
MEMORANDUM

To: Eli Snowbarger (OK), Co-Chair, Financial Examiners Handbook (E) Technical Group
John Litweiler (WI), Co-Chair, Financial Examiners Handbook (E) Technical Group

From: Amy Malm (WI), Chair, Risk-Focused Surveillance (E) Working Group

Date: June 13, 2023

RE: May 2023 Examination Peer Review Takeaways

In May 2023, the Risk-Focused Surveillance (E) Working Group oversaw a Financial Examination Peer Review session, focused on contractor oversight. Each participating jurisdiction sent the individual acting as department designee on the submitted examination, as well as a representative from the contract firm who participated in the examination. Participants represented 5 jurisdictions and 5 contract firms. During the session, a couple of issues were identified that might be appropriate for consideration of additions to the NAIC's *Financial Condition Examiners Handbook* (Handbook). The topics discussed, as well as other relevant considerations, are outlined below.

Communicating with the Analyst – While coordination and communication between the exam team and department analyst has continued to improve over time, the peer reviewers found that additional guidance could help clarify the role and expectations of the department analyst throughout the examination. To address this concern, we propose adding an agenda topic to *Exhibit D – Planning Meeting with the Analyst* to discuss expectations for the analyst in participating in certain exam activities, monitoring the status of the exam, and communicating new information about the company (e.g., quarterly results, new Form D filings) arising during the examination. Furthermore, when the examination is being led by an independent contractor, we recommend that the department designee lead this planning meeting discussion topic.

Note, because Exhibit D – Planning Meeting with the Analyst is included within the Financial Analysis Handbook under the name of “Template for Planning Meeting with Financial Examiner”, a similar referral has been sent to the Financial Analysis Solvency Tools (E) Working Group for consideration. See Attachment A for proposed edits to the exhibit.

Status Updates – In several of the examination files reviewed, peer reviewers noted a change in the planned approach for certain risks that were presented in the planning memorandum that was approved by the department designee. As a means to clearly document the rationale for the change, as well as to evidence review and approval of the change by the department designee, we propose adding a new required element for inclusion in examination status reports to discuss any significant additions or deviations from the initial approach documented at the end of examination planning.

Emerging Risks Identified During Examination – In a couple of the examination files reviewed, peer reviewers noted circumstances in which new risks occurring after the balance sheet date were identified during examination fieldwork but not tested during the examination. While such risks could reasonably be

considered subsequent events under the current guidance, peer reviewers noted that conducting a review of such risks could provide a greater understanding of the insurer's current exposures and mitigation strategies, as well as provide valuable information for the department to consider in its ongoing monitoring of the insurer's solvency. How these risks or issues are treated could depend on the nature of the issue itself, its significance/materiality, and at what point in the examination it was discovered. For example, it may be appropriate to add a risk to a key activity matrix or Exhibit V. Given the importance of assessing risks in real time as they emerge, we recommend that the Technical Group consider the development of additional guidance in this area that encourages the incorporation of key risks emerging after the balance sheet date into the exam process, to the extent practicable (i.e., if identified prior to Phases 6-7).

If there are any questions regarding this referral, please feel free to contact me or NAIC staff (Bruce Jenson at bjenson@naic.org) for clarification. Thank you for your consideration of this request.

EXHIBIT D

PLANNING MEETING WITH THE FINANCIAL ANALYST

Overview

This document is intended as an optional tool highlighting items that may be discussed during a planning meeting with the assigned financial analyst in support of the financial exam process. This meeting should ensure that the examiner both understands the company that will be examined and also receives details on work that has already been performed in supervising the company's operations. An effective exchange of information will promote efficiencies in the financial examination process by allowing the examiner to leverage the knowledge and work performed by the financial analyst. It may also prove useful to supplement this meeting with a discussion of the Exam Planning Questionnaire (Exhibit B) so that the analyst can review during the discussion to highlight or indicate if a document being requested has been obtained and/or reviewed by the department. Although this exhibit focuses on discussions with the assigned analyst, it may be appropriate to incorporate this discussion into a broader planning meeting with members of department management and representatives from other areas of the department. However, if such an approach is taken, it should not reduce or diminish the level of discussion between the analyst and the examiner.

