



Date: 7/14/22

*2022 Summer National Meeting  
Portland, Oregon*

**EXAMINATION OVERSIGHT (E) TASK FORCE**

Thursday, August 11, 2022

11:00 a.m. – 12:00 p.m.

Oregon Convention Center—Portland Ballroom 252-253—Level 2

**ROLL CALL**

Indiana, Chair	Idaho	Montana	South Dakota
District of Columbia, Vice Chair	Iowa	Nebraska	Tennessee
Alabama	Kansas	New Hampshire	Texas
Alaska	Kentucky	New Jersey	Virginia
Arkansas	Louisiana	North Dakota	Washington
California	Massachusetts	Ohio	Wisconsin
Colorado	Michigan	Oklahoma	Wyoming
Connecticut	Minnesota	Rhode Island	
Delaware	Missouri	South Carolina	

NAIC Support Staff: Bailey Henning

**AGENDA**

1. Consider Adoption of its 2021 Fall National Meeting Minutes Attachment One  
—*Commissioner Amy Beard (IN)*
  
2. Consider Adoption of its Working Group Reports Attachment Two  
—*Commissioner Amy Beard (IN)*
  - A. Electronic Workpaper (E) Working Group—*Susan Bernard (CA)*
  - B. Financial Analysis Solvency Tools (E) Working Group
  - C. Financial Examiners Coordination (E) Working Group
  - D. Financial Examiners Handbook (E) Technical Group—*Susan Bernard (CA)*
  - E. Information Technology (IT) Examination (E) Working Group  
—*Jerry Ehlers (IN)*
  
3. Discuss Any Other Matters Brought Before the Task Force—*Commissioner Amy Beard (IN)*
  
4. Adjournment

## Draft Pending Adoption

Draft: 12/3/21

Examination Oversight (E) Task Force  
Virtual Meeting (*in lieu of meeting at the 2021 Fall National Meeting*)  
December 1, 2021

The Examination Oversight (E) Task Force met Dec. 1, 2021. The following Task Force members participated: Judith L. French, Chair, represented by Dwight Radel (OH); Carter Lawrence, Vice Chair, represented by Joy Little (TN); Jim L. Ridling represented by Sean Duke (AL); Lori K. King-Heier represented by David Pfifer (AK); Alan McClain (AR); Evan G. Daniels represented by David Lee (AZ); Ricardo Lara represented by Susan Bernard and Laura Clements (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by N. Kevin Brown (DC); Dean L. Cameron represented by Eric Fletcher (ID); Amy L. Beard represented by Roy Eft and Jerry Ehlers (IN); Doug Ommen represented by Dan Matthis (IA); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Jeff Gaither (KY); James J. Donelon represented by Stewart Guerin (LA); Gary D. Anderson represented by John Turchi (MA); Anita G. Fox represented by Judy Weaver (MI); Chlora Lindley-Myers represented by Shannon Schmoeger (MO); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); Chris Nicolopoulos represented by Colin Wilkins (NH); Russell Toal represented by Leatrice Geckler (NM); Glen Mulready represented by Eli Snowbarger (OK); Larry D. Deiter represented by Johanna Nickelson (SD); Cassie Brown represented by Shawn Frederick (TX); Scott A. White represented by David Smith and Doug Stolte (VA); Mike Kreidler represented by John Jacobson (WA); Mark Afile represented by Amy Malm (WI); and Jeff Rude represented by Linda Johnson and Doug Melvin (WY).

### 1. Adopted its Sept. 30 and Summer National Meeting Minutes

The Task Force conducted an e-vote that concluded on Sept. 30 to: 1) adopt its Summer National Meeting minutes; and 2) adopt its 2022 proposed charges.

Ms. Bernard made a motion, seconded by Ms. Malm, to adopt the Task Force's Sept. 30 (Attachment One) and Aug. 5 (*see NAIC Proceedings – Summer 2021, Examination Oversight (E) Task Force*) minutes. The motion passed unanimously.

### 2. Adopted the Reports of its Working Groups

#### a. Electronic Workpaper (E) Working Group

Ms. Bernard provided the report of the Electronic Workpaper (E) Working Group. She stated that the Working Group met Nov. 16 in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) of the NAIC Policy Statement on Open Meetings, to continue work on its goals. She said the Working Group has continued to oversee and receive updates on the transition of the state insurance regulators' workpaper documentation application. She encouraged state insurance regulators who wish to follow the progress of the transition to request to be added as an interested state insurance regulator.

#### b. Financial Analysis Solvency Tools (E) Working Group

Ms. Weaver provided the report of the Financial Analysis Solvency Tools (E) Working Group. She stated that the Working Group met Nov. 15 and conducted an e-vote that concluded on Oct. 12 to adopt revisions to the *Financial Analysis Handbook* on the following topics:

1. Liquidity Stress Test (LST): A new procedure and high-level guidance for the Lead State holding company analysis chapter was added to the previously adopted LST Framework and related *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450) revisions. This requests that the lead state review and determine if any concerns exist and, if necessary, seek further explanation from the insurer.
2. Group Capital Calculation (GCC): Guidance was included to incorporate the GCC into the analysis process, specifically to be utilized as an analysis tool, rather than a set of ratios.

