

**Proposed Outline for NAIC Market Regulation Handbook
Compliance Risk Assessment
April 26, 2017**

Compliance Risk Assessment is the review and analysis of information and data about a company to determine areas of potential compliance deficiencies and to prioritize examination resources for review of those areas.

A proposed outline for development of guidelines for performing a compliance risk assessment in the market conduct examination (risk focused examination) is as follows:

Information Gathering

- Compliance Materials
 - Documents and data identified in the NAIC Market Regulation Handbook for each applicable standard
 - Complaint data and trends from Company, DOI and NAIC (Include Grievances and Appeals for Health)
 - Compliance history (NAIC data bases and DOI)
 - Prior Market Conduct Examination Reports
 - Level I and Level II Market Analysis Summaries
 - Internal and Independent Audits
 - NCQA or URAC reports
 - Policies and Procedures related to NAIC Handbook Standards
 - Litigation logs
- Financial Information
 - Annual and Quarterly Financial Statements
 - Financial Examination Reports
 - Annual Financial Audit
 - Credit Rating Service Summaries (A.M. Best, Standard and Poor's, Moody's)
- Other
 - Company website
 - DOI Website
 - Social Media
- Issue interrogatories to:
 - Obtain statements from the company regarding business practices and processes that are not documented in other materials
 - Obtain information that is unique to the examination
 - Obtain statements to clarify conflicting information that has been received
- Perform interviews focusing on governance and controls related to NAIC Market Regulation Handbook Standards
 - "C Level" managers, as needed
 - Process managers, for key areas:
 - Company Operations and Management
 - Complaint Handling
 - Producer Licensing
 - Policyholder Services

- Marketing and Sales
- Underwriting and Rating
- Claims
- (Additional Standards for Health)

Data Analysis

- Is the data requested complete? If something is missing or incomplete, why?
- Does it provide evidence of compliance with NAIC Handbook Standards?
- Are there indications of compliance concerns? (Examples)
 - Policies and procedures don't exist
 - Policies and procedures that aren't compliant
 - Adverse complaint trends
 - Inconsistencies between policies and procedures, and interview statements
 - Disclosed information from interviews
 - Disclosed information from interrogatories
 - Prior audit or exam findings that have not been addressed
 - Adverse findings in Level I and Level II reviews
 - Adverse compliance history

Development of the Detailed Workplan

- Rank the areas of compliance risk
- Define scope of additional review
- Define additional in-depth testing
- Define alternative approaches such as IT Forensics, investigations, or self –audits
- Create a detailed workplan

Performing the Examination

At this point, the market conduct examination follows traditional NAIC Market Regulation Handbook Methodology.

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