Financial Examiners Handbook (E) Technical Group

Exposure Drafts

The following documents were exposed for a 30-day comment period ending November 4, 2022. These are also available on the Financial Examiners Handbook (E) Technical Group page (https://content.naic.org/cmte_e_fehtg.htm). Comments should be directed to Elise Klebba (EKlebba@naic.org). Word versions of the following documents are available upon request.

- Business Continuity (Page 2-4)
- Underwriting Repository (Pages 5-8)
- Capital & Surplus Repository (Pages 9-13)
- Exhibit E – Audit Review Procedures (Page 14)
- Investments Repository (Pages 15-19)
- Reserves/Claims Handling (Life) Repository (Pages 20-22)

III. GENERAL EXAMINATION CONSIDERATIONS

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

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

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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 natural and man-made disasters like terrorism, 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 is 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. 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 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.

Terrorism Specific Considerations

Under several lines of business and policy types (most notably commercial property), P/C insurers can be exposed to significant losses resulting from acts of terrorism. Before the attacks of September 11, 2001, insurers generally neither charged for nor specifically excluded terrorism coverage. However, these practices changed drastically as a result of the attacks and $46 billion estimated insured loss as the availability of commercial reinsurance dried up as a result. In an effort to discourage insurers from excluding terrorism coverage from existing policies and ensure that sufficient coverage continued to be available, the federal government enacted the Terrorism Risk Insurance Act (TRIA) in 2002. The Act creates a federal "backstop" for insurance claims related to acts of terrorism and provides for a transparent system of shared public and private compensation for these claims. However, before this backstop can be accessed, several stipulations and limits are applied, many of which were adjusted under subsequent extensions of the Act to limit the support available to insurers. Therefore, certain insurers may be exposed to significant losses related to acts of terrorism even with the federal backstop in place. Procedures within the Capital and Surplus Repository can help state insurance regulators to carefully consider the impact of terrorism exposures in assessing the solvency of relevant insurers.

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 impact 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 (*P&C Companies*)
No. 54R Individual and Group Accident and Health Contracts (*Health Companies*)
No. 65 Property and Casualty Contracts (*P&C Companies*)

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
				DETAIL ELIMINATED TO CONSERVE SPACE		
The insurer has not established and maintained appropriate risk exposure limits (including catastrophe coverage) that are consistent with risk appetite.	ST PR/UW	Other	UPSQ	The insurer has established and documented risk exposure limits by geography, other rating classes and line of business (coverages) that have been reviewed and approved by senior management. • 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. Risk exposure limits established by the insurer consider the direct and indirect impacts of climate change risk. The insurer utilizes a fully staffed, well-qualified underwriting function that	Review documentation of risk exposure limits and evidence of senior management 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 the company's reinsurance program. Perform a walkthrough of the underwriting process and observe how the impact of climate change risk is considered when establishing risk exposure limits. Review the credentials, background and responsibilities of the insurer's underwriting function (internal and/or	Utilize 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. 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.

				has experience in all lines of business (coverages) and geographic locations (rating classes) served by the insurer. The insurer utilizes risk models to track compliance with exposure limits established by the insurer.	external). Test the operating effectiveness of the insurer's controls to track compliance with the exposure limits by reviewing modeling data.	

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The insurer does not effectively oversee its producers, including managing general agents (MGAs) and third-party administrators (TPAs), to ensure that appropriate underwriting and premium processing standards are practiced and associated assets are appropriately safeguarded.	OP RP PR/UW	Other	UPSQ	The insurer has developed comprehensive underwriting, pricing and premium processing guidelines and practices that have been approved by senior management and communicated to the MGAs and TPAs. The insurer has developed processes to ensure that agent balances are appropriately safeguarded and not commingled with the agency's assets. The insurer monitors the underwriting and premium processing results of its MGAs/TPAs through a regular review of relevant ratios.	Review documentation of underwriting, pricing and premium processing guidelines and practices for evidence of senior management review/approval, as well as evidence of communication and training provided to the MGAs and TPAs. Review documentation that provides evidence of regular review of MGA/TPA underwriting and premium processing results by the insurer. Verify that agent balances are held in trust or otherwise secured. Review documentation of monthly premium/agent balances collection and remittance reporting and settlement process for proper internal control and evidence of review/approval by the insurer's	Perform analytical procedures to review the underwriting and premium processing results of significant MGAs and TPAs. If deemed necessary, perform a site visit to examine the underwriting and premium processing functions at the MGA/TPA. If agent balances are significant, consider confirming balances held in trust. Review the reconciliation and bank statement of the fiduciary bank account(s) held by the MGA/TPA. If deemed necessary, consider confirming the balance held with the bank. Track the transfers/withdrawals from the fiduciary bank

