operations that might affect expense allocation and verify that those changes are properly reflected.	Investment Exhibit, Part 3, and trace to receipt or payment documentation as applicable.

Exam 4 – Section 4 – Examination Exhibits – Exhibit A: Examination Planning Procedures Checklist

EXHIBIT A
EXAMINATION PLANNING PROCEDURES CHECKLIST

COMPANY NAME

____

PERIOD OF EXAMINATION

____

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

Pre-planning Procedures	Examiner	Date
1. At least six months prior to the as-of date, notify the company and its external auditors, with company personnel's assistance, that an examination will take place and that the auditor workpapers will be requested when the exam begins.		
2. If the examination is to be performed on a company that is part of a holding company group, send an informal notification at least six months prior to the as-of date to other states that have domestics in the group.		
3. Call the examination in the Financial Exam Electronic Tracking System (FEETS) at least 90 days prior to the exam start date.		
a. If the examination is to be performed on a company that is part of a holding company group, document your attempts to coordinate the exam with the Lead State and other domestic state(s) within your group. Utilize Exhibit Z – Examination Coordination to assist with this process.		
4. Send preliminary information requests to the company with sufficient lead-time to allow information to be provided prior to the start of examination fieldwork. Exhibit B – Examination Planning Questionnaire and Exhibit C, Part One – Information Technology Planning Questionnaire can be utilized to assist in developing pre-planning requests. **Note**: The examiner is encouraged, with input from the financial analyst when possible, to customize Exhibit B to the insurer being examined prior to submitting the information request.		
Phase 1 – Understand the Company and Identify Key Functional Activities to be Reviewed		

Part 1: Understanding the Company

Step 1. Gather Necessary Planning Information

Meet with the Financial Analyst

1. Meet (in person or via conference call) with the assigned financial analyst (and/or analyst supervisor) to gain an understanding of company information available to the department. In addition, discuss risks and concerns highlighted in the Insurer Profile Summary as well as the company's financial condition and operating results since the last examination. Ascertain the reasons for unusual trends, abnormal ratios and transactions that are not easily discernible. Document a summary of significant risks identified by the analyst for further review on the examination. **Note**: An email exchange, in and of itself, is not deemed sufficient to achieve the expectation of a planning meeting with the assigned analyst.

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

    ~~a.~~b. Consider utilizing Exhibit D to develop a meeting agenda for the discussion with the analyst

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Exam 5 – Section 4 – Examination Exhibits - Exhibit CC: Issue/Risk Tracking Template

EXECUTIVE OFFICE • 444 North Capitol Street NW, Suite 700 • Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
CENTRAL OFFICE • 1100 Walnut Street, Suite 1500 • Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
CAPITAL MARKETS & INVESTMENT ANALYSIS OFFICE • One New York Plaza, Suite 4210 • New York, NY 10004 p | 212 398 9000 f | 212 382 4207
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EXHIBIT CC
Issue/Risk Tracking Template

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Example risks have been included below to demonstrate the level of documentation expected to be included in a tracking template.

Issue/Risk Tracking Template

Issue/Risk Identified	Source(s) of Issue/Risk	Where Addressed	Additional Information
Example 1 – Company plans to begin writing a new line of business next year.	*Issue referred from rates and forms unit (A.1.6) and brought up in C-Level interviews (A.3.5, A.3.7).*	*See Exhibit V (Risk 3).*	*N/A*
Example 2 – The percentage of the company's invested assets held in equities has increased significantly over the past two years.	*Issue referred by the financial analyst (see A.1.5) and discussed in the department planning meeting (see A.1.12).*	*See risk 1.1 on the Investment Risk Matrix (C.2.3).*	*N/A*
Example 3 – The company's expense ratio is significantly higher than the industry average.	*Issue noted during examiner's review of the AM Best report (see A.1.7).*	*Not deemed necessary.*	*After further discussion, it was noted that the company's historical expense ratios are higher than the industry average due to the unique coverage written by the company. As ratios have been relatively flat and the company remains profitable, no additional review is deemed necessary.*
Example 4 – The Company has service agreements with affiliates which may have a material impact to the insurer.	*Issue noted during planning meeting with analyst.*	*See risk 1.1 on the Related Party Matrix (C.3.3).*	*N/A*

