

## NAIC FINANCIAL REGULATION STANDARDS AND ACCREDITATION PROGRAM

### REVIEW TEAM GUIDELINES

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#### Part B1: Financial Analysis

##### a. Sufficient Qualified Staff and Resources

Standard: The department should have the appropriate staff and resources to effectively and timely review the financial condition of all domestic insurers.

Results-Oriented Guidelines:

1. The department should have qualified analysts or contractual resources with appropriate skill sets, abilities, knowledge and experience levels to satisfactorily and effectively perform analysis tasks and procedures. Such experience should match the sophistication and complexity of the domestic industry. When assessing whether a department has qualified staff and resources, consideration should be given to the following:
  - The quality of the work performed by the financial analysis staff and/or contractors as documented in the financial analysis files.
  - The financial analysis staff's and/or contractor's knowledge and comprehension of the insurance industry and its domestic insurers, as demonstrated during interviews with the staff.
2. The analysis of various financial filings should be completed timely, as discussed in the process-oriented guidelines. If the analysis tasks and procedures were not completed timely, consideration should be given to the size and complexity of the department's multistate insurers and the insurance holding company systems for which the department acts as the lead state. If the analysis tasks and procedures were not completed timely, the department should document the reasons for such, and the review team may take extenuating circumstances into consideration.

Process-Oriented Guidelines:

1. The financial analysts and supervisors, including contractors (if applicable), should have an accounting, insurance, financial analysis and/or actuarial background, and insurance backgrounds should be financial in nature. College degrees should focus on accounting, insurance, finance, business or actuarial science. Professional designations and credentials may also demonstrate expertise in insurance and/or financial analysis.
2. The analysis of priority insurers should be completed by the analyst and reviewed by the supervisor by:
  - Annual statements and actuarial-related filings: End of April.
  - Quarterly statements: Within 60 days from receipt of filing.
  - Supplemental filings (excluding holding company filings): Within 60 days from receipt of filing.
  - Holding company filings: by Oct. 31<sup>st</sup> for analysis conducted by the lead state; by Dec. 31<sup>st</sup> for analysis conducted by the domestic state.

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3. The analysis of non-priority insurers should be completed by the analyst and reviewed by the supervisor by:
  - Annual statements and actuarial-related filings: End of June or if a preliminary analysis, as outlined in the NAIC *Financial Analysis Handbook* (Analysis Handbook), indicates no immediate concerns, then by the end of July.
    - Preliminary analysis performed and relied upon for analysis completion dates should be completed within two weeks from receipt of filing.
  - Quarterly statements: Within 90 days from receipt of filing.
  - Supplemental filings (excluding holding company filings): Within 120 days from receipt of filing.
  - Holding company filings: by Oct. 31<sup>st</sup> for analysis conducted by the lead state; by Dec. 31<sup>st</sup> for analysis conducted by the domestic state.

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### **c. Appropriate Supervisory Review**

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**Standard:** The department’s financial analysis process should provide for appropriate supervisory review and comment. Supervisory review may be conducted by the analyst’s supervisor or a senior-level analyst whose job functions include such review duties.

#### Results-Oriented Guidelines:

1. The supervisory review should be an in-depth and challenging review of the analyst’s findings. An in-depth and challenging review should ensure the financial analyses performed are thorough and substantive. When assessing whether the supervisory review is in-depth and challenging, consideration should be given to the following:
  - Substantive review notes provided by the supervisor. Although supervisory review notes may assist the accreditation review team in assessing the supervisory review, they are not required to be created or maintained.
  - The overall quality of the analysis work as documented in the analysis file, including whether all material matters have been identified and adequately discussed.
  - Why issues with the quality of the analysis were not identified and resolved by the supervisor.

#### Process-Oriented Guidelines:

1. There should be evidence of at least one level of supervisory review on the financial analysis. This does not include scenarios when the company “passed” an automated review, such as the Quarterly Assessment of Non-Troubled Insurers. The supervisory review should be evidenced by sign-off and dating.
2. If the department uses an automated review such as the Quarterly Assessment of Non-Troubled Insurers, and the company did not “pass” the automated review but the analyst documented the rationale that no further documented analysis was necessary, a supervisor should approve the conclusion.

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3. The supervisory review should include a review of the risk assessment and significant supporting documentation, and include at least some review of the source documents, the level of which should be based on the experience of the analyst.
4. The supervisory review should be performed within two to three weeks of completion of the original analysis.
5. The supervisory review should include a review of any written responses from the company received by the primary analyst that contain significant information.
6. The supervisory review should include a review of any change in an insurer's priority rating.
7. If the department utilizes a contractor to perform the primary supervisory review of financial analysis, there should be evidence of an additional level of review ~~is required~~ on the IPS and/or Group Profile Summary (GPS) by a qualified department employee.

