

MEMORANDUM

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

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

DATE: May 23, 2022

RE: Referral on Proposed Climate Risk Enhancements

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

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

Financial Condition Examiners Handbook

Planning Phase of the Examination:

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

Fieldwork Phase of the Examination:

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

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

III. GENERAL EXAMINATION CONSIDERATIONS

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

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

DETAIL ELIMINATED TO CONSERVE SPACE

D. Business Continuity

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

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

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

1. Understanding the Organization

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

threat scenarios. The results of the risk assessment should assist the insurer in refining its business impact analysis and in developing a business continuity strategy.

2. Determining Business Continuity Strategies

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

3. Developing and Implementing a Business Continuity Plan

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

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

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

4. Testing and Maintenance

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

Examiner Review of Business Continuity Plans

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

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

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

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

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

EXAMINATION REPOSITORY - INVESTMENTS

Annual Statement Blank Line Items

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

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

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

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

DETAIL ELIMINATED TO CONSERVE SPACE

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
<p>The insurer's investment portfolio and strategy are not appropriately structured to support its ongoing business plan. †</p>	<p>MK CR</p>	<p>Other</p>	<p>AIPS LC</p>	<p>The insurer has a governance structure that routinely challenges, approves and reviews its investment strategy and portfolio in conjunction with the risks facing the business. The insurer considers, current market conditions (including interest rates) and takes into account shifting markets and near-term expectations.</p> <p>The insurer has an investment strategy based on its tolerance for market risks (including market price volatility, securities lending and interest rate risks) with guidelines as to the quality, maturity/duration, expected rates of return, different investment structures and diversification of investments.</p> <p>The insurer has an investment strategy that includes a counterparty risk appetite statement, if applicable, and outlines asset allocation by asset type, credit quality, duration and liquidity, with acceptable ranges based on the different investments</p>	<p>Review the insurer's investment committee and governance structure related to the portfolio decisions. Consider level of expertise in relation to the complexity of the company's investment strategy, as appropriate.</p> <p>Review recent committee minutes for evidence of discussions related to future market expectations.</p> <p>Review the insurer's investment policy to determine if guidelines relating to the quality, maturity and diversification of investments in accordance with market risk factors have been included in the policy.</p> <p>Review how the insurer tracks performance of different asset classes, with a particular focus on market value volatility and losses/impairments.</p>	<p>Review recent performance and benchmark reports in comparison with the company's plan.</p> <p>Review the insurer's investment policy guidelines for appropriateness relating to market risks.</p> <p>Determine whether market risk management specific to high-risk investments is adequate by using an investment specialist. Use the I-Site+ insurer's Snapshot Investment Summary to identify high risk investments where the company's position is greater than average for its competitors in areas such as:</p> <ul style="list-style-type: none"> • Bonds with call options and varied payment timing. • Foreign investments. • Hybrid capital securities. • Mezzanine loans. • Affiliated investments. • Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), asset-backed securities