				The insurer requires a Type II SOC 1 report be issued for the service provider and reviews annually. The insurer performs regular reviews of its MGAs/TPAs to determine whether insurer underwriting standards are being consistently followed and whether premiums are processed and remitted in accordance with company standards.	management. Review the service provider's audited financial statements and Type II SOC 1 report to determine the service provider appears to have a solid financial position and appropriate internal controls. Review any audit reports and other documentation to determine whether the insurer provides sufficient oversight of its MGAs/TPAs.	account(s) to the insurer's bank account and/or G/L; and verify the settlement of the balance with the monthly premium reporting/reconciliation.

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EXAMINATION REPOSITORY – CAPITAL AND SURPLUS

Own Risk and Solvency Assessment (ORSA)

During the review of the ORSA filing (if applicable), the examiner may identify risks and controls that are relevant to be considered when creating the Capital and Surplus Key Activity Matrix. Additionally, examiners may perform test procedures related to the information contained within the ORSA filing that provides evidence regarding the sufficiency of an insurer's capital and surplus. Examiners are encouraged to leverage the information contained within the ORSA, and associated test procedures, when populating the Key Activity Matrix.

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:

Capital Notes and Interest Thereon
Aggregate Write-ins for Special Surplus Funds
Common Capital Stock
Preferred Capital Stock
Aggregate Write-ins for Other than Special Surplus Funds
Surplus Notes
Gross Paid-in and Contributed Surplus
Unassigned Funds (Surplus)
Treasury Stock

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to other liabilities and surplus, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 41 Surplus Notes
No. 72 Surplus and Quasi-reorganizations