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**PART B1: FINANCIAL ANALYSIS**

**a) Sufficient Qualified Staff and Resources**

The department should have the appropriate staff and resources to effectively and timely review the financial condition of all domestic insurers.

**YES**                      **NO**

1. Does the department have analysts on staff or under contract whose primary responsibility is to review the financial statements as well as other information and data to discern potential and actual financial problems of all domestic insurers?

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2. Indicate the number below for each of the following:

- **Financial Department analysts:** include the total number of analysts who are employed or contracted by the state ~~to who are performing~~ or have performed financial analyses solely for the department and no other state.
- **Department Supervisors:** include the total number of analysis supervisors employed or contracted by the state ~~to who are performing~~ or have performed supervisory oversight financial analysis work solely for the department and no other state.
- **Contract analysts:** include the total number of individual contractors, whether associated with a firm or as an independent contractor, that performed financial analysis on behalf of the state.
- **Contract supervisors:** include the total number of individual contractors, whether associated with a firm or as an independent contractor, that performed supervisory oversight of financial analysis work on behalf of the state.
- **Department Analyst vacancies:** include the current number of vacant analyst positions.
- **Department Supervisor vacancies:** include the current number of vacant supervisor positions.
- **Multi-state companies:** include all forms of traditional insurers (L&H, P&C, HMO, title, fraternal, non-captive RRGs, etc.) that meet the definition of a multi-state insurer as defined in the Part B Preamble. Only provide the total number of multi-state companies the financial analysis staff is responsible for monitoring.
- **RRGs organized as captives:** include all RRGs that are organized under the state’s captive statutes. Only provide the total number of RRGs organized as captives the financial analysis staff is responsible for monitoring.
- **Single state companies:** include all forms of traditional insurers (L&H, P&C, HMO, title, fraternal, etc.) that are domiciled and operating in one state. Only provide the total number of single state companies the financial analysis staff is responsible for monitoring.
- **Other:** include any other domestic insurers that are not subject to accreditation, not listed in the single or multi-state column and are the responsibility of the financial analysis staff. Additionally, please provide a brief note discussing the company types included in this count.
- **Total domestic companies:** include a total of all the insurers the financial analysis staff is responsible for monitoring. The total should equal the sum of multi-state, RRGs as captives, single state and other columns.

	<u>Financial Department Analysts</u>	<u>Department Supervisors</u>	<u>Contract Analysts</u>	<u>Contract Supervisors</u>	<u>Department Analyst Vacancies</u>	<u>Department Supervisor Vacancies</u>
Current Year (CY)						
CY – 1						
CY – 2						

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	Multi- State	RRGs as Captives	Single State	Other	Total Domestic
Current Year (CY)					
CY – 1					
CY – 2					

## Notes:

- In the event the department has financial analysis staff that act as both an analyst and a supervisor, include them in both counts and provide a note that discusses the circumstance.
  - Surplus lines companies and reinsurers licensed in one state but operating in more than one state are considered multi-state companies.
  - When counting the total number of insurers for the current year, the department should provide the current count at the time this document is being prepared.
  - The total number of multi-state domestic companies, including RRGs licensed as captives, for the current year should tie to the total number of companies included in the attachment for #5 below. In the event the total counts do not match, please provide information as to why (i.e., a company redomesticated, two companies merged, a new company, etc.).
  - Throughout the SEG | IAR document, there will be reference to domestic insurers. Domestic insurers are to include all domestic multi-state insurers, including any RRGs licensed as captives, unless explicitly stated otherwise.
3. As a separate attachment, provide a current list of staff members who completed financial analysis work on behalf of the department, and include the following information on each:
- Name,
  - Professional designation(s), if any,
  - Title,
  - Years employed by the department (include functional area),
  - Type of college degree, including major area of concentration,
  - Prior regulatory and/or insurance experience,
  - Indicate whether the individual is responsible for supervisory reviews of multi-state financial analyses, including any RRGs licensed as captives,
  - Indicate whether the individual is a department employee (full/part time) or a contractual employee,
  - Indicate whether the individual is responsible for department oversight of contractors performing supervisory reviews of analysis (if applicable).
4. If the department utilized contractual analysts, during the past twelve months, please describe in a separate attachment the manner and extent of utilization in the department's analysis activities. If there are individual contractors dedicated to completing financial analysis on behalf of the department, include the information outlined in #3 above for each individual.