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>and their specific characteristics. Correlations across different assets are considered within the strategy.</p> <p>The insurer performs routine stress testing and/or scenario analysis that specifically takes into account recent and expected market value volatility by sector and industry in order to determine whether adjustments to the insurer's investment strategy are necessary.</p> <p>The insurer has its own process that is not solely dependent upon credit rating agencies to evaluate the credit worthiness of securities for investment purposes. The process is used prior to significant purchases and on an ongoing basis.</p> <p>The insurer's investment strategy considers the impact of, and market expectations for, climate change on different investments, and the investment policy includes guidelines that require</p>	<p>Review the insurer's most recent stress testing/scenario analysis testing documentation to determine the adequacy of the insurer's analysis. Ensure inclusion of complex and volatile assets in investment policy, director review, stress testing, and asset liability matching.</p> <p>Review the insurer's investment policy and processes to understand the inputs into such decisions and the extent to which it requires credit analysis and is not solely reliant on credit rating agencies. Obtain evidence of the insurer's process to research the quality of the investments.</p> <p>Review the company's investment strategy for consideration of climate change in different sections and asset classes.</p>	<p>(ABS) CO/collateralized loan obligation (CLO) or similar bond collateral types.</p> <ul style="list-style-type: none"> • Structured securities on negative watch. <p>Perform stress testing/scenario analysis on the insurer's investment portfolio (by using an investment specialist if necessary) to identify potential solvency risks.</p> <p>Test the insurer's investments for compliance with its corporate strategy and investment policy guidelines.</p> <p>Consider use of an investment specialist to evaluate the company's exposure to climate change-related risk regarding its investment portfolio/strategy.</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>diversification to protect against the impact of climate change.</p> <p>The insurer's/group's investment strategy establishes criteria for intra-group investments, when applicable, including:</p> <ul style="list-style-type: none"> • Liquidity • Contagion or reputational risk • Valuation uncertainty • Impact on capital resources • Nature of the group (or IAIG) business • Financial condition of the legal entities within the group. 	<p>Review the insurer's/group's investment strategy to determine if guidelines relating to intra-group investments are included.</p>	
<p><u>The insurer's investment portfolio and/or strategy are exposed to a potential significant impact from transition and asset devaluation risks associated with climate change risks.</u></p>	<p><u>ST</u> <u>MK</u> <u>CR</u></p>	<p><u>Other</u></p>	<p><u>AIPS</u></p>	<p><u>The insurer has a methodology to identify the assets in the portfolio that are exposed to transition and devaluation risks associated with climate change risk.</u></p>	<p><u>Review the NAIC Climate Disclosure Survey or TCFD, if available, to understand how the insurer has considered the impact of climate change risks to its investment portfolio and the climate scenarios utilized by the insurer to analyze risks on its investments.</u></p> <p><u>Review the insurer's methodology to understand which assets the insurer considers exposed to transition and devaluation risks.</u></p>	<p><u>Compare information provided in the climate disclosure survey against the exam team's understanding of the insurer's control processes to verify and validate the completeness and accuracy of information provided in the public disclosure.</u></p> <p><u>Review and utilize the U.S. Insurance Industry Climate Affected Investment Analysis made available through the NAIC to identify potential exposures in the insurer's portfolio</u></p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p><u>The insurer has a governance structure that routinely challenges, approves, and reviews its investment strategy and portfolio in conjunction with climate change risks.</u></p> <p><u>The insurer's investment policy includes guidelines and limits that require diversification to protect against the potential impacts of climate change risks.</u></p> <p><u>The insurer conducts stress testing/scenario analysis or asset return simulations on its current and prospective asset portfolio to identify concentrations in exposure from transition and asset devaluation risks associated with climate change risks.</u></p>	<p><u>Review the insurer's investment committee and governance structure related to portfolio decisions. Consider the level of expertise in relation to the company's exposure to climate change and energy transition, as appropriate.</u></p> <p><u>Review recent committee minutes for evidence of discussions related to the impact of climate change and energy transition risks.</u></p> <p><u>Review investment guidelines and limits (including enforcement) to ensure that the potential impacts of climate change and energy transition risks have been mitigated.</u></p> <p><u>Review stress testing/scenario analysis or asset return simulations conducted by the insurer on its asset portfolio and investment strategy to evaluate their completeness and reasonableness.</u></p> <ul style="list-style-type: none"> <u>Ensure the company is taking steps to monitor and mitigate potentially significant concentration in exposures on an ongoing basis</u> 	<p><u>and/or compare against the insurer's stress testing/scenario analysis for reasonableness.</u></p> <p><u>If concerns are identified, consider the use of an investment specialist to further evaluate the company's exposure to climate change risks in its investment portfolio and/or strategy.</u></p>

EXAMINATION REPOSITORY – REINSURANCE (ASSUMING INSURER)

