Draft date: 10/7/2024

Virtual Meeting

FINANCIAL EXAMINERS HANDBOOK (E) TECHNICAL GROUP
Thursday, October 31, 2024
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/Sara McNeely	Missouri
John Litweiler, Co-Chair	Wisconsin	Andrea Johnson	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	Diana Sherman	Pennsylvania
Cindy Andersen	Illinois	Tarik Subbagh	Washington
Grace Kelly	Minnesota		

NAIC Support Staff: Bailey Henning/Elise Klebba

AGENDA

1. Consider Adoption of September 23, 2024 Financial Examiners Handbook (E) Technical Group Meeting Minutes – *John Litweiler (WI)* — Attachment 1

2. Consider Adoption of Handbook Guidance – *Eli Snowbarger (OK)*
   a. Risk-Focused Surveillance (E) Working Group Referral Revisions Related to Monitoring Run-Off Insurers — Attachment 2
   b. Revisions Related to Executive Compensation — Attachment 3
   c. Revisions Related to Manual Adjustments to RBC — Attachment 4

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

4. Adjournment

Draft: 9/27/24

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

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

1. Adopted Handbook Guidance

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

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

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

2. Exposed Handbook Guidance

   A. Executive Compensation

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

   B. Manual Adjustments to RBC

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

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

3. Discussed Other Matters

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

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

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/EOTF/FEHTG Minutes 9.23.24.docx

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: October 10, 2024

RE: Runoff Insurer Guidance

In spring of 2024, the Risk-Focused Surveillance (E) Working Group received a referral from the Financial Analysis (E) Working Group (FAWG) recommending additional best practices in the oversight of solvent runoff insurers. Because the recommendations were relevant to both financial analysis and financial exams, the topic was referred to the Risk-Focused Surveillance (E) Working Group so that guidance could be developed together for both functions.

During its July 17 virtual meeting, the Working Group discussed proposed additions to NAIC handbooks to incorporate the best practices recommended by FAWG. The proposed revisions were then exposed for a 45-day public comment period, with comments received from various interested parties as a result of the exposure. During its Oct. 10 virtual meeting, the Working Group discussed the comments received, as well as an updated draft of the proposed guidance that was modified to address the comments received. During that meeting, the Working Group agreed to finalize the proposed examination guidance and refer it to the Financial Examiners Handbook (E) Technical Group for consideration of adoption. The proposed edits to the NAIC's *Financial Condition Examiners Handbook* are provided in **Attachment One** of this memorandum.

As the proposed revisions have been thoroughly reviewed and subject a public comment period, we recommend they be considered for adoption without additional public exposure or significant modifications, to ensure the guidance remains consistent with guidance proposed for the NAIC's *Financial Analysis Handbook*.

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.

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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

H. Considerations for Insurers in Run-Off

Run-off may be either a voluntary or state mandated course of action where the insurer ceases writing new policies on a portion of business or all business written. During run-off, the insurer typically continues collecting premiums on mandatory policies for a statutorily mandated period and to policy expiration dates. The degree and timing of the reduction in premiums should be closely monitored through projections, which are often provided within a run-off plan. The run off of claims becomes the focus of attention until the last dollar of exposure is paid. The risk exposures for insurers in run-off are likely to be different than that of an insurer writing new business; therefore it may be necessary for an examiner to narrow the focus of the financial condition examination and ongoing solvency oversight of the insurer. For example, when examining a company in run-off, the examiner may be able to reduce testing performed in traditional areas, such as underwriting. The focus of the examination of a run-off insurer may include, but not be limited to, the following:

Run-off Plan

Please note that the following guidance pertains to solvent run-off insurers, as the Handbook guidance is not applicable to those companies in receivership[1]. In particular, the below guidance most directly applies to insurers whose entire company is in run-off. Some elements of the guidance may be applicable in other run-off situations (e.g., one block of business is in run-off), and the examiner should use judgment in determining which elements may be relevant and in applying them to the risk-focused process.

A company in run-off should ~~will typically~~ prepare a run-off plan outlining how it will manage its resources in this stage of its operations. The specific content of the run-off plan may vary depending upon the line and nature of business in run-off and the financial condition of the insurer; however, at minimum, the plan should include the size of the operations during run-

[1] For further guidance on run-off of insurers deemed to be financially troubled, refer to the NAIC *Troubled Insurance Company Handbook* (regulator only publication). For further guidance on insurers in receivership, refer to the NAIC *Receiver's Handbook for Insurance Company Insolvencies*.

