



To: Jerry Ehlers (IN), Chair of Information Technology (IT) Examination (E) Working Group (ITEWG)

From: Toma Wilkerson (FL) and Donna Wilson (OK), Co-Chairs of the Receivership Financial Analysis (E) Working Group (RFAWG)

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RE: Data Transfer Guidance in the IT Work Program of the *Financial Condition Examiners Handbook*

The RFAWG has discussed concerns noted in recent receiverships of insurance companies whereby receivers and guaranty funds continue to face challenges, including technical challenges, related to the timely and efficient transfer of data (e.g., claims data and policyholder records) from the insurance company in receivership to the receiver and/or guaranty funds. This generally occurs when data is not stored in a usable format or data is stored in information technology (IT) systems that are not easily extractable or transferable. Challenges with data and records may arise when insolvent insurance companies have used third-party administrator(s) (TPA) or have multiple IT platforms and legacy systems. In the case of a TPA, it is not uncommon for data to be comingled between clients. Understanding an insurance company's IT systems and data in advance of any future insolvency helps to minimize costs and delays in claims payments at the onset of the receivership process.

The RFAWG recognizes that the *Financial Condition Examiners Handbook* contains some existing guidance regarding receivership considerations, including the following language that was added to the Considerations for Potentially Troubled Insurance Companies section of the Handbook in 2019:

If receivership or liquidation is triggered, and assets are transferred to the receiver or guaranty fund to settle obligations, it is important that the company's data be maintained in such a format to ensure that policies can continue to be maintained and claims can continue to be paid. For example, the company should have the ability to export its claims data through a defined format (Uniform Data Standards [UDS]) that would allow the data to be received and utilized by a third-party guaranty fund. Therefore, the examination may include additional procedures as part of the IT review to identify and locate data storage and processes, understand the format of the data, and ensure that proper functionality exists for timely and efficient export of policy and claims data in the event of a receivership.

However, given the continued issues noted in this area, RFAWG feels it would be beneficial for ITEWG to consider additional guidance specific to the IT review conducted during a financial condition examination, including the incorporation of specific procedures into Exhibit C – Evaluation of Controls in Information Technology. This is particularly relevant when insurers are considered by the domestic state insurance regulator to be financially troubled or high priority; however, given that correcting data format and system issues may take time for insurers to resolve, claims data formatting and storage considerations may be relevant for all examinations.

The RFAWG recommends that such guidance address the following:

- Gain and document an understanding of the insurance company's IT systems, data storage, data formats and any legacy systems.
- Based on the appropriate RBC level, review and test whether claims data, reserve information and policyholder records held by the insurer and by any TPAs are capable of being easily and timely accessible and extracted, and if necessary, translated into a format used by receivers and guaranty funds in the event of insolvency.
 - Property and Casualty Guaranty Funds utilize the Uniform Data Standards (UDS) reporting system for the timely and efficient transfer of claims data and policyholder records.

- Life and Health Guaranty Associations do not utilize UDS; however, they require easy and timely advance access to data to establish agreements and infrastructures to either transfer or continue administration of the insolvent company's policyholders.
- Information often needed in receivership includes for example: in force; policyholder information (policy master files), policy values; policy forms; claims files & history; rate files & history; reserves; information by line of business, provider/vendor agreements.
- Encourage mitigation by the insurance company or its TPA of any data or IT system format, storage and transferability issues found during examination.
- Consideration of utilizing receivers and guaranty funds as resources at any point in the data evaluation and mitigation process.

If you have questions, please contact Jane Koenigsman, NAIC Staff, at jkoenigsman@naic.org.