Annual Statement Blank Line Items

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

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

DETAIL ELIMINATED TO CONSERVE SPACE

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

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
<p>The (re)insurer does not collect accurate and complete loss exposure data from ceding insurers/brokers to <u>effectively aggregate risk exposures</u>. † (See also Examination Repository – Reserves/Claims Handling.)</p>	OP ST	Other	UPSQ AARP RD	<p>The (re)insurer has a process in place to review and accumulate loss exposure data reported by its ceding insurer/brokers.</p> <ul style="list-style-type: none"> The process includes consistency checks/variance analysis in reviewing reported data; and <u>The (re)insurer conducts, if necessary, periodic audits of ceding companies to review reported loss exposure data and other significant reporting elements.</u> 	Review and test the operating effectiveness of the (re)insurer’s processes to review and accumulate loss exposure data reported by ceding insurers/brokers.	<p>Analytically review the loss exposure data reported by ceding insurers/brokers to identify potential inconsistencies.</p> <p>If deemed necessary, perform additional procedures to get comfort with the loss exposure data reported to the (re)insurer from ceding insurers/brokers.</p>
<p>The (re)insurer has not established <u>and maintained</u> appropriate risk exposure limits for assuming reinsurance <u>or is not monitoring the established limits</u>. † (Note that this risk relates only to assumed business. See <u>Underwriting Repository for additional risks and considerations related to all writings</u>.)</p>	OP ST	Other	UPSQ	<p>The (re)insurer has established and documented risk exposure limits by geography and/or line of business that have been reviewed and approved by senior management.</p> <p><u>The (re)insurer is monitoring the exposure against the limits on an ongoing basis. The (re)insurer utilizes catastrophe models to monitor its catastrophic exposure against the established limits.</u></p> <p>The (re)insurer utilizes a fully staffed, well-qualified reinsurance department that</p>	<p>Review documentation of risk exposure limits and evidence of senior management review/approval.</p> <p><u>Review the dashboards/reports that compare the exposure against the limits. Inquire as to how catastrophe models are used to monitor the (re)insurer’s catastrophic exposure.</u></p> <p>Review the credentials, background and responsibilities of the senior</p>	<p>If necessary, recalculate the aggregate loss exposures by reviewing data reported by ceding insurers/brokers.</p> <p>Utilize audit software to review the (re)insurer’s risk exposures (e.g., summarize policies by ZIP code, industry code, policy size, etc.) for compliance with insurer limits. If the (re)insurer has not identified risk exposure limits, test the risk exposures for appropriateness by considering industry standards.</p>

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

EXAMINATION REPOSITORY – REINSURANCE (CEDING INSURER)