Exam 6 – Section 4 – Examination Exhibits – Exhibit H: Insurer Profile Summary Template

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

EXHIBIT H
INSURER PROFILE SUMMARY TEMPLATE

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SUPERVISORY PLAN

List any specifically identified items that require further monitoring by the analyst or specific testing by the examiner. In addition, indicate if the Company is or should be subject to any enhanced monitoring, such as monthly reporting, a targeted examination or a more frequent exam cycle.

Analysis Follow-Up

- Obtain further detail regarding the impact of proposed rate increases and monitor through monthly financial reporting
- Obtain further detail regarding the insurers liquidity strategy.
- Assess the reasonableness of the Company's business plan as soon as it is received, given the inability to execute the most recent strategy. Consider attending board meetings to reflect the concern regarding the future viability of the Company.
- Include any unresolved concerns with cost sharing or management service agreements with affiliates or overall reliance on affiliates to provide services.

Examination Follow-Up

- During the next regularly scheduled examination, audit the specific risks associated with the Company's agents balances and uncollected premiums to determine if further concerns exist.
- Follow-up on segregation of duties issues noted in the last examination.
- Perform a targeted examination of the reserves, pricing and claims management. Consider in the reserve study any pricing review, information related to the changing legal environment as well as the mix of business in states outside of X and Y.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

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

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

Date: June 13, 2023

RE: May 2023 Examination Peer Review Takeaways

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

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

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

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

Emerging Risks Identified During Examination – In a couple of the examination files reviewed, peer reviewers noted circumstances in which new risks occurring after the balance sheet date were identified during examination fieldwork but not tested during the examination. While such risks could reasonably be considered subsequent events under the current guidance, peer reviewers noted that conducting a review of such risks could provide a greater understanding of the insurer's current exposures and mitigation strategies, as well as provide valuable information for the department to consider in its ongoing monitoring of the insurer's solvency. How these risks or issues are treated could depend on the nature of the issue itself, its significance/materiality, and at what point in the examination it was discovered. For example, it may be appropriate to add a risk to a key activity matrix or Exhibit V. Given the importance of assessing risks in real time as they emerge, we recommend that the Technical Group consider the development of additional guidance in this area that encourages the incorporation of key risks emerging after the balance sheet date into the exam process, to the extent practicable (i.e., if identified prior to Phases 6-7).

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

EXHIBIT D
PLANNING MEETING WITH THE FINANCIAL ANALYST

Overview

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

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

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

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

Planning Meeting with the Financial Analyst – Agenda Items

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

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

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

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

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

   ii. The lead state's analysis of ORSA Summary Report
   iii. The lead state's analysis of the Form F provided in the GPS or other information provided by the lead state

   d. Discuss any developments or follow-up items resulting from recent supervisory college sessions.

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

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

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

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

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

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

X. REPORTING EXAMINATION PROGRESS AND FINDINGS

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

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

A. Interim Reporting to Chief Examiner

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

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

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

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

B. Interim Reporting by Examiners to Their Respective Zones

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

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

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

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

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

DATE: May 23, 2022

RE: Referral on Proposed Climate Risk Enhancements

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

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

<u>Financial Condition Examiners Handbook</u>

Planning Phase of the Examination:

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

Fieldwork Phase of the Examination:

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

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

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III. GENERAL EXAMINATION CONSIDERATIONS

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

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

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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 the impact of a wide range of relevant natural and man-made disasters on company operations. Such issues might include but are not limited to: ~~like~~ terrorism, climate change, a pandemic, fraud, fire, loss of utility services, personnel losses and new laws and regulations. Therefore, it is important that an insurer's business continuity plan be considered throughout all aspects of the examination and not just in the context of a review of the insurer's information systems.

