# FINANCIAL CONDITION (E) COMMITTEE

The mission of the Financial Condition (E) Committee is to be the central forum and coordinator of solvency-related considerations of the NAIC relating to accounting practices and procedures; blanks; valuation of securities; financial analysis and solvency; multistate examinations and examiner and analysis training; and issues concerning insurer insolvencies and insolvency guarantees. In addition, the Committee interacts with the technical task forces.

# Ongoing Support of NAIC Programs, Products or Services

1. The **Financial Condition (E) Committee** will:
   1. Monitor all of the changes to the annual/quarterly financial statement blanks and instructions, risk-based capital (RBC) formulas, *Financial Condition Examiners Handbook*, *Accounting Practices and Procedures Manual* (AP&P Manual), *Financial Analysis Handbook*, *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), NAIC model laws, NAIC accreditation standards, and other NAIC publications.
   2. Appoint and oversee the activities of the following: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Risk Retention Group (E) Task Force; and Valuation of Securities (E) Task Force.
   3. Oversee a process to address financial issues that may compromise the consistency and uniformity of the U.S. solvency framework, referring valuation and other issues to the appropriate committees as needed.
   4. Use the Risk-Focused Surveillance (E) Working Group to address specific industry concerns regarding regulatory redundancy and review any issues industry subsequently escalates to the Committee.

# The Financial Analysis (E) Working Group will:

* 1. Analyze nationally significant insurers and groups that exhibit characteristics of trending toward or being financially troubled; determine if appropriate action is being taken.
  2. Interact with domiciliary regulators and lead states to assist and advise as to what might be the most appropriate regulatory strategies, methods and action(s).
  3. Support, encourage, promote and coordinate multistate efforts in addressing solvency problems, including identifying adverse industry trends.
  4. Increase information-sharing and coordination between state regulators and federal authorities, including through representation of state regulators in national bodies with responsibilities for system-wide oversight.

# The Group Capital Calculation (E) Working Group will:

* 1. Continually review and monitor the effectiveness of the GCC and consider revisions, as necessary, to maintain the effectiveness of its objective under the U.S. solvency system.
  2. Develop regulatory guidance related to the GCC. Complete by the 2021 Summer National Meeting.
  3. Liaise, as necessary, with the International Insurance Relations (G) Committee on international group capital developments and consider input from participation of U.S. state insurance regulators in the International Association of Insurance Supervisors (IAIS) monitoring process.

# The Group Solvency Issues (E) Working Group will:

* 1. Continue to develop potential enhancements to the current regulatory solvency system as it relates to group- solvency- related issues.
  2. Critically review and provide input and drafting to the International Association of Insurance Supervisors (IAIS), Insurance Groups Working Group or on other IAIS material dealing with group supervision issues.
  3. Continually review and monitor the effectiveness of the *Insurance Holding Company System Regulatory Act* (#440) and the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450) and consider revisions as necessary to maintain effective oversight of insurance groups
  4. Assess the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and make recommendations on its implementation in a manner appropriate for the U.S.

**FINANCIAL CONDITION (E) COMMITTEE** *(continued)*

1. The **ORSA Implementation (E) Subgroup** of the Group Solvency Issues (E) Working Group will:
   1. Continue to provide and enhance an enterprise risk management (ERM) education program for regulators in support of the Own Risk and Solvency Assessment (ORSA) implementation.
   2. Continually review and monitor the effectiveness of the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505) and its corresponding *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual*; consider revisions as necessary.

# The Mortgage Guaranty Insurance (E) Working Group will:

* 1. Develop changes to the *Mortgage Guaranty Insurance Model Act* (#630) and other areas of the solvency regulation of mortgage guaranty insurers, including, but not limited to, revisions to *Statement of Statutory Accounting Principles (SSAP) No. 58—Mortgage Guaranty Insurance* and develop an extensive mortgage guaranty supplemental filing. Finalize Model #630 by the 2020 Fall National Meeting.

1. The **NAIC/AICPA (E) Working Group** will:
   1. Continually review the *Annual Financial Reporting Model Regulation* (#205) and its corresponding implementation guide; revise as appropriate.
   2. Address financial solvency issues by working with the American Institute of Certified Public Accountants (AICPA) and responding to AICPA exposure drafts.
   3. Monitor the federal Sarbanes-Oxley Act, as well as rules and regulations promulgated by the U.S. Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB) and other financial services regulatory entities.
   4. Review annually the premium threshold amount included in Section 16 of Model #205, with the general intent that those insurers subject to the Section 16 requirements would capture at least approximately 90% of industry premium and/or in response to any future regulatory or market developments.