Annual Statement Blank Line Items

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

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

Risk Based Capital (RBC) Filing

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

DETAIL ELIMINATED TO CONSERVE SPACE

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

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

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>with its risk appetite and net risk limits.</p> <p>The insurer has developed formal documentation of its reinsurance structure and has established an effective, ongoing dialogue among the underwriting, claims and reinsurance areas.</p> <p>The insurer has a process in place to evaluate the effectiveness of its reinsurance coverage.</p> <p>The insurer performs a cost/benefit analysis prior to entering into reinsurance agreements of the overall reinsurance strategy and/or significant individual contracts.</p>	<p>ensure that the coverages match the insurer's exposure limits.</p> <p>Review evidence of interaction between the underwriting, claims and reinsurance areas.</p> <p>Review the insurer's analysis of results gross and net of reinsurance.</p> <p>Review the insurer's cost/benefit analysis <u>of the overall reinsurance strategy and/or significant individual contracts.</u></p>	<p>provisions (e.g., sliding commissions, loss corridors, etc.) impact the effectiveness of the insurer's reinsurance strategy.</p> <p><u>Perform procedures to evaluate the cost/benefit of the insurer's overall reinsurance strategy and/or significant individual contracts by:</u></p> <ul style="list-style-type: none"> Consider Applying a range of scenarios to a selection of significant reinsurance contracts to test the overall performance/prospective profitability of the contract and to assess whether the ceding commission is greater than the cost to write the business. Evaluating historical performance (i.e., back testing) of reinsurance coverage provisions.
<p>The insurer's catastrophic reinsurance protections are inadequate. †</p> <p><u>Note: For P&C insurers. Examiners should utilize</u></p>	ST OP	Other	AARP	<p><u>To determine the level of catastrophic reinsurance protection,</u> tThe insurer uses one of the industry's catastrophic modeling software tools <u>third-party catastrophe models (see NAIC's Property/Casualty</u></p>	<p>Review the adequacy of the process and tools utilized to determine the insurer's the PMLs amount(s) for catastrophe perils and compare them to the catastrophic reinsurance structure that has been selected.</p>	<p><u>Verify that what is reported in the RBC RCAT is consistent with PMLs the insurer uses for own risk assessment purposes. Discuss and/or obtain explanation for material discrepancies.</u></p> <p><u>Obtain information on</u></p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
<p><u>information contained in the RCAT Attestation provided by insurers that are subject to this filing requirement.</u></p>				<p><u>RBC Forecasting and Instructions for a list of approved vendors) (such as RMS, AIR, EQECAT, etc.) or internally developed catastrophe models that have been compared against commercial vendor models. The models to determine the gross probable maximum losses (PMLs) by zone for catastrophe perils.</u></p> <ul style="list-style-type: none"> <u>Modeled results used for own risk assessment purposes are consistent with what is reported in the RBC RCAT filing.</u> <p><u>The insurer selects the most appropriate reinsurance strategy and structure by evaluating model results, considering capital resources, conducting cost/benefit analysis, considering broker recommendations, regulatory requirements, etc. The strategy and structure are discussed with and approved by senior management, including the following elements:</u></p> <ul style="list-style-type: none"> <u>Use of traditional and non-traditional</u> 	<p><u>Obtain and review the insurer's reconciliation of the modeled PMLs to the RBC RCAT filing reported to the NAIC and discuss and/or obtain explanation for material discrepancies.</u></p> <p><u>Obtain evidence of the process used by the insurer to evaluate and approve various reinsurance strategies and structures.</u></p> <p><u>Obtain from insurer benchmarking information on catastrophic reinsurance coverage and compare the insurer's coverage against the benchmarking and discuss with the insurer any significant differences.</u></p>	<p><u>catastrophic reinsurance coverage from public information (10Ks, Climate Disclosure Survey, etc.) or ORSA report for internal consistency and independent validation by reconciling to source documents.</u></p> <p><u>Review the reasonableness of the catastrophic reinsurance coverage in place at the insurer by benchmarking against competitors and/or comparing against industry standards (e.g., reviewing premium retention percentages or net PMLs as a percentage of surplus against competitors).</u></p> <p><u>Consider involving an exam actuary or reinsurance specialist in assessing the adequacy of the insurer's catastrophic reinsurance coverage. The specialist should determine if there are retrospective provisions (such as loss limiting features) that would cause the insurer to retroactively pay a higher reinsurance premium. If this trigger is present, determine if the insurer has the financial resources to pay the higher premium.</u></p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p><u>structures (e.g., insurance-linked securities)</u></p> <ul style="list-style-type: none"> <u>Retention and reinstatement provisions, aggregate versus occurrence structures</u> <u>Attachment and exhaustion levels</u> <p>The process includes actuarial involvement with the ceded reinsurance department to insure the ceded department purchases the proper amount of reinsurance.</p> <p>The insurer adjusts its retentions or uses reinsurance alternatives, such as cat bonds, to ensure full placement at each catastrophic layer.</p> <p>The insurer has protected itself against multiple occurrences in the same period with contractual reinstatement of coverage.</p>	<p>Determine whether the insured's reinsurance strategy includes the involvement of the actuarial and ceded reinsurance departments in the purchasing of catastrophic reinsurance.</p> <p>Review the coverages in place for each layer of reinsurance for appropriate supervisory review.</p> <p>Determine whether the insurer's reinsurance strategy requires premium reinstatement for the cat program.</p>	
The insurer is over-exposed to credit and liquidity risks in its use of reinsurance counterparties. †	OP ST CR LQ	Other	AARP	<p>The insurer has policies in place requiring utilization of multiple reinsurers to reduce concentration with any one entity.</p> <p>The insurer has developed a formal process to</p>	<p>Test the operating effectiveness of the insurer's controls to track compliance with the concentration policy.</p> <p>Obtain evidence of the <u>company's insurer's</u></p>	<p>Based on a review of significant contracts, determine whether the insurer is properly diversified.</p> <p>Perform procedures to evaluate the quality of significant reinsurers utilized by the insurer, for example:</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>approve reinsurance counterparties.</p> <p>The insurer has a process in place to preapprove and set maximum limits to be ceded to reinsurers that are monitored and revised, as necessary.</p> <p>The insurer continually monitors the financial solvency of its reinsurers throughout the duration of the reinsurance contracts.</p> <p>Collateral is held in association with significant treaties to encourage prompt settlement and fulfillment of obligations.</p>	<p>process to approve reinsurance counterparties <u>and to determine the credit worthiness of the counterparties.</u></p> <p>Obtain evidence of the preapproval process and documentation of maximum reinsurance limits.</p> <p>Obtain evidence of the insurer's ongoing review of its reinsurers.</p> <p>Obtain evidence of the insurer's process to consider/require collateral to be held for significant treaties.</p>	<ul style="list-style-type: none"> Review agency ratings Review financial results <p>Contact domestic regulator regarding any concerns.</p> <p>For select reinsurers, verify that the balance currently ceded is within the maximum limits set by the insurer.</p> <p><u>Review the liquidity of the assets used to secure the collateral and verify that these assets are correctly attributed to the reinsurers.</u></p>
<p>Smaller, less complex or new insurers are unable to negotiate equitable reinsurance contract terms from larger or more experienced reinsurers. †</p>	<p>OP ST LQ</p>	<p>Other</p>	<p>AARP</p>	<p>The insurer engages licensed reinsurance intermediaries to negotiate fair and accurate reinsurance contracts on its behalf.</p>	<p>Review the work performed by the insurer to determine whether the intermediary is licensed.</p>	<p>Review the credentials, background and experience of those negotiating the contracts to ensure that they are licensed to represent the insurer in contract negotiations.</p>

