Financial Examiners Handbook (E) Technical Group
Exposure Drafts

The following documents were exposed for a 30-day comment period ending October 14, 2019. These are also available on the Financial Examiners Handbook (E) Technical Group page (https://naic-cms.org/cmte_e_fehtg.htm). Comments should be directed to Bailey Henning (BHenning@naic.org). Word versions available upon request.

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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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.

~~The *Troubled Insurance Company Handbook* provides a number of insights to assist in enhancing a state's monitoring and surveillance, and it outlines several regulatory actions available to Departments of Insurance (DOIs).~~ 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 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 communicate 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 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 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.

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 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 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 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.; and
- 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 proper functionality exists for timely and efficient export of policy and claims data in the event of a receivership.

PHASE 7 – DRAFT EXAMINATION REPORT AND MANAGEMENT LETTER

This section of the Handbook addresses the following subjects:

A. Examination Report
B. Management Letter
C. Summary Review Memorandum
D. Letter of Representation

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B. Management Letter

Significant results and observations noted during the examination that are not appropriate or necessary for inclusion in the public report, as determined by the state insurance department conducting the examination, should be communicated to the board and/or management. A management letter is considered an examination workpaper and may be used for this purpose. Those states not utilizing the management letter should communicate comments to the board and/or management during the exit conference or other means deemed appropriate. For group examinations, the lead state, after discussion with other participating states, will determine which results and observations will be included.

The letter to management, or other means of communication as determined by the state, can serve as a vehicle for an ongoing dialogue between the regulator and the insurer and should be shared with those states an insurer is licensed in, as long as confidentiality can be maintained. This letter or communication should be issued and delivered by the regulators to the board members and/or management based on the scope and severity of the issues identified. Based on the findings to be included in the management letter, the examiner should determine the most appropriate party within the holding company structure to whom the letter should be provided. There may be circumstances where the examination team may consider sharing the management letter to a level of the organization above the legal entity's management and/or Board of Directors (i.e. parent company Board). Examples of when it may be appropriate to provide the management letter at a level above the legal entity's management and/or Board of Directors may include when a conflict of interest exists with the legal entity management/Board of Directors, and when a group management letter covering multiple companies is prepared.

The examiner should request a response from the company regarding the plan to address the identified issues. This response should be received within a reasonable time frame (e.g., 90 days) from the date the examiner issued the letter or communication. In addition to communication with the insurer, the examiner is responsible for communicating significant results and observations to the analyst and should consider including the analyst throughout the communication process with the insurer. In accordance with the *Financial Analysis Handbook*, the analyst must follow-up and document a review of any management letter comments. The examiner should coordinate with the analyst on the follow-up of the identified issues. As the examiner moves on to other examinations, it is important that the analyst be involved with the resolution and monitoring of the identified issues.

Example Management Letter
An example management letter template has been developed below to provide a suggested format to examiners in drafting this correspondence. As with the elements that may be included within these non-public letters, the actual format utilized should be determined by the state insurance department conducting the examination.

June 1, 20XX
Board of Directors
XYZ Insurance Company (XYZ)

The Board of Directors (Board) has a duty to ensure that XYZ Insurance Company is operated in a safe and sound manner in the best interest of the policyholders. The Department of Insurance (the Department) is charged with the responsibility

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 (SRM). ~~and t~~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 ~~critical~~ 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.

~~As discussed throughout this Handbook guidance, t~~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 ~~identified~~, or relates to more than one key activity ~~identified~~), the examiner should utilize this exhibit to document the ~~process to consider these~~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.

~~All of the instructions for~~The investigation~~g~~ 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 ~~testing~~ 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.
~~Testing to support mitigation strategies~~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.
~~Corroborating Evidence and Documentation~~	~~Provide corroborating evidence and documentation supporting the risk mitigation strategy. Attach and reference supporting workpapers.~~
~~Prospective Risk Assessment~~	~~Using professional judgment, determine the appropriate prospective risk level (High, Moderate or Low) after considering the nature of the risk and the company's mitigation strategies. Provide a brief explanation regarding the prospective risk level determined.~~
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.
~~Ongoing Examination Procedures and Follow-Up~~Communicate Findings to Financial Analysis	~~Document any additional procedures deemed necessary to be performed to further understand or address the risk.~~ 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. ~~Describe the plan for follow-up, such as specific procedures for continual monitoring, communication with the analyst, limited-scope examinations, revisions to the Supervisory Plan or Insurer Profile Summary, etc.~~

Exhibit V, Part Two – Common Areas of Concern

~~Examiners should use this as a~~Exhibit V, Part Two may be used as 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

Commented [HB1]: Due to the extent of changes to format and content of the examples, tracked changes are not shown.