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

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

1. Understanding the Organization

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

2. Determining Business Continuity Strategies

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

3. Developing and Implementing a Business Continuity Plan

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

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

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

4. Testing and Maintenance

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

Examiner Review of Business Continuity Plans

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

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

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

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

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

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

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

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

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

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

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

EXAMINATION REPOSITORY – REINSURANCE (ASSUMING INSURER)

Annual Statement Blank Line Items

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

DETAIL ELIMINATED TO CONSERVE SPACE

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

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

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

EXAMINATION REPOSITORY – REINSURANCE (CEDING INSURER)

Annual Statement Blank Line Items

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

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

DETAIL ELIMINATED TO CONSERVE SPACE

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

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

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

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

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

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

EXAMINATION REPOSITORY – UNDERWRITING

Annual Statement Blank Line Items

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

DETAIL ELIMINATED TO CONSERVE SPACE

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

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

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

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

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

EXHIBIT A
EXAMINATION PLANNING PROCEDURES CHECKLIST

COMPANY NAME____

PERIOD OF EXAMINATION ______________________________________

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

	Examiner	Date
<u>Pre-planning Procedures</u>		
1. At least six months prior to the as-of date, notify the company and its external auditors, with company personnel's assistance, that an examination will take place and that the auditor workpapers will be requested when the exam begins.		
2. If the examination is to be performed on a company that is part of a holding company group, send an informal notification at least six months prior to the as-of date to other states that have domestics in the group.		
3. Call the examination in the Financial Exam Electronic Tracking System (FEETS) at least 90 days prior to the exam start date.		
a. If the examination is to be performed on a company that is part of a holding company group, document your attempts to coordinate the exam with the Lead State and other domestic state(s) within your group. Utilize Exhibit Z – Examination Coordination to assist with this process.		
4. Send preliminary information requests to the company with sufficient lead-time to allow information to be provided prior to the start of examination fieldwork. Exhibit B – Examination Planning Questionnaire and Exhibit C, Part One – Information Technology Planning Questionnaire can be utilized to assist in developing pre-planning requests. **Note**: The examiner is encouraged, with input from the financial analyst when possible, to customize Exhibit B to the insurer being examined prior to submitting the information request.		
<u>Phase 1 – Understand the Company and Identify Key Functional Activities to be Reviewed</u>		
Part 1: Understanding the Company		
Step 1. Gather Necessary Planning Information		
Meet with the Financial Analyst		
1. Meet (in person or via conference call) with the assigned financial analyst (and/or analyst supervisor) to gain an understanding of company information available to the department. In addition, discuss risks and concerns highlighted in the Insurer Profile Summary as well as the company's financial condition and operating results since the last		

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

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

Obtain Existing Documentation

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

a. Annual financial statements.

b. Previous examination report and supporting workpapers.

c. Market conduct report (if deemed applicable).

d. CPA financial statement audit report.

e. Actuarial opinion.

f. Independent loss reserve analysis report, if done.

g. Management's discussion and analysis letter.

h. Risk-based capital (RBC) report.

i. Holding company registration statements.

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

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

l. Examination Jumpstart reports.

m. IRIS reports.

n. Department's correspondence file.

o. Inter-divisional memorandum.

p. NAIC database reports (RIRS, CDS).

q. Credit rating agency reports.

r. Articles of incorporation, bylaws and amendments.

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

t. Form F – Enterprise Risk Report.

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

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

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EXHIBIT B
EXAMINATION PLANNING QUESTIONNAIRE

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

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

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

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

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

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

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

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

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

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

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

EXHIBIT I
EXAMINATION PLANNING MEMORANDUM

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

COMPANY NAME:

EXAMINATION DATE:

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

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

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

Critical Risk Categories

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

Climate Related risks

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

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

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EXHIBIT V – OVERARCHING PROSPECTIVE RISK ASSESSMENT

Background

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

Use of this Exhibit

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

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

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

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

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

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

Exhibit V, Part One – Overarching Prospective Risk Testing Template

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

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

Exhibit V, Part Two – Common Areas of Concern

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

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PART ONE – OVERARCHING PROSPECTIVE RISK TESTING TEMPLATE

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

PART TWO – COMMON AREAS OF CONCERN

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

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

EXHIBIT Y
EXAMINATION INTERVIEWS

Overview

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

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

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

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

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

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

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

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

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Sample Interview Questions for Board or Committee Members

Experience and Background

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

Duties and Responsibilities

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

Reporting Structure

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

Ethics

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

Risk Areas

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

Risk Mitigation Strategies (Internal Controls)

- How often does the board receive reports from management on the internal controls of the company?
  - What information is reported?