EXAMINATION REPOSITORY – UNDERWRITING

Annual Statement Blank Line Items

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

Relevant Statements of Statutory Accounting Principles (SSAPs)

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

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

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

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
<p>The insurer has not established and maintained appropriate risk exposure limits (including catastrophe coverage) that are consistent with risk appetite. † <u>(See also examination Repository – Reinsurance Ceding)</u></p>	<p>ST PR/UW</p>	<p>Other <u>CO</u></p>	<p>UPSQ</p>	<p>The insurer has established and documented risk exposure limits by <u>state/geographic area</u>, other rating classes and lines of business (coverages) <u>and other criteria</u> that have been reviewed and approved by senior management.</p> <ul style="list-style-type: none"> For some unique lines of business or exposures (e.g., terrorism, casualty catastrophe, etc.) the insurer tracks exposure limits at a more granular level (e.g., geocode) to ensure that concentrations are within its risk appetite. <p>Risk exposure limits established by the insurer consider the direct and indirect impacts of climate change risk.</p> <p>The insurer utilizes a fully staffed, well-qualified underwriting function that has experience in all lines of business (coverages) and geographic locations (rating classes) served by the insurer.</p> <p>The insurer utilizes risk</p>	<p>Review documentation of risk exposure limits and evidence of senior management/<u>Board of Directors</u> review/approval. Consider if the risk limits are consistent with the risk appetite and risk tolerance levels articulated in the company’s ERM process and consider alignment with company’s reinsurance program.</p> <p>Perform a walkthrough of the underwriting process and observe how the impact of climate change risk is considered when establishing risk exposure limits.</p> <p>Review the credentials, background and responsibilities of the insurer’s underwriting function (internal and/or external).</p> <p>Test the operating effectiveness of the insurer’s controls to track compliance with the exposure limits by reviewing modeling data.</p>	<p>Use audit software to review the insurer’s risk exposures for compliance with insurer limits. (For P/C companies, summarize policies by ZIP code, industry code, policy size, etc. For life and health companies, summarize by risk class, age, medical codes, etc.) for compliance with insurer limits. If the insurer has not identified risk exposure limits, test the risk exposures for appropriateness by considering applicable industry standards and comparison to peer groups.</p> <p>Perform detailed review of risk exposure models and management reports to monitor exposure by risk. Areas to consider include accuracy and completeness of input data, reasonableness of methodology and results as well as management discipline in adhering to risk exposure limits.</p>