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 A.1.5 for more information.	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).
Example Prospective Risk 2: Mergers, acquisitions and business divestitures are not	LG ST	Mergers and acquisitions are part of the company's growth strategy and incorporated into its 3-year strategic plan. The company has a defined due diligence process which includes detailed procedures for mergers & acquisitions, and business	Obtained the most recent strategic plan and verified that it discussed the company's plan for future mergers and acquisitions to support its strategic goals.	Significant	Increasing	Although the company is actively involved with merger and acquisition activities, the exam team verified that	The exam team is comfortable with the Company's abilities with regard to mergers and acquisitions. However, if the

Overarching Prospective Risk Identified	**Branded Risk**	**Risk Mitigation Strategies**	**Investigate Risk Exposure**	**Risk Assessment Level**	**Trend**	**Rationale**	**Communicate Findings to Financial Analysis**
successfully executed, resulting in excessive cost and/or regulatory concerns.		divestitures. The process is reviewed annually, making changes as needed, and approved by the Board of Directors and senior management. The company has a mergers and acquisitions steering committee that meets quarterly to review analyses and forecasts prepared for planned and/or in-process mergers/acquisitions/divestitures.	Reviewed minutes from the 20XX annual Board of Directors meeting, noting that the mergers & acquisitions process was reviewed and approved by the Board of Directors and Management. (See wp B.2.2) The exam team also obtained documentation from the company's most recent acquisition of XLX Corporation and confirmed that the due diligence process outlined in the M&A policy was followed. (see additional detail regarding documents reviewed at B.2.PRG) Reviewed minutes from Q1 and Q3 M&A steering committee meetings and verified that financial details regarding the anticipated acquisition of FLH insurance company were discussed. (see wps B.2.3 and B.2.4).			this activity is part of its strategic plan and that an effective due diligence process is in place. However, given the significance of the last transaction and the stage of implementation, trend is rated as increasing.	analyst identifies changes to the Company's strategic business plan, the DOI should meet to discuss whether the changes warrant action before the next examination date.
Example	PR/UW	Company analysts perform	Reviewed the monthly	Minimal	Static	The company	The analyst will

Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
Prospective Risk 3: The company is developing new products and may experience issues in pricing, underwriting, and reserving.		significant research regarding current market conditions and demands, product mix and profitability, and other product/market characteristics on a regular basis. Reports summarizing the findings are generated monthly. The company has a group of individuals from departments across the company (legal, actuarial, marketing, financial, etc.) that compose an ad-hoc group specifically charged with product development. This group has significant experience in developing, marketing and pricing new products. Issuance of new products requires input and approval from the board of directors. There is a special subcommittee that meets on a quarterly basis to discuss company strategy and new product development	market conditions report, noting that the company has compiled detailed industry information regarding similar products and pricing, market demand, customer location, etc. (see A.2.1). Reviewed the qualifications and background of the employees within the product development "team," noting that all members have extensive experience in the many aspects of product development. Further, noted that this group maintains an action plan, approved by the board of directors, which details key procedures and areas of research necessary for product development, as well as a description of the various levels of review that occur throughout the product development process (see A.2.3). Obtained meeting			has a verified history of successful product launches and its process for considering and launching products going forward is fully vetted throughout the company.	be asked to monitor financial ratios related to new lines of business and report any significant deviations to the exam unit.

Overarching Prospective Risk Identified	Branded Risk	Risk Mitigation Strategies	Investigate Risk Exposure	Risk Assessment Level	Trend	Rationale	Communicate Findings to Financial Analysis
			minutes from the committee of the board of directors demonstrating discussion of potential new products, considerations for pricing, and board approval for the issuance of the new product (see A.2.4). Board meeting materials were also reviewed (A.2.5).				

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 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.

EXHIBIT AA
SUMMARY REVIEW MEMORANDUM

The following is an illustration of how a summary review memorandum (SRM) may be set up to assist examiners in documenting the key issues and results of a risk-focused examination that should be shared with the Chief Examiner and the assigned analyst. The illustration also includes a high-level overview of the insurer's holding company structure (if applicable) and how that structure affected exam coordination with other states. Additionally, the SRM includes discussion of the insurer's governance and risk management practices, and a summary, by branded risk classification, of significant exam findings and/or concerns warranting communication. These findings may include overarching solvency concerns, examination adjustments, other examination findings, management letter comments, subsequent events and other residual risks or concerns the examiner may want to communicate to department personnel. The final sections, prioritization level and changes to the supervisory plan, provide discussion of the examiner's overall conclusions regarding ongoing monitoring, including specific follow-up recommended to the analyst .