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off, employee retention plans, and key performance indicators and metrics for the run-off (e.g., cashflow projections and ALM plans). If the company has prepared a run-off plan, the examiner should obtain, from the analyst, the plan that was received at the beginning of the run-off process (and any adjustments between its receipt and the beginning of the examination) ~~and~~ to gain an understanding of the process the company has chosen for winding down its business and the primary risks that remain. In addition, the examiner should track the company's progress against its plan to assist in evaluating the effectiveness of the run-off. If the company has entered into run-off since the prior exam, the department analyst may have already obtained the run-off plan. Therefore, the examiner should consult with the analyst prior to requesting the run-off plan from the company.

Corporate Governance

Insurers in run-off are faced with unique challenges in maintaining effective oversight and staffing in circumstances of decreasing resources. Some areas of corporate governance that may be more critical for an insurer in run-off include employee compensation and retention, succession planning, and adequate oversight of critical functions by the Board of Directors and senior management. Evaluating the suitability of key management becomes of increased importance in an environment of high turnover and changing responsibilities. As such, it may be appropriate to closely monitor employee turnover and request additional reporting on any changes in senior officers throughout the run-off period. The examiner may also consider the need for an insurer in run-off to retain essential IT staff, and whether the company's decreasing resources create segregation of duties issues that limit the effectiveness of the company's internal control structure.

Capital and Liquidity Management

An objective of an insurer in run-off is to manage its assets and liabilities and maintain sufficient cash flow to ensure claim payments are met. Ideally, the insurer will reduce liabilities over time while ensuring its balance sheet maintains liquid assets to pay claims. When assessing liquidity and surplus adequacy, the examiner should evaluate the appropriateness of the insurer's investment portfolio, including proper asset/liability matching. An insurer in run-off would generally be expected to maintain a conservative strategy in order to preserve the ability of invested assets to meet run-off obligations. An aggressive strategy may warrant additional scrutiny by the examiner. The examiner may also evaluate whether the insurer has performed analyses to determine further cash flow needs and stress testing to assess its capital needs. One metric to be considered in evaluating both liquidity and capital adequacy would be to monitor investment income in relation to operating expenses, using pro forma projections and reconciling differences. If operating expenses exceed investment income, the resulting losses could quickly erode policyholder surplus and create liquidity issues. In some circumstances, the examiner may consider involving an actuarial specialist to assist in evaluating the adequacy of the insurer's capital.

Loss and Loss Adjustment Expense (LAE) Reserves

Loss reserves are the largest liability reported by an insurer and one of the most critical pieces of data in assessing an insurer that has entered run-off. Many run-off insurers are thinly capitalized. Given the materiality of this liability, a slight variance in reserves can have a significant impact on the insurer's ability to continue as a going concern. As a result, there is increased importance placed on highly accurate reserve estimations as well as close monitoring of loss reserves. Therefore, the exam team may consider suggesting, through the SRM, the analyst consider performing more frequent independent reserve estimations or calling a targeted exam before the next scheduled full scope exam. When examining an insurer in run-off, the examiner should consider focusing procedures on the company's processes for determining loss reserves, reviewing loss reserve development trends, and involving an actuarial specialist in evaluating the overall adequacy of the reserves held.

Loss reserves of run-off insurers can be significantly impacted by litigation activity, or changes in legislation or case law that impact claims liabilities. Therefore, it may be appropriate to require the insurer to provide regular legal risk update reports, involve those with legal knowledge and expertise in monitoring the company, or take other actions to monitor the legal and regulatory risks more closely on run-off companies.

Other Considerations

Given the nature of run-off insurers, there are a number of other considerations to take into account during an examination. In addition to the above areas, the exam of a run-off insurer may have greater focus on the following:

- Gaining an understanding of a run-off insurer's record keeping process, particularly in regard to claims records and data sources, including the ability to transfer claims data as needed in a timely manner. For property and casualty companies, examiners should review data sources to ensure that they are in either UDS format or in a form that can easily be transformed into UDS format (i.e. CSV file that retains all the required elements). The data should be made available for transfer timely and in a usable manner (the UDS format). For more information on UDS, please see the NAIC Uniform Data Standard Operations Manual.
- Developing an understanding of the insurer's use of service providers and/or third-party administrators and continuity of service plans as the company operations shrink over time. If service providers or third-party administrators are utilized for claims records and data sources, consider reviewing the ability to transfer usable claims data in a consistent and timely manner in the event of an insolvency.
- Developing a plan to communicate necessary information to other key stakeholders (e.g., other state regulators and/or receivership/guaranty fund contacts, if applicable—see "Pre-Receivership Considerations" below) in a timely and effective manner throughout the course of the run-off. Ensure appropriate confidentiality measures are in place to protect these communications, such as the memorandum of understanding highlighted in the guidance below.
- Reviewing the run-off insurer's IT systems to ensure that they are kept up to date and secure, while also ensuring cost effectiveness. While the IT systems are reviewed during full-scope examinations, it may be pertinent to consider targeted exams in between full-scope exams to assess the IT systems more frequently.
- Closely monitoring the company's reinsurance operations, as reinsurance recoverable amounts and the associated credit risk can be material to a run-off insurer's solvency.