Given the importance of the Insurer Profile Summary (IPS) in communicating the results of the Department's Financial Analyst's review of the company's operations, the planning meeting with the analyst is intended to generally follow the format of the IPS Template.

Depending on the significance of operations at the group level, the examiner should consider whether additional agenda items should be added to focus on risks posed and discussed on the Group Profile Summary that are relevant for consideration during the examination.

NOTE: The exhibit was prepared to assist examiners in obtaining a general knowledge of the company through the meeting with the analyst. The examiner leading the discussion should not rely exclusively on these topics and should tailor agenda items based on knowledge of the company and based on knowledge of work that has been performed by the department. In situations where the exam is being led by an independent contractor, it may be appropriate for the insurance department's designee to lead the discussion of certain agenda items such as the role of the financial analyst in the examination.

Planning Meeting with the Financial Analyst – Agenda Items

1. **Business Summary** – Discuss a summary of the business operations and lines of business of the insurer.
 - a. Discuss whether the department has received a recent business plan from the company and has identified any significant changes in strategy/operations.
 - b. Discuss any recent meetings with the company and their potential impact on the examination.
 - c. Discuss the corporate governance in place at the company and any recent changes or concerns identified.
2. **Regulatory Actions** – Discuss any significant recent steps taken in supervising the company, including, but not limited to:
 - a. Granting of permitted practices;
 - b. Identification of issues of non-compliance;
 - c. Follow-up on items from the last financial examination;
 - d. Review of items filed with the department for approval (e.g. – Form A, Form D, Form E, etc.); and
 - e. Recent or pending regulatory actions (such as forfeitures, cease & desist orders, or restrictions on the company’s writings or operations).
3. **Financial Snapshot/Overview of Financial Position** – Discuss the company’s recent financial results, including, but not limited to:
 - a. Changes in profitability trends;
 - b. Deterioration in asset quality, liquidity, or capital adequacy;
 - c. Changes in investment holdings and strategy;
 - d. Changes in key annual statement balances;
 - e. Changes in reinsurance balances and program structure;
 - f. Significant results noted in financial analysis solvency tools; and
 - g. Deterioration in reserve development trend.
4. **Branded Risk Assessments** – Discuss individual branded risk assessments with a focus on moderate and significant areas of concern. For example:
 - a. Discuss a summary of detailed analysis work performed to address key issues.
 - b. Discuss the status of any outstanding inquiries or requests for the company.
 - c. Discuss any management representations to the department that should be verified or corroborated during the exam.
 - d. Discuss any recommended exam procedures and/or follow-up on key issues.
 - e. Discuss any risks assessed as “minor” which appear to be escalating.
5. **Impact of Holding Company on Insurer** – Discuss the impact of the holding company system on the domestic insurer. For example:
 - a. Discuss and obtain the Group Profile Summary (GPS) and non-lead state holding company analysis work as necessary.
 - b. If the lead state, discuss whether the analyst’s review of the group’s Corporate Governance Annual Disclosure (CGAD), if applicable, Own Risk and Solvency Assessment (ORSA) Summary Report and/or Form F reporting indicate a need for additional follow-up and review during the exam.
 - c. If not the lead state, discuss whether your state’s review of the following indicate a need for additional follow-up and review during the exam.
 - i. As applicable, either the insurance entity’s CGAD, or the lead state’s review of the group’s CGAD provided in the GPS and other information provided by the lead state.