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

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
<p><u>Repository – Reinsurance Ceding)</u></p> <p><u>Note: This risk is intended to address catastrophe risk exposure (natural, terrorism/man-made, casualty liability, pandemics).</u></p>				<p><u>sophistication of the insurer. For example:</u></p> <ul style="list-style-type: none"> <u>The PML calculated using a catastrophe model for a 1 – 250 loss event for earthquake risk in CA cannot exceed 2% policy holder surplus.</u> <u>Limit commercial real estate exposure to \$2.5 billion for a 5 square block radius to mitigate the impact of a terrorism event.</u> <p><u>The insurer monitors the actual exposure to the catastrophe risks to the concentration limits on a frequent basis and reports to management.</u></p> <p><u>The insurer has an escalation process to respond to the exposure to catastrophe risk approaching the concentration limits.</u></p> <p><u>Concentration limits established by the insurer are regularly updated to</u></p>	<p><u>Verify that management reviews and approves reports of actual exposure to catastrophe risk limits on a regular basis.</u></p> <p><u>Verify that any exposures approaching the concentration limit are subject to management review and action, if appropriate, to reduce the gross risk exposure (i.e., stop underwriting new business, non-renew certain policies, increase the limit, re-rate business, etc.).</u></p> <p><u>Perform a walkthrough of the underwriting process and observe how the impact</u></p>	<p><u>comparison to peer groups.</u></p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<u>consider the direct and indirect impacts of climate change risk.</u>	<u>of climate change risk is considered when establishing and updating concentration limits for catastrophe risk.</u>	
<p><u>The catastrophe (CAT) risk exposure calculations are not produced by a reliable process and/or data input.</u></p> <p><u>Note: this is for catastrophe risks only (natural, terrorism/man-made, casualty liability, pandemics).</u></p>	<u>ST PR/UW</u>	<u>AC CO</u>	<u>UPSQ</u>	<p><u>The insurer has a process to ensure that:</u></p> <ul style="list-style-type: none"> <u>Input data into the CAT model is complete and timely populated from the data sources. Input data is correctly transformed into the modeling format.</u> <u>The selection of the CAT model assumptions is documented.</u> <u>Non-modeled risks are quantified and aggregated into the CAT model output.</u> <u>Outputs of the CAT model are checked for reasonableness and the CAT model is independently validated on a regular basis.</u> 	<p><u>Verify that data reconciliations exist to ensure that inputs are loaded and transformed into the CAT model correctly.</u></p> <p><u>Obtain and review the documentation of the assumptions. Additionally, obtain and review the documentation of the quantification methodology of the non-modeled risks.</u></p> <p><u>Obtain and review the validation report produced by the independent validator.</u></p> <p><u>Conduct and document a walkthrough of the CAT modeling process to ensure that inputs are complete, timely and reconciled to the source data, assumptions are reviewed and documented, and outputs are validated and approved by management before being used for underwriting.</u></p>	<p><u>Select a sample of input data and reconcile to the data sources.</u></p> <p><u>Consider engaging the NAIC catastrophe modeling center of excellence or independent expert to review the CAT modeling process for reasonableness.</u></p> <p><u>Consider selecting a sample of actual losses and compare them with the estimates from the CAT model.</u></p>
The insurer has not established sufficient pricing practices, resulting in inadequate or excessive premium	ST PR/UW	Other	UPSQ	The insurer has developed comprehensive pricing practices that have been approved by senior management.	Review documentation of pricing practices and evidence of senior management review/approval.	Review the underwriting and pricing guidelines established by the insurer for appropriateness.

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

SECTION 4 – EXAMINATION EXHIBITS

Exhibit A

- q. Credit rating agency reports.
- r. Articles of incorporation, bylaws and amendments.
- s. Recently approved agreements or contracts (e.g., expense-sharing agreements, assumption reinsurance contracts, custodial agreements, etc.).
- t. Form F – Enterprise Risk Report.
- u. Own Risk and Solvency Assessment (ORSA) summary report.
- v. Climate-Related Disclosures (e.g., Climate Risk Disclosure Survey, Task Force on Climate-Related Financial Disclosures [TCFD], or SEC required disclosures if applicable).

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EXHIBIT B

EXAMINATION PLANNING QUESTIONNAIRE

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

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

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

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

Customization of Questionnaire Prior to Distribution

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

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

Instructions for Completing Exhibit

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

II. ORGANIZATION AND PERSONNEL PRACTICES

A. Organization

1. Provide details of the company structure, including:

- a. To the extent the corporate structure chart (by legal/business unit) has changed since the last annual statement filing, please provide the latest structure chart available. *
- b. Personnel organization chart. *
- c. Organizational chart detailing the structure of key business activities, including the individuals responsible for each activity, areas of responsibility and lines of reporting and communication.
- d. A list of critical management and operating committees and their members.

