

NAIC FINANCIAL REGULATION STANDARDS AND ACCREDITATION PROGRAM

REVIEW TEAM GUIDELINES

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 (including department reviewers) 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 as documented in the financial analysis files.
 - The financial analysis staff'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), as well as those reviewing contract supervisor work, 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 (including department review of contract supervisor work) 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. 31st for analysis conducted by the lead state; by Dec. 31st for analysis conducted by the domestic state.

3. The analysis of non-priority insurers should be completed by the analyst and reviewed by the supervisor (including department review of contract supervisor work) 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. 31st for analysis conducted by the lead state; by Dec. 31st for analysis conducted by the domestic state.

c. Appropriate Supervisory Review

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.
2. If a department elects to utilize a contractor to perform the primary supervisory review of financial analysis, an additional level of review is required on the IPS and/or Group Profile Summary (GPS) by a qualified department employee. This review should result in the department employee understanding and assessing the overall quality of the analysis work performed.

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.

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, an additional level of review is required on the IPS and/or Group Profile Summary (GPS) by a qualified department employee. This department review should be completed within three weeks of the primary supervisory review, or prior to the overall analysis timeliness deadlines (whichever is sooner).

Part B2: Financial Examinations

a. Sufficient Qualified Staff and Resources

Standard: The department should have the resources to effectively examine all domestic insurers on a periodic basis in a manner commensurate with the financial strength and position of each insurer.

Results-Oriented Guidelines:

1. The department should have qualified examiners (including department designees) or contractual resources with appropriate skill sets, abilities, knowledge and experience levels to satisfactorily and effectively perform examination 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 examination staff and/or contractors as documented in the financial examination files.
 - The financial examination staff's and/or contractor's knowledge and comprehension of the insurance industry and the company under examination, as demonstrated during interviews with the staff.
2. The department should have sufficient examination staff and/or contractual resources to appropriately perform necessary target and limited scope examinations.

Process-Oriented Guidelines:

1. The financial examiners and supervisors (including department designees) should have an accounting, insurance, financial analysis, financial examination, information technology (IT) and/or actuarial background, and insurance backgrounds should be financial in nature. College degrees

should focus on accounting, insurance, finance or actuarial science. Professional designations and credentials may also demonstrate expertise in insurance and/or financial examinations.

2. The department should perform a full-scope examination on each domestic company in accordance with the respective state law or at least once every five years, whichever is less.

d. Appropriate Supervisory Review

Standard: The department's procedures for examinations should provide for supervisory review of examination workpapers and reports to ensure that the examination procedures and findings are appropriate and complete and that the examination was conducted in an efficient and timely manner.

Results-Oriented Guidelines:

1. The supervisory review should be an in-depth and challenging review of the examiner's findings and the concepts applied in performing the work. When assessing compliance with this guideline, consideration should be given to the following:
 - Depth and challenging nature of supervisory review notes, although maintenance of review notes is not required.
 - The overall quality of the work performed, including whether the examination procedures appear to be complete and appropriate and no material matter remains unaddressed.
 - Discussions with department staff that verify occurrence and sufficiency of supervisory review, including, but not limited to, the EICs.
 - Why issues with the quality of the examination were not identified and resolved by the supervisor.
2. If a department elects to use contractors to complete the supervisory review of the examination, the department should demonstrate involvement of appropriate department personnel (i.e., department designees) during the course of the examination in accordance with the Examiners Handbook and the department's policies and procedures. This should result in the department designee providing effective contractor oversight (e.g., status updates, budget oversight), as well as understanding and assessing the overall quality of the work performed.