Insurance Business Transfers (IBT's) and Corporate Divisions (CD's)

Over the past few years, states have begun enacting statutes which provide opportunities for solvent insurers considering run-off of certain lines or their entire book of business to restructure their run-off with finality. These processes can be broken down into two categories generally referred to as insurance business transfer ("IBT") and corporate division ("CD").

An insurance business transfer (IBT) represents a transaction designed to transfer existing insurance obligations of one insurer (transferring insurer) to a second insurer (assuming insurer) without policyholder consent, subject to approval regulatory approval and court approval. While policyholder consent is not required, notice to policyholders, key stakeholders and the general public is required, and concerns regarding the transaction will be considered in the regulatory and/or court approval process. Following an IBT, the assuming insurer becomes directly liable to policyholders and the transferring insurer's obligations under the insurance policies and contracts are extinguished thereby achieving legal finality for the transferring insurer.

A corporate division (CD) is a division of one dividing insurer into two or more resulting insurers. The dividing insurer's assets and liabilities are allocated between or among the resulting insurers without requiring affirmative policyholder consent. Following a CD, the resulting insurer(s) becomes directly liable to policyholders and the dividing insurer's obligations under the insurance policies and contracts are extinguished thereby achieving legal finality for the dividing insurer.

Refer to the work of the Restructuring Mechanisms (E) Working Group, including the draft "Restructuring Mechanisms White Paper" and the draft regulatory "Best Practices Procedures for IBT/Corporate Divisions" currently proposed, for additional information specific to IBTs and CDs that may warrant consideration in the examination and solvency oversight of these entities.

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*.

Communication Expectations

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, which is maintained on the Receivership and Insolvency (E) Task Force web page, is an optional tool available to state insurance regulators that can help 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:

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- 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, either in ~~(~~Uniform Data Standards [UDS]~~)~~ format or in a form that easily can be transformed into UDS format (i.e. CSV file that retains all required elements) that would allow the data to be received and utilized by a third-party guaranty fund. It is imperative that the data be able to be transferred in a consistent, timely, and usable manner on the date that the Order of Liquidation is signed. 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.

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 sevenphase 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.

PART ONE – OVERARCHING PROSPECTIVE RISK TESTING TEMPLATE

Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
Example Prospective Risk 1: *The company may experience rating agency downgrades, causing the company to be unable to sell its products.*	*ST* *RP*	*The company has processes in place to monitor and manage its financial performance in accordance with metrics considered significant by rating agencies.* *The company utilizes modeling to determine its economic and rating agency capital needs.*	*Reviewed financial reports for evidence of monitoring of rating agency performance measures and management review, noting that the company appears to be meeting its benchmarks (See wp A.1.4).* *Obtained and reviewed the economic capital calculation at 12/31/XX, noting that rating agency considerations are included in the process and that the company appears to hold capital in excess of the calculated amount. See*	*Moderate*	*Static*	*The company has product lines sensitive to a ratings decrease; however, it appears the company has appropriate controls and strategies in place to maintain strong ratings.*	*If a future rating downgrade occurs the DOI should meet to determine an appropriate course of action (e.g., limited scope exam).*

DETAIL ELIMINATED TO CONSERVE SPACE

Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
Note: Only P/C insurers.		*of directors at the next annual meeting.*					*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 annually to track changes in estimated future exposures.*
Example Prospective Risk #5: *The company's executive compensation plans include incentives based on financial metrics which may*	*OP*	*The Board of Directors reviews and approves executive compensation plans, including any incentive plans. Incentive plans and variable compensation practices are intended to emphasize long-term financial goals and avoid excessive focus on short-term growth and performance.*	*Obtained the board minutes to ensure board review and approval of the executive compensation plan structure, which does incorporate some long-term goals. However, much of the incentive compensation*	*Moderate*	*Increasing*	*The Company's executive compensation plan has been reviewed and approved by the Board; however, the incentives are largely dependent upon some*	*The analyst should continue to monitor fluctuations in the company's general expenses, as well as the overall expense ratio and profitability to identify potential issues regarding the executive*

Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
encourage riskier decision making.		The Company pays out incentive compensation based on achievement of performance goals and maintains a claw back policy that allows the Company to recover incentive compensation in the event that financial statements must be restated.	continues to be based on short-term growth and performance goals (Refer to A.4.2). Obtained and reviewed detailed support for incentive payment calculations, verifying the accuracy of calculations in accordance with the written plan. Also reviewed and verified the Company's claw back policy. (Refer to A.4.5).			metrics (i.e., annual premium growth) that have the potential to encourage excessive risk taking by executives.	compensation structure. Review the Corporate Governance Annual Disclosure (CGAD) for information referring to the executive compensation practices and follow-up on any changes identified.