This exhibit provides an example template, which is not intended to be all-inclusive and should be tailored to each examination. Reference to each branded risk classification is necessary and should be included in the examination's SRM; however, it is not necessary to address each of the supporting 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 relevant information deemed necessary. The purpose of the SRM is to provide interpretative analyses relative to significant examination areas and to provide a basis for communicating examination findings and recommendations to department personnel. In so doing, the SRM will provide input into the Insurer Profile Summary (IPS) and the supervisory plan. In fulfilling this purpose, the SRM should not merely repeat comments made in the examination report or management letter, but instead provide a comprehensive summary of examination conclusions both objective and subjective in nature. Conclusions should provide information necessary for ongoing supervision of the insurer that includes areas of concern as well as areas that support a positive outlook for the insurer.

COMPANY NAME: **EXAMINATION DATE:**

EXAMINATION BACKGROUND

The purpose of this section of the memorandum is to document at a high level what, if any, group the insurer belongs to, if the insurer was part of a coordinated exam and how the coordinated exam was conducted. Additional information regarding the timing of the exam, staffing resources utilized—including what specialists were used—or other background information necessary to understand the results presented in the memo should also be included.

GOVERNANCE AND RISK MANAGEMENT

The purpose of this section of the memorandum is to summarize an understanding and assessment of an insurer's board of directors, senior management and organizational structure, as well as the results of the review of the enterprise risk management (ERM) function of the insurer. This assessment should include information obtained during both the planning and the completion stages of the examination. Therefore, consideration of information gathered during C-level interviews, completion of Exhibit M and review of the insurer's Own Risk and Solvency Assessment (ORSA), if applicable, should be combined with information obtained during detail testwork to reach a concise final assessment that focuses on communicating significant areas of strength or weakness within the overall corporate governance and ERM functions of the insurer. When the insurer is part of a holding company, documentation should reference the level at which conclusions are reached. Additional assessment may be necessary at the individual entity level, but the primary focus of the assessment will commonly be at the holding company level in a coordinated examination.

BRANDED RISK ASSESSMENTS

This section of the memorandum should be organized to address each of the nine branded risk classifications: Credit; Legal; Liquidity; Market; Operational; Pricing/Underwrting; Reputation; Reserving; and Strategic. If needed, an Other category may also be used. In documenting each assessment, consideration should first be given to the branded risk assessments provided by the analyst in the initial IPS. The examiner then summarizes the work performed during the examination to arrive at a final assessment for each classification. For those branded risk classifications that are not impacted by examination results and provide no additional information for the ongoing monitoring of the insurer, this can be noted without further explanation. For those classifications that are impacted, documentation in the summary should focus on new information uncovered during the course of the examination and should not duplicate the summary initially provided in the IPS. The summary for each classification should be prepared at a level of detail that will enable the analyst to update the existing IPS and understand the context for items that require additional follow-up or specific monitoring procedures. This may be done within the table format provided below, referencing other examination documents as necessary.

In documenting the key points for each branded risk classification, consideration should be given to the following areas, if deemed applicable:

- Prospective solvency concerns
- Examination adjustments
- Control/risk mitigation strategy issues
- Report findings and management letter comments
- Responses to issues raised by financial analysis
- Subsequent events
- Residual risks and concerns

Following the summary, the examiner should update the areas of concern, as needed, based on the information obtained during the examination and provide an overall assessment of minimal, moderate or signficant concern for each branded risk classification. The SRM is a primary tool for communicating the results of an examination to the financial analysis function. Therefore, it is important that the examiners have the same understanding of the considerations going into the risk assessment level and trend. The following guidelines may be used to assist in assigning the risk assessment level and trend, when necessary. Additional guidance for selecting the risk assessment level and trend is avaiable in the Financial Analysis Handbook.

Risk Assessment Level Considerations:

- Significant: The highest level of serverity of risk from a solvency perspective. Risks assessed at this level require an elevated level of ongoing monitoring and/or regulatory action.

- Moderate: The medium level of severity of risk from a solvency perspective. Risks assessed at this level require routine ongoing regulatory monitoring and oversight and/or regulatory action.