† Note: Items 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.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer is not effectively monitoring and reporting its capital and surplus needs, including how changes may impact ~~RBC and~~capital adequacy and financial strength ratings from rating agencies. ~~**Please Note:**~~ ~~Examiners should utilize information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement.~~	LQ	Other	CMT	Management ~~performs capital modeling calculations, including assessing capital and liquidity~~ assesses capital adequacy ~~assesses capital adequacy needs~~ in normal and stressed environments, to understand the insurer's current and prospective capital needs. The board of directors (or committee thereof) reviews and approves the capital ~~modeling~~ adequacy assessment performed by management on an annual basis. Management prepares financial projections that include investment, underwriting and expenses, and their projected impact on surplus. Financial projections are reviewed by the board of directors.	Obtain evidence of the capital ~~modeling~~ adequacy assessment~~calculations~~ performed by management, including self-validation efforts. Review the board of directors' (or committee thereof) meeting minutes for evidence provided to the board and evidence of the board's approval of the capital ~~modeling~~ adequacy assessment results. Obtain evidence of financial projections and planning by management. Review the board of director meeting minutes for evidence of financial projects provided to the board as well as board review and approval.	~~Consider utilizing an actuarial specialist to assist with detail test procedures. Consider applying a wide range of scenarios, including severely stressed scenarios, to verify the insurer's available capital is adequate to meet its current and prospective capital needs. Consider the impact of different scenarios on RBC and/or rating agency assessments.~~ ~~Review the insurer's capital modeling and evaluate the appropriateness of input assumptions, methodologies and considerations used in quantifying available capital and risk capital. In the case of stochastic or deterministic modeling, document consideration of appropriateness of diversification of risks.~~ Review the underlying assumptions found in the financial projections for reasonableness and consistency with the insurer's business plan and strategy. Review prior year projections and capital adequacy assessments for a comparison of assumptions and whether management is historically on target.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
The capital model/ metrics used by insurer/group for capital adequacy are not appropriate to measure the capital at risk, given the risk profile. † **Please Note**: This risk is generally intended for insurers with a more complex capital modeling framework. Examiners should utilize information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement and related review guidance in section 1-XI of this Handbook.	ST	Other	CMT	The insurer's/group's board of directors (or committee thereof) reviewed the insurer's overall capital adequacy framework used to determine capital needs currently and prospectively. The insurer/group periodically reviews and approves the appropriateness of the capital model/metrics framework and documents its conclusions. • The capital model/metric incorporates all key risks of the insurer/group. • Individual risk components are subject to reasonable/appropriate modeling scenarios and stress tests. • Inputs to the capital model/metrics are reconciled to data sources. • The capital model/metric is calibrated to an appropriate security standard. • The risk aggregation process and resulting	Review the board of directors' (or committee thereof) meeting minutes for evidence of the board's approval of the capital adequacy framework. Conduct a model walkthrough and receive a model demonstration from the insurer to gain an understanding and evaluate the insurer's/group's design, governance, validation and use of the model. Obtain and review documentation and approval of the work performed to assess the appropriateness of the capital model/metric. Obtain and review documentation identifying which risks are modeled and which are not modeled. Verify that reconciliations exist to ensure that inputs are loaded into the capital model correctly. Obtain and review risk correlation studies supporting the risk aggregation process used by the insurer—i.e., correlation matrixes or copulas—to address risk correlations.	Consider utilizing an actuarial specialist to assist with detail test procedures. Review the insurer's capital modeling and evaluate the appropriateness of inputs, assumptions and calibrations, modeling scenarios, calculation methodologies, and supplemental stress tests used in quantifying risk capital. Compare the risks modeled in the capital model to the insurer's list of key risks and to the examiner's understanding of the insurer's risk profile. Reconcile inputs to the capital model back to the respective data sources to verify completeness and accuracy. Review the risk aggregation process and resulting diversification benefit taken for reasonableness.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				diversification benefit is supported by risk correlation studies. • Outputs of the capital model/metrics are independently validated on a regular basis.	Obtain and review relevant validation and/or audit reports.	
The insurer/group does not effectively use the results of the capital model/metric or capital adequacy assessment to make informed business decisions. † **Please Note**: Some elements of this risk are generally intended for insurers with a more complex capital modeling framework. Examiners should utilize information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement and related review guidance in section 1-XI of this Handbook.	ST	Other	CMT	The insurer/group uses the capital model outputs or capital adequacy assessment results in setting and adjusting its business strategy, by: • Establishing risk appetite, tolerances and limits • Allocating capital to products, lines of business and entities. • Establishing rating agency, regulatory, and jurisdictional capital targets. • Projecting capital needs.	Interview senior management/board members to understand how capital model outputs or capital adequacy assessment results are used in setting and adjusting its business strategy. Obtain documentation senior management/board members utilize to understand the outputs and results. Obtain and review documentation used in supporting business decision making (e.g., risk dashboards, capital allocation reports, strategic planning documents, etc.) to ensure that model outputs or capital adequacy assessment results are being considered.	Verify that capital adequacy assessment results are reflected in changes in business strategy, updated business plans, recent or pending transactions, etc.
The insurer/group does not have access to sufficient capital or a plan to access	ST	Other	CMT	Management performs ongoing analysis of various sources of capital (e.g., issuing bonds, selling	Review documentation describing the insurer's/group's ~~overall~~ analysis of ~~capital~~	Perform a review of management's available sources of capital and assess the feasibility of each option

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
additional capital to support its ongoing and future business needs under stressed conditions. † **Please Note**: Examiners should utilize information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement. **Please Note**: When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository.				common stock, parent contributions, borrowing, etc.) to ensure the insurer maintains a current understanding of the options available, including the quality and liquidity thereof. The board of directors (or committee thereof) reviews and approves the strategic capital management plan, including sources of capital, on an annual basis. The insurer/group has a protocol for reallocating capital among legal entities and jurisdictions to meet capital needs in times of stress. Companies with business plans calling for rapid growth or new start ups have developed realistic projections to determine capital needs to reach profitability.	~~management strategy and~~ the options available to raise capital, including the quality and liquidity thereof. ~~**Please Note**: When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository.~~ Review the board of directors' (or committee thereof) meeting minutes for evidence of the Board's approval of the overall capital strategy plan and the various options available to raise capital, should the need arise. Obtain and review the insurer's/group's protocol for reallocating capital across the group should the need arise. Verify that management has developed projections to determine profitability and breakeven point and updates as needed based on latest results.	to confirm the insurer has access to sufficient capital, should the need arise. ~~**Please Note**: When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository.~~ Assess the fungibility of group capital (if necessary) by understanding the jurisdictional constraints on capital, if applicable. Obtain and review the insurer's projections and evaluate for reasonableness by comparing to historical results or benchmarking against competitors.

Text in BLUE relates to bullet #3 of FAWG Referral

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EXHIBIT E
AUDIT REVIEW PROCEDURES

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Examiner	Date

External Auditor Workpaper and Report Review

1. Obtain the external auditor's engagement letter to ensure that there are no indemnification clauses or other unusual items included in the engagement letter.