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~~monitoring, and adjusting its compensation structure to ensure that employees are appropriately compensated without creating an incentive to misrepresent financial results or take excessive risks.
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.
Provider Contracting (Health)	If applicable, review the company's process for negotiating contracts with key providers and ensuring an adequate and competitive provider network.

EXHIBIT Y

EXAMINATION INTERVIEWS

Overview

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

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

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

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

DETAIL ELIMINATED TO CONSERVE SPACE

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?

  The following questions may be appropriate for a member of the compensation committee for further details surrounding the company's executive compensation structure:

  - Describe how incentive programs are structured. What metrics are used? What percentage of the incentives are short-term vs long-term?
  - How does the board ensure that the compensation policy is in line with stakeholder interests?
  - How does the board ensure that the compensation policy does not incentivize excessive risk taking?
  - How often are compensation and incentive plans evaluated for any adjustments or updates?
- 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 does the board discuss these risks?

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?

EXAMINATION REPOSITORY – CAPITAL AND SURPLUS

Own Risk and Solvency Assessment (ORSA)

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

Annual Statement Blank Line Items

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

DETAIL ELIMINATED TO CONSERVE SPACE

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
and future business operations.				Underlying assets to be considered may include: • Deferred tax assets • Significant receivables • Goodwill • Investment in subsidiary • Encumbered assets • Defined benefit pension asset The insurer maintains documentation regarding permitted practices that could impact the quality of available capital and reviews all associated calculations to ensure compliance.	 Obtain documentation of the insurer's review of its compliance with permitted practices.	consideration of the liquidity of the assets under review. Review the make-up of the insurer's capital and assess how the categories (e.g., common stock, preferred stock, surplus notes, paid-in-capital, etc.) support the ongoing and future business operations. Review the insurer's calculations to ensure they comply with the permitted practices granted by the domiciliary insurance commissioner. Review the effects of the permitted practice on RBC calculations, including subsequent examination adjustments.
The insurer is not accurately calculating, reporting and monitoring RBC, including any manual adjustments to RBC charges (i.e., Modco Reinsurance, Separate Accounts, etc.).	OP	CM	CMT	RBC calculations are performed in accordance with instructions and subject to supervisory review. The company has a process to ensure that RBC reports and supporting data are filed with the NAIC in a timely and complete manner.	Test controls relating to the insurer's supervisory review process for RBC. Review the NAIC RBC crosscheck letter from the insurer or the NAIC, if applicable, and response letter from the insurer to determine the	Obtain and review the insurer's supporting workpapers to test whether material values in the RBC report were properly classified, valued and included (e.g., catastrophe risk exposure data, C-3 Phase II, Modco reinsurance adjustments, separate account assets)

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				The company reconciles data filed in support of the RBC calculation (including any manual adjustments) back to system data and/or source documentation. The company utilizes the same modeling approach, assumptions and data to determine significant components of its RBC charge (e.g., catastrophe risk exposure, C-3 Phase II) as it uses for its own internal risk management and regulatory accounting/reserving purposes.	completeness and accuracy of the insurer's RBC report. Contact the NAIC quality assurance department if such correspondence is unavailable. Test the insurer's reconciliation of supporting data back to the system and/or source documentation. Test the operating effectiveness of company controls to verify that modeling approaches, assumptions and data used to determine significant components of RBC charges are reconciled/agreed to those used in internal risk management and accounting/reserving processes.	in accordance with SSAP guidance and RBC instructions. Compare the data provided in the RBC filing against other filings and information available to the department for consistency. (This procedure may only be necessary for values not obtained directly from the annual financial statement and not subject to the NAIC RBC crosscheck procedures.) Determine the impact of examination changes on the RBC calculation. Compare the modeling approaches, assumptions and data filed in support of RBC calculations with those used by the company for internal risk management and regulatory accounting/reserving purposes (including interrogatories, actuarial filings, AS exhibits, etc.). Investigate any significant variances or inconsistencies for appropriateness.