2. Provide a copy of the formal conflict of interest policy. Provide information on the following elements regarding the conflict of interest policy:

- a. Does the conflict of interest policy require periodic declarations by officers, directors and key employees?
- b. Describe the system used to monitor compliance with the conflict of interest policy.
- c. What position in the organization provides oversight and leadership in the compliance/ethics function, and where does this position fall in the organization chart?

3. Does the company have a written corporate governance framework? If so, describe how the corporate governance framework meets factors a-~~h~~ below. (Note that similar to Section I.A above, if the examiner has access to the CGAD, this question may be removed from the questionnaire prior to providing to the company for completion.)

- a. Approved and overseen by the board of directors.
- b. Implemented and monitored by executive management.
- c. Aimed at the identification and fulfillment of sound ethical, strategic, and financial objectives.
- d. Supported by business planning and resource allocation.

COMPLETED BY	SUPPORTING DOCUMENTATION

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

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

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EXHIBIT I EXAMINATION PLANNING MEMORANDUM

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

COMPANY NAME:

EXAMINATION DATE:

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

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

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

Critical Risk Categories

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

Climate Related risks

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

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

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EXHIBIT V – OVERARCHING PROSPECTIVE RISK ASSESSMENT

Background

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

Use of this Exhibit

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

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

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

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

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

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

Exhibit V, Part One – Overarching Prospective Risk Testing Template

Examiners should use this worksheet to document a review and investigation of overarching prospective risks throughout the examination. Examiners may also use the examples provided on the template as a guide to assist in determining the nature and extent of the prospective risk review to be performed. **Please Note:** The risk mitigation strategies identified in

the template are only examples, and the examiner should be aware that the insurer might use other strategies to mitigate the identified risk. Instructions for completing and documenting a review of prospective risk within the template are as follows:

Template Column	Instructions for Completing
Overarching Prospective Risk Identified	Based on the knowledge and understanding of the company obtained during the planning stages of the exam, document any overarching prospective risks identified.
Branded Risk Classification	For each identified risk, document the associated branded risk classification(s) from the following list: Credit (CR), Legal (LG), Liquidity (LQ), Market (MK), Operational (OP), Pricing/Underwriting (PR/UW), Reputation (RP), Reserving (RV), and Strategic (ST).
Risk Mitigation Strategies	Identify risk mitigation strategies in place at the insurer (if any) to address the prospective risk.
Investigate Risk Exposure	<p>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.</p> <p>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.</p>
Risk Assessment Level	Document the risk assessment level of the identified risk considering the test procedures performed; (i.e., Significant, Moderate, or Minimal). Refer to Exhibit AA—Summary Review Memorandum for guidance on determining an appropriate risk assessment level.
Trend	Document the trend level of the identified risk considering the test procedures performed to indicate the direction the risk is moving; (i.e., Increasing, Static, or Decreasing). Refer to Exhibit AA—Summary Review Memorandum for guidance on determining an appropriate trend level.
Rationale	Document the rationale for the trend and level of concern.
Communicate Findings to Financial Analysis	Document specific information to be communicated to the department analyst. Information should include specific procedures for continual monitoring, specific documents to obtain from the company, expected timelines for follow-up, and contact information.

Exhibit V, Part Two – Common Areas of Concern

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

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PART ONE – OVERARCHING PROSPECTIVE RISK TESTING TEMPLATE

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

PART TWO – COMMON AREAS OF CONCERN

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

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

EXHIBIT Y

EXAMINATION INTERVIEWS

Overview

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

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

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

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

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

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

questions are better suited to obtain concise information. The examiner should be prepared, listen carefully and focus on the speaker's entire message, as well as the non-verbal cues expressed during the interview process.

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

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

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Sample Interview Questions for Board or Committee MembersExperience and Background

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

Duties and Responsibilities

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

Reporting Structure

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

Ethics

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

Risk Areas

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

Risk Mitigation Strategies (Internal Controls)

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

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Sample Interview Questions for the Chief Executive Officer

Experience and Background

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

Duties and Responsibilities

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

Reporting Structure

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

Ethics

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

Risk Areas

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

Risk Mitigation Strategies (Internal Controls)

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

Corporate Strategy

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

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

Other Topics

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

Sample Interview Questions for the Chief Financial Officer/Controller**DETAIL ELIMINATED TO CONSERVE SPACE**Risk Areas