Process-Oriented Guidelines:

1. All workpapers, including work performed by the EIC, should receive at least one level of supervisory review evidenced by sign off and dating by the reviewer.
2. The work of specialists should be reviewed by the EIC for familiarity and understanding.
3. The supervisory review (including department designee review) of planning (Phase 1 and Phase 2), including the Examination Planning Memorandum and risk matrices, should be done before work has begun in Phase 3. The review of planning should include each of the following:
 - Identification of key activities.
 - Identification and assessment of inherent risks.
4. The supervisory review (including department designee review) of Phase 3, Phase 4 and the first part of Phase 5 should be documented by a review of the risk matrices and any associated coaching notes or correspondence before any applicable substantive test work has begun. The review of Phase 3, Phase 4 and the beginning of Phase 5 should include each of the following:

- Identification and evaluation of risk mitigation strategies/controls.
 - Determination of residual risk.
 - Established detail examination procedures.
5. The primary supervisory review of workpapers should occur within a reasonable period after completion of the item being examined (generally two to four weeks).
6. Upon the conclusion of examination fieldwork, the Chief Examiner or designee should complete the general review outlined in the Review and Approval Summary exhibit of the Examiners Handbook (or substantially similar document) to ensure an appropriate depth of review has been performed.
- ~~6.7.~~The examination report should be reviewed by at least one person other than the preparer.
- ~~7.8.~~The examination report should be approved by the commissioner or the commissioner's designee prior to final issuance.

e. General Examination Procedures

Standard: The department's policies and procedures for the conduct of examinations should generally follow those set forth in the Examiners Handbook. Appropriate variations in methods and scope should be commensurate with the financial strength and position of the insurer.

Results-Oriented Guidelines:

1. The examiner should utilize a risk-focused approach and prepare examination documentation in sufficient detail to provide a clear understanding of the work performed. The content and organization of the documentation should support conclusions reached and effective execution of the risk-focused approach. When assessing compliance with this guideline, consideration should be given to the following:
 - Utilization of a risk-focused approach in establishing priority of accounts or operational areas.
 - The clarity and accuracy of the documentation used to support examination conclusions.
 - Extent of involvement with contract examiners if utilized.
 - Utilization of audit work when relied upon to support an identified risk.
 - Fulfillment of coordination efforts as determined by the state in Exhibit Z – Examination Coordination, and consistent with their role as described in the Examiners Handbook, for companies that are part of a holding company group with insurers domiciled in multiple states.

Process-Oriented Guidelines:

1. The examiner should prepare a Risk Assessment Matrix, or substantially similar document, that addresses each of the seven phases.
2. The examiner should prepare a planning memo that includes a discussion of each of the following:
 - Scope and objective of the examination.
 - Materiality assessment.
 - Results of the analytical review.
 - Results of the IT review.
 - Corporate governance assessment.
 - Results of the audit function assessment (internal and external), including review of external auditors' workpapers and reports.

- Summary of the key activities selected.
 - Scope of the prospective risk assessment procedures to be performed.
 - Intended reliance on work completed by auditors and accredited states (if applicable).
 - Exam staffing and time budgets.
3. If the company being examined is part of a holding company group with insurers domiciled in multiple states, the state should complete the appropriate section of Exhibit Z, Part Two (or similar document) as follows:
 - If the state is the exam facilitator conducting a fully coordinated group examination, Exhibit Z, Part Two, Section B (or similar document) should be completed.
 - If the state is a participating state in a fully coordinated group examination, the state should complete Exhibit Z, Part Two, Section C (or similar document).
 - If the state did not participate in a coordinated group examination or utilized existing work outside of a fully coordinated group examination, the state should complete Exhibit Z, Part Two, Section D (or similar document).
 4. The data supplied by the company or an outside source and utilized (relied upon) by the examiners should be tested for both accuracy and completeness in accordance with the respective residual risk assessment.
 5. The sampling techniques used should conform to guidance set forth in the Examiners Handbook or other appropriate authoritative guidance.
 6. If a department elects to utilize contract examiners, the department should demonstrate involvement of appropriate department personnel during the course of the examination in accordance with the Examiners Handbook and the department's policies and procedures.
 7. The department should utilize qualified EICs and department designees. The Examiners Handbook provides guidance on the authority, responsibilities and credentials for ~~a~~-qualified EICs and department designees. If the department utilizes an EIC who does not hold the CFE designation or is not directly supervised by someone holding the CFE designation, the department should document in the Financial Exam Electronic Tracking System (FEETS) when calling the exam how this individual is qualified to act in the capacity of an EIC on a multi-state insurer examination. Factors that may be considered include other professional designations, prior insurance experience, familiarity with the NAIC risk-focused surveillance process, etc.