***Guidance Point*: An indemnification clause between an insurer and an external auditor automatically breaches the independence of that auditor. If an indemnification clause exists, whether directly or indirectly, the examiner must evaluate whether it is reasonable to place reliance on the work of the external auditor. Additionally, the inclusion of an indemnification clause in a statutory auditing engagement letter is a breach of independence as outlined in the AICPA Ethics Interpretation 501-8.**

2. If not already performed by the financial analyst, obtain the following correspondence as required by the NAIC Annual Financial Reporting Model Regulation. Evaluate the content of the correspondence for consideration in the planning phases of the examination.

~~a. An "Awareness Letter" noting the external auditor's understanding of the insurance codes and regulations applicable to the insurer and affirming that the opinion expressed on the financial statements is in terms of their conformity to the statutory accounting principles.~~

~~b.~~a. If there was a change in auditor since the last examination, obtain the following documents:

i. An "Awareness Letter" noting the external auditor's understanding of the insurance codes and regulations applicable to the insurer and affirming that the opinion expressed on the financial statements is in terms of their conformity to the statutory accounting principles.

1. For additional information on frequency expectations for "Awareness Letter" filings by state, please review the NAIC's Guide to Compliance with State Audit Requirements.

~~i.~~ii. A "Notification Letter" from the insurer to the commissioner stating whether, in the 24 months preceding the change in auditor, there were any disagreements with the former auditor.

~~ii.~~iii. A "Confirmation Letter" from the former auditor stating whether they agree with the statements contained in the insurer's "Notification Letter" and, if not, stating the reasons for which he or she does not agree.

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

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Financial Reporting Risks						
DETAIL ELIMINATED TO CONSERVE SPACE						
The board of directors (or committee thereof) and management do not effectively monitor or supervise contracted third parties (including affiliates) in the implementation of the investment policy/strategy. *See Section 1 Part III of the Handbook for additional guidance relevant to reviewing third-party investment advisers and associated contractual arrangements.	CR MK	Other	AIPS	Prior to entering into a contract with a third party, management reviews the third party's credentials to ensure that they are qualified to perform the service and verifies that no conflict of interest exists. Management ensures that third-party contracts include appropriate provisions and recognize fiduciary responsibility to the insurer. Contracts are reviewed for appropriate provisions related to: • Investment guidelines/selection. • Authority for transactions. • Reporting of transactions in sufficient detail and frequency. • Conflicts of interest. • Appropriateness of fees. • Review of performance. • Termination. The insurer monitors investments purchased, those sold, the performance of the investment portfolio	Review procedures that ensure management reviews the credentials, including confirming registration as investment advisor/manager, of the third party and that no conflict of interest exists. Verify the insurer control to ensure appropriate contract provisions. Specifically consider any situations and transactions where the potential of conflict of interest exists. This includes transactions with other accounts managed by the third-party manager, through brokers affiliated with the third-party manager and investments in funds managed separately by the third-party manager. Obtain a copy of the report that is used by the insurer to report investment policy compliance to the board of	Assess the suitability of investment advisers through a review of information provided to the U.S. Securities and Exchange Commission (SEC) in Form ADV (if available) or other available information. Determine if there are any disciplinary actions or background information that might call into question the advisers' suitability for providing services rendered. Review significant investment advisory/management agreements for appropriate provisions. Review recent performance and benchmark reports in comparison with the company's plan. Test the insurer's investments for compliance with its investment policy guidelines. Assess significant changes in portfolio profile year over year and over the course of recent years to

				against prior year or budgeted results, and what the insurer holds. It also monitors compliance with the investment strategy that has been established by the board of directors (or committee thereof). This monitoring can be performed by senior management, an investment advisory board or internal auditors and is reported to the board of directors (or committee thereof).	directors (or committee thereof), and verify the board's review of the investment activity. Verify that a discussion of investments took place at the board of directors (or committee thereof) meeting by reviewing a sample of meeting minutes.	determine suitability of changes for the company.
Structured security investments originated and managed by an affiliate or related party may present an increased exposure to solvency risks	CR ST MK	Other	AIPS VIIA	The insurer verifies that its affiliate/related party asset manager has adequate experience and knowledge in originating and managing the types of investments held by the insurer. The insurer verifies that its affiliate/related party asset manager follows appropriate underwriting practices in originating investments. The insurer has established guidelines for investments originated and managed by affiliates/related parties to ensure that: • The fee structure is transparent and equitable • Concentration of such investments is	Review documentation demonstrating that management reviews the credentials of the affiliate/related party, including confirming registration as investment advisor/manager and that no conflict of interest exists. Review IA work, Board Minutes and/or other documentation demonstrating effective oversight of the affiliated asset origination process. Review documentation demonstrating that the insurer has reviewed the investments originated and managed by an affiliate or related party for compliance with regulatory investment limitations and reporting requirements.	Review significant investment advisory/management agreements for appropriate provisions. Test the insurer's investments for compliance with its investment policy guidelines and regulatory requirements. If necessary, use an investment specialist to analyze the insurer's structured securities portfolio. Review Jumpstart reports to identify potential designation exceptions for structured securities and address exceptions, as appropriate. If deemed necessary, review individual securities for compliance with NAIC