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Sample Interview Questions for the Chief Executive Officer

Experience and Background

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

Duties and Responsibilities

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

Reporting Structure

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

Ethics

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

Risk Areas

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

Risk Mitigation Strategies (Internal Controls)

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

Corporate Strategy

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

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

Other Topics

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

Sample Interview Questions for the Chief Financial Officer/Controller

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Risk Areas

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

Risk Mitigation Strategies (Internal Controls)

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

Corporate Strategy

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

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Sample Interview Questions for Investment Management

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Risk Areas

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

Risk Mitigation Strategies (Internal Controls)

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

Corporate Strategy

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

Other Topics

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

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Sample Interview Questions for Chief Risk Officer

Experience and Background

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

Duties and Responsibilities

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

Reporting Structure

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

Ethics

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

Risk Areas

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

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Sample Interview Questions for Underwriting

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Risk Areas

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

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Other Topics

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

Sample Interview Questions for the Chief Actuary

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

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

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

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

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

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

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EXHIBIT DD
CRITICAL RISK CATEGORIES

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

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

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

Critical Risk Category Reporting Template

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

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

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

APPENDIX

GLOSSARY

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

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

2023 Projects for FEHTG
Last Updated :
8/15/2023

	Topic	Referral (If Applicable)	Request/Issue to be addressed	Progress	Plan	Areas of Guidance (red text = impacted by multiple projects)
1	Enhancements to the Consideration of Fraud during an examination	NA	Consider updates to Exhibit G - Consideration of Fraud		Consider for adoption 8/24/23	Section 1-4.E Consideration of Fraud Section 4 Exhibit A Section 4 Exhibit E Section 4 Exhibit G
2	Use of MOU in Pre-Liquidation Situations	Receivership Law (E) Working Group (Nov. 2022)	Pre-Liquidation Coordination and Information Sharing Memorandum of Understanding		Consider for adoption 8/24/23	Section 1-3.I Considerations for Potentially Troubled Insurance Companies
3	Exam Consideration of Climate Related Risks	Climate and Resiliency (EX) Task Force (Aug. 2022)	Consideration of updates to enhance the integration of climate change risks into the financial examination process.		Consider for exposure 8/24/23	Section 1-3.D Business Continuity Section 3 Investments Repository Section 3 Reinsurance Assuming Repository Section 3 Reinsurance Ceding Repository Section 3 Underwriting Repository Section 4 Exhibit A Section 4 Exhibit B Section 4 Exhibit I Section 4 Exhibit V Section 4 Exhibit Y Section 4 Exhibit DD Glossary
4	Enhanced Regulatory Guidance	Financial Analysis (E) Working Group (May 2023)	Consider adding guidance on strategic and operational risks faced by health insurers to encourage review of these risks during an exam	Drafting group met 8/21/23		Section 3 Underwriting Repository
5	Peer Review Takeaways	Risk-Focused Surveillance (E) Working Group (May 2023)	Examiner/Analyst Communication Status Updates Emerging Risks	Sound Practices drafted and approved by chairs for guidance added in response to this referral.	Consider for exposure 8/24/23	Section 1-10.A Interim Reporting to Chief Examiner Section 4 Exhibit D
FCEH related projects led by other NAIC Groups						
1	Affiliated Service Agreements	Risk-Focused Surveillance (E) Working Group	Consideration of additional procedures to assess the appropriateness of using a market-based expense in affiliated agreements.	Referral from RFSWG to FEHTG to adopt	Consider for adoption 8/24/23	Section 1-3.F Outsourcing of Critical Functions Section 2 Phase 1 Understand the Company Section 3 Related Party Repository Section 4 Exhibit A Section 4 Exhibit CC Section 4 Exhibit H