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

Risk Mitigation Strategies (Internal Controls)

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

Corporate Strategy

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

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Sample Interview Questions for Investment Management**DETAIL ELIMINATED TO CONSERVE SPACE**Risk Areas

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

Risk Mitigation Strategies (Internal Controls)

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

Corporate Strategy

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

Other Topics

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

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Sample Interview Questions for Chief Risk OfficerExperience and Background

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

Duties and Responsibilities

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

Reporting Structure

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

Ethics

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

Risk Areas

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

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Sample Interview Questions for Underwriting**DETAIL ELIMINATED TO CONSERVE SPACE**Risk Areas

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

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

Sample Interview Questions for the Chief ActuaryExperience and Background

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

Duties and Responsibilities

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

Reporting Structure

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

Ethics

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

Risk Areas

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

Risk Mitigation Strategies (Internal Controls)

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

DETAIL ELIMINATED TO CONSERVE SPACE

EXHIBIT DD

CRITICAL RISK CATEGORIES

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

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

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

Critical Risk Category Reporting Template

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

Appropriateness of Investment Portfolio and Strategy	<p>This category encompasses whether the insurer's investment portfolio and strategy are appropriately structured to support its ongoing business plan. Considerations may include elements of the ongoing investment strategy such as asset diversification, quality, maturities and risk/reward considerations, which could impact the insurer's vulnerability to future market fluctuations and <u>impairments associated with various scenarios (e.g. real-estate downtown, a pandemic, significant shift in interest rates, climate change/energy transition, etc.)</u>. For long-term lines of business in particular, these considerations would address asset adequacy testing/liability matching.</p>	<p><i>Example Comment: See Risk 5 and Risk 6 on Exhibit V at A.7.3.</i></p>
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Risk Category	Description	Where Addressed
Appropriateness/ Adequacy of Reinsurance Program	This category encompasses the overall reinsurance strategy of the insurer, whether the strategy is appropriate to support its ongoing business plan and whether adequate coverage is in place to address the insurer's risk exposures (e.g., catastrophe/ <u>climate</u> risks, morbidity risk, etc.). Considerations may include the quality of reinsurance counterparties, types of coverage in place, associated limits, net retentions, concentration of reinsurance cessions, coverage periods, terms, affiliated agreements, etc.	
Reinsurance Reporting and Collectibility	This category encompasses whether all reinsurance amounts are properly accounted for and reported by the insurer. Considerations may include the existence and valuation (including collectibility) of reinsurance recoverable amounts and reserve credits. In addition, proper accounting and reporting/disclosure for risk transfer issues may be considered.	
Underwriting and Pricing Strategy/Quality	This category encompasses whether the insurer has appropriate underwriting, pricing and marketing practices (including premium* management) to meet its financial solvency needs. Considerations may include whether the insurer has established and implemented appropriate risk exposure limits and underwriting guidelines, whether the insurer is establishing adequate rates for the risks assumed under its policies and expense structure, and whether these strategies and practices are consistently applied across the insurer's distribution channels <u>to appropriately address exposure to a wide range of insurance risks (e.g. Cat/climate, pandemic, increased mortality/morbidity, etc.)</u> .	
Reserve Data	This category encompasses whether selected elements of the underlying data utilized by the actuary in reserve calculations are complete and accurate. Considerations may include claim or in-force data depending on the lines of business and reserving methodologies utilized by the insurer.	
Reserve Adequacy	This category encompasses the overall accuracy and adequacy of the reported reserves. Considerations may include the assumptions and methodologies used as well as the accuracy of reserve calculations. This category may apply to various forms of significant reserves carried by an insurer including life reserves, incurred but not reported (IBNR) reserves, case reserves, loss adjustment expense (LAE) reserves, policy reserves, premium deficiency reserves, etc.	
Related Party/Holding Company Considerations	This category encompasses transactions and agreements arising from relationships with affiliates that affect the insurer's ongoing solvency position. Considerations may include inequitable contract provisions, the impact of guarantees, contagion risks extending from holding company operations, intercompany tax issues, etc.	
Capital Management	This category encompasses the company's ability to assess, manage and maintain sufficient capital to sustain its business plan and solvency position. Considerations may also include a company's ability to forecast its capital needs and obtain additional capital, if necessary.	

GLOSSARY

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

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