- Minimal: The lowest level of severity of risk from a solvency perspective. Risks assessed at this level do not currently indicate a need for aditional monitoring or regulatory actions.

Risk Assessment Trend Considerations:

- Consider trending within quantitiative metrics to assist in determining the thrend assessment
- Consider qualitative factors such as the insurer's planned business strategies to address the risk
- Consider both historical/current and prospective/planned trends in exposure

If the examiner's assessment is different from the orginal assessment documented in the IPS, the information summarized must provide sufficient detail to support the change. Issues that require specific monitoring or follow-up by the analyist should then be identified individually in the table under the section designated for recommended follow-up. This table includes a brief reference to the issue, recommended follow-up or action items to be performed and the timeline in which the analyst should expect to obtain information referenced in the follow-up procedures.

Branded Risk Classification ***(Example: Credit)***

Note: A separate summary and table should be completed for each of the nine branded risk classifications, as well as a category for Other, if deemed necessary.

Analyst Initial Assessment

Credit: This risk is considered moderate, driven primarily by a fairly conservative investment mix (96.4% of bonds are NAIC 1 designation, with 28% U.S. government, 14% U.S. states and most of the rest high-quality corporates) and limited exposure to equities, offset by a relatively high amount of real estate ($33 million), growing agent balances ($99 million) and significant reinsurance recoverables (paid and unpaid) of $81 million. However, the reinsurance recoverables are diversified across a number of highly rated reinsurers.

No/Minimal Concern	Moderate Concern	Significant Concern	Trend
Bonds			↔
Reinsurance Recoverables			↑
	Real Estate – Home Office		↔
		Agent Balances and Uncollected Premiums	↑
Analyst Initial Overall Assessment: Moderate		**Overall Trend: ↔**	

Examiner Summary and Assessment

Credit: Examiner agrees with analyst assessment regarding bonds and reinsurance recoverables. Although the reinsurance recoverables balance has increased significantly in recent years, the change is in line with increases in premium volume and strategic plan of partnering with high-quality reinsurers to increase the volume of its product liability business. Real Estate – Home Office was tested during the exam, with a recent appraisal reviewed showing the value of the property to be $40 million. Therefore, the examiner proposes that the credit risk associated with the home office be reclassified as a minimal concern. In reviewing agent balances, the exam team recognized a growing concern regarding slow-paying agents for the company's growing product liability business. In discussing this with the company, a lack of company controls related to agency audits was noted. As such, the exam team agrees with the analyst's assessment of high credit risk in this area and has included a management letter comment regarding agency audits as described below.

No/Minimal Concern	Moderate Concern	Significant Concern	Trend
Bonds			↔
Reinsurance Recoverables			↑
Real Estate – Home Office			↔
		Agent Balances and Uncollected Premiums	↑
Examination Overall Assessment: Moderate		**Overall Trend: ↔**	

Recommended Follow-Up

Issue	Recommended Follow-Up	Timeline
See ML #2 – Lack of a consistent agency audit process	Company was asked to establish a consistent agency audit plan to ensure accurate and complete premium and claim reporting. Analyst is asked to follow-up on company activity in this area by requesting a copy of the audit plan and selecting a sample of agency audit reports to request and review.	Company has stated that it plans to increase its IA staffing over the next six months to support additional agency audits. Therefore, follow-up as part of the next annual financial statement analysis is recommended.

ISSUES OF NON-COMPLIANCE

The purpose of this section is to describe any issues of non-compliance identified during the examination. These issues typically do not have a significant impact on the assessment of each branded risk classification, but are important to communicate and ensure proper follow-up is performed.

Recommended Follow-Up		
Issue	**Recommended Follow-Up**	**Timeline**
See ML #1 – Schedule F reporting	Company was asked to report reinsurance data on Schedule F on a gross basis in all instances. Analyst asked to follow-up by closely monitoring Schedule F and reinsurance Jumpstart reports.	Follow-up recommended in conjunction with quarterly and annual financial statement analysis through 20XX.

PRIORITIZATION AND ONGOING MONITORING

The purpose of this section of the memorandum is to allow the examiner to document any suggested changes to the prioritization level and/or to document the examiner's rationale for maintaining the current prioritization level.

PROPOSED CHANGES TO SUPERVISORY PLAN

The purpose of this section of the memorandum is to propose any changes to the supervisory plan that the examiner believes are necessary based on the preceding information.