- ii. The lead state’s analysis of ORSA Summary Report
 - iii. The lead state’s analysis of the Form F provided in the GPS or other information provided by the lead state
 - d. Discuss any developments or follow-up items resulting from recent supervisory college sessions.
6. **Overall Conclusion and Priority Rating** – Discuss the analyst’s overall conclusion on the company’s financial condition, strengths, weaknesses and priority rating assigned to the company.
7. **Supervisory Plan** – Discuss the analyst’s plans for the ongoing supervision of the company, including any specific examination procedures identified.
8. **Access to Workpapers and Company Documents** – Discuss the best way that the analyst’s work can be reviewed/obtained. As the number of files that examiners wish to review and obtain increases, they may consider obtaining access to the analyst’s workpapers and receiving specific locations (i.e. workpaper references) for all requested documents.
9. **Input from Other Areas of the Department** – Discuss whether the analyst has received recent communications from other areas of the insurance department regarding issues that could impact the financial examination including, but not limited to units in charge of:
 - a. Approving rates and forms filings;
 - b. Legal and administrative matters; and
 - c. Market conduct examinations/filings.
10. **General Observations** – Depending on the information already provided, determine whether there are any additional topics relevant for discussion, such as:
 - a. If you were going onsite to examine this company, where would you focus your time?
 - b. What are your biggest concerns in terms of things that could go wrong at this company to result in a solvency concern?
 - c. Are you aware of any fraud allegations or concerns at the company? Are there any fraud risk factors that the exam team should be aware of?
- 11. Communication/Coordination Throughout Exam** – Discuss the role of the financial analyst in the examination, including the following:
 - a. Participation in examination activities (e.g., Kickoff/Exit meetings, C-Level interviews)
 - b. Ongoing monitoring of exam status and findings; and
 - c. Responsibility to communicate new information about the company (e.g., Form D filings, quarterly analysis results/updated Insurer Profile Summary) to the examination team timely throughout the course of the exam.

X. REPORTING EXAMINATION PROGRESS AND FINDINGS

This section provides some general guidelines on procedures in reporting examination progress and findings. The discussion here is divided as follows:

- A. Interim Reporting to Chief Examiner
- B. Interim Reporting by Examiners to their Respective Zones
- C. The Report of a Full-Scope Examination
- D. The Management Letter
- E. The Report of a Limited-Scope Examination
- F. Discussion of Report Findings with Company Officials
- G. Preparation of Reports and Draft Reports for Participating Examiners
- H. Coordination and Distribution of the Examination Report of a Multi-State Insurer and the Resolution of Report Conflicts
- I. Timeliness of Examination Reports
- J. Post-Examination Follow-Up Procedures

A. Interim Reporting to Chief Examiner

At intervals during the examination, not less than monthly, the examiner-in-charge should address a memorandum to the chief examiner (or designee) setting forth:

- 1. A status report of the examination, including, at a minimum, the following:
 - a. A clear explanation of the examination's progress, broken down by phase/key activity.
 - b. A summary of time incurred by examiners, including budget, actual and time remaining to complete.
 - c. A summary of unusual problems, any significant issues identified throughout the examination and the examiner-in-charge's proposed resolution.
 - d. Proposed changes to the approved budget.
 - e. Any significant additions or deviations from the initial examination approach documented in planning, including the rationale for such changes.
- 2. Other requirements as may be set forth by each state's chief examiner.

B. Interim Reporting by Examiners to Their Respective Zones

The requirement of periodic status reports and their confidentiality will be determined on a zone basis.

If the zone determines that the examiner representing the zone is required to prepare and submit status reports on the progress of the examination, the following guidance is suggested. The reports shall include information on the progress made in addressing the concerns expressed by the zone when the examiner was assigned to the examination, any significant issues disclosed and proposed resolutions. The examiner-in-charge should be given the opportunity to comment and sign the status reports; however, the signature of the examiner-in-charge does not necessarily convey agreement with the information disclosed in the status report. The responsibility for requiring the zone examiner to prepare and submit periodic status reports rests with each individual zone. Other states in the zone may request copies of the status reports from the zone secretary. However, the states should be aware that the issues disclosed in the status reports are preliminary in nature, and should not take action based on the preliminary findings.

DETAIL ELIMINATED TO CONSERVE SPACE