				in accordance with affiliated investment limitations • Investments offered to the public are in compliance with applicable requirements The insurer has a process in place to have its structured securities effectively rated by a qualified third party and assesses the appropriateness of ratings and designations. The insurer has a process in place to ensure that investments managed and originated by affiliates/related parties are properly identified and reported in accordance with statutory accounting guidelines. • This includes proper classification of holdings reported in the "Investments Involving Related Parties" column of each investment schedule in the annual statement.	Obtain documentation demonstrating management's review and approval of third-party ratings for structured securities. Review the insurer's process for identifying reporting investments managed and originated by affiliates/related parties and determine whether it is operating effectively. Obtain documentation demonstrating how management determines the classification of investments in the annual statement.	designation reporting requirements. If deemed appropriate, select a sample of material investments and review the underlying details to determine if the investments are properly classified in the respective investment schedules in the annual statement.

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EXAMINATION REPOSITORY – RESERVES/CLAIMS HANDLING (LIFE)

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:

Aggregate Reserve for Life Contracts
Aggregate Reserve for Accident and Health Contracts
Liability for Deposit-Type Contracts
Contract Claims

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the life insurance reserving 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. 50 Classifications of Insurance or Managed Care Contracts
No. 51R Life Contracts
No. 52 Deposit-Type Contracts
No. 54R Individual and Group Accident and Health Contracts
No. 55 Unpaid Claims, Losses and Loss Adjustment Expenses
No. 61R Life, Deposit-Type and Accident and Health Reinsurance – Revised
No. 63 Underwriting Pools

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risk						

DETAIL ELIMINATED TO CONSERVE SPACE

The assumptions used by the insurer for high-yielding complex assets are not accurate or appropriate for use in meeting asset adequacy requirements	RV	VA AC	RA	The company maintains documentation supporting the assumptions utilized in determining asset adequacy of high-yielding complex assets, including: • Expected gross returns and related risk (including default rates) • Factors supporting margin • Extent to which high-yielding assets are supporting major product categories • Rationale supporting changes in assumptions year over year, if applicable. The company performs sensitivity testing for high-yielding complex assets in accordance with AG 53 requirements. The company has an internal process that is reviewed and approved by management for determining the fair value of	Obtain and review the company's documentation and approval of work performed to support the assumptions utilized in determining asset adequacy of high-yielding complex assets. Obtain and review documentation describing inputs used in sensitivity testing for high-yielding complex assets, as well as the results of such testing. Obtain and review documentation of management's review and approval of the company's internal process for determining the fair value of high-yielding complex	Utilize the insurance department actuary or an independent actuary to review assumptions and methodologies for reasonableness, appropriateness, accuracy and compliance with the *Valuation Manual*. Perform stress testing/scenario analysis on the insurer's high-yielding complex assets (by using an investment or actuarial specialist if necessary) to identify potential solvency risks. Utilize the insurance department actuary or an independent actuary to evaluate the impact that a change in assumptions could have on the company's asset adequacy and solvency position. Review the company's AG 53 documentation for reasonableness Review the company's AG 53 reporting to identify assumptions underlying the

				high-yielding assets originated by the company, within the company's group or with an entity closely tied to the company's group that includes: • Practices for valuing such assets • Fair value determination • Contractual agreements and revenue sharing (e.g., performance fees between insurer and entity responsible for providing investments or other services) The company utilizes an independent actuarial firm (other than its appointed actuary) to periodically review its assumptions.	investments. Obtain and review documentation supporting the valuation of the company's high-yielding complex assets. Review any third-party actuarial work to verify and substantiate the appropriateness of company assumptions.	asset adequacy testing memorandum that appear to be outliers. Coordinate with the Valuation Analysis (E) Working Group of the NAIC regarding any reviews it has performed on the company's AG 53 filings.