# The National Treatment and Coordination (E) Working Group will:

* 1. Increase utilization and implementation of the *Company Licensing Best Practices Handbook*.
  2. Encourage synergies between corporate changes/amendments and rate and form filing review and approval to improve efficiency.
  3. Continue to monitor the usage and make necessary enhancements to the Form A Database.
  4. Maintain educational courses in the existing NAIC Insurance Regulator Professional Designation Program for company licensing regulators.
  5. Make necessary enhancements to promote electronic submission of all company licensing applications.

1. The **Biographical Third-Party Review (E) Subgroup** of the National Treatment and Coordination (E) Working Group will:
   1. Increase the uniformity of the third-party vendors that prepare background investigative reports to those state insurance departments that require them. Reduce the inefficiency of applications by developing procedures and approval processes.
   2. Monitor the ongoing adherence of background investigation reports and third-party vendors.
   3. Encourage uniformity of requirements in relation to individuals’ fitness and propriety and the company’s responsibility in notifying state insurance departments of concerns or changes to key individuals.
2. The **Restructuring Mechanisms (E) Working Group** will:
   1. Evaluate and prepare a White Paper that:
      1. Addresses the perceived need for restructuring statutes and the issues those statutes are designed to remedy. Also, consider alternatives that insurers are currently employing to achieve similar results.
      2. Summarizes the existing state restructuring statutes.
      3. Addresses the legal issues posed by an Order of a Court (or approval by an Insurance Department) in one state affecting the policyholders of other states.
      4. Considers the impact that a restructuring might have on Guaranty Associations and policyholders that had Guaranty Fund protection prior to the restructuring. Complete by the 2021 Summer National Meeting.
   2. Identifies and addresses the legal issues associated with restructuring using a protected cell. Complete by the 2021 Summer National Meeting.

**FINANCIAL CONDITION (E) COMMITTEE** *(continued)*

* 1. Consider requesting approval from the Executive (EX) Committee on developing changes to specific NAIC models as a result of findings from the development of the White Paper. Complete by the 2021 Summer National Meeting.

1. The **Restructuring Mechanisms (E) Subgroup** will:
   1. Develop best practices to be used in considering the approval of proposed restructuring transactions, including among other things, the expected level of reserves and capital expected after the transfer along with the adequacy of long- term liquidity needs, and also develop best practices to be used in monitoring the companies after the transaction is completed. Once completed, recommend to the Financial Regulation Standards and Accreditation (F) Committee for their consideration. Complete by the 2021 Summer National Meeting.
   2. Consider the need to make changes to the RBC formula to better assess the minimum surplus requirements for companies in runoff. Complete by the 2021 Fall National Meeting.
   3. Review the various restructuring mechanisms and develop, if deemed needed, protected cell accounting and reporting requirements for referring to the Statutory Accounting Principles (E) Working Group. Complete by the 2021 Fall National Meeting.

# The Risk-Focused Surveillance (E) Working Group will:

* 1. Continually review the effectiveness of risk-focused surveillance and develop enhancements to processes as necessary.
  2. Continually review regulatory redundancy issues identified by interested parties and provide recommendations to other NAIC committee groups to address as needed.
  3. Oversee and monitor the Peer Review Program to encourage consistent and effective risk-focused surveillance processes.
  4. Continually maintain and update standardized job descriptions/requirements and salary range recommendations for common solvency monitoring positions to assist insurance departments in attracting and maintaining suitable staff.

# The Valuation Analysis (E) Working Group will:

* 1. Respond to states in a confidential forum regarding questions and issues arising during the course of annual principle- based reserving (PBR) reviews or PBR examination and which also may include consideration of asset adequacy analysis questions and issues.
  2. Work with NAIC resources to assist in prioritizing and responding to issues and questions regarding PBR and asset adequacy analysis including actuarial guidelines or other requirements making use of or relating to PBR such as *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38), *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued Under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation* (AG 48), and the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787).
  3. Develop and implement a plan with NAIC resources to identify outliers/concerns regarding PBR/asset adequacy analysis.
  4. Refer questions/issues as appropriate to the Life Actuarial (A) Task Force that may require consideration of changes/interpretations to be provided in the *Valuation Manual.*
  5. Assist NAIC resources in development of a standard asset/liability model portfolio used to calibrate company PBR models.
  6. Make referrals as appropriate to the Financial Analysis (E) Working Group.
  7. Perform other work to carry out the Valuation Analysis (E) Working Group procedures.

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