#### c. Financial Examiners Coordination (E) Working Group

## Draft Pending Adoption

Mr. Radel provided the report of the Financial Examiners Coordination (E) Working Group. He stated that the Working Group met Nov. 29 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to continue work on its goals.

d. Financial Examiners Handbook (E) Technical Group

Ms. Bernard provided the report of the Financial Examiners Handbook (E) Technical Group. She stated that the Technical Group met Nov. 17 and Oct. 5 to adopt guidance for inclusion in the *Financial Condition Examiners Handbook* on the following topics:

1. **Coordination Framework:** The Coordination Framework was revised to clarify and simplify the roles and responsibilities of states that are or could be involved in a coordinated examination. As part of these revisions, the Technical Group expects to recommend that the Committee update its guidance related to the use of Exhibit Z for documenting exam coordination.
2. **Completeness and Accuracy:** The reserves and underwriting repositories were updated to enhance the procedures used for testing the completeness and accuracy of data. These updates reflect a broader range of testing procedures that auditors are using to test the completeness and accuracy of data, including placing more reliance on control testing and using analytical procedures.

e. Information Technology (IT) Examination (E) Working Group

Mr. Ehlers provided the report of the IT Examination (E) Working Group. He stated that the Working Group met Nov. 18 and Oct. 13 to adopt revisions on the following topics:

1. **Guidance within the *Financial Condition Examiners Handbook*:**
  - a. **Quality and Portability of Policyholder Data, in response to a referral from the Receivership Financial Analysis (E) Working Group:**
    - i. Sections 1–3 revised to include new guidance describing the importance of insurance companies maintaining data in a manner that would allow for the timely and efficient transfer of policyholder data, as well as tools that may be used in conducting this assessment.
    - ii. Exhibit C – IT Planning Questionnaire and Instructional Notes were updated to include inquiries regarding comingled data and the accessibility and transferability of significant company data sets, as well as references to procedures within the IT work program that could be used in addressing related risks.
    - iii. Exhibit C – Work Program was updated to include common controls, preliminary information requests, and possible test procedures regarding the accessibility and transferability of data.
  - b. **Ransomware and Other Cybersecurity Risks:**
    - i. Sections 1–3 revised to include new guidance describing ransomware and considerations for assessing an insurer’s overall cyber hygiene.
    - ii. Exhibit C – Work Program was updated to include common controls, preliminary information requests, and possible test procedures regarding the nature of company backup systems and whether those backups are air-gapped and immutable.
2. ***Cybersecurity Vulnerability Response Plan:*** The *Cybersecurity Vulnerability Response Plan*, a new sound practices document which will be published on the Working Group’s public website, was developed in response to a referral from the Chief Financial Regulator Forum. This document provides additional guidance for assessing cyber vulnerabilities, including possible questions to ask insurers and procedures to perform if a cyber vulnerability is discovered in the period between full-scope examinations.

Mr. Koumann made a motion, seconded by Mr. McClain, to adopt reports of the Electronic Workpaper (E) Working Group, the Financial Analysis Solvency Tools (E) Working Group (Attachment Two), the Financial Examiners Coordination (E) Working Group, the Financial Examiners Handbook (E) Technical Group (Attachment Three), and the IT Examination (E) Working Group (Attachment Four). The motion passed unanimously.

Having no further business, the Examination Oversight (E) Task Force adjourned into regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to receive reports on exams open past 22 months.

Draft: 4/22/22

Financial Examiners Handbook (E) Technical Group  
Virtual Meeting  
April 18, 2022

The Financial Examiners Handbook (E) Technical Group of the Examination Oversight (E) Task Force met April 18, 2022. The following Technical Group members participated: Susan Bernard, Chair (CA); John Litweiler, Vice Chair (WI); Blasé Abreo (AL); Michael Estabrook (CT); N. Kevin Brown (DC); Cindy Andersen (IL); Shannon Schmoeger (MO); Justin Schrader (NE); Doug Bartlett (NH); Nancy Lee Chice (NJ); Tracy Snow (OH); Eli Snowbarger (OK); Matt Milford (PA); and John Jacobson (WA). Also participating were: Levi Nwasoria (KS); Monique Smith (NC); and Joy Little (TN).

1. Discussed its 2022 Project Listing

a. Exhibit G

Ms. Bernard introduced the Technical Group's 2022 project listing, and she said the first project to consider is enhancements to Exhibit G and the consideration of fraud during an examination. She noted that Exhibit G is structured in a way that is more conducive to the former exam approach when it was designed like a financial statement audit, and modifications to Exhibit G help to align the fraud review with the current risk-focused exam approach. While NAIC staff have made a few minor revisions to clean up and organize Exhibit G, no substantive changes have been made yet. Ms. Bernard said a drafting group would be beneficial to consider further revisions to Exhibit G, and she instructed anyone who is interested in volunteering for the drafting group to contact Bailey Henning (NAIC) or Elise Klebba (NAIC).

b. Capital and Surplus Repository Updates

Ms. Bernard said the next item on the project list to discuss is updates to the capital and surplus repository, which would help to align the recently added Own Risk and Solvency Assessment (ORSA) procedures to the work conducted in evaluating risks related to an insurer's capital and surplus. She stated that NAIC staff are working with a group of state insurance regulators who are familiar with the new ORSA review procedures and have used the procedures during recent exams to draft revisions to the capital and surplus exam repository. Once the proposed revisions are finished, they will be brought to the Technical Group for consideration.

c. Projects Led by Other NAIC Groups

Ms. Bernard stated that the next few items on the Technical Group's project listing are related to the *Financial Condition Examiners Handbook* but are currently being led by other NAIC groups. Since the projects will eventually be referred to the Technical Group to consider for adoption, it is important to keep the Technical Group aware of these projects.

Ms. Bernard mentioned that the first project related to the *Financial Condition Examiners Handbook* is Affiliated Service Agreements, which is currently being led by the Risk-Focused Surveillance (E) Working Group. This project considers additional procedures to assess the appropriateness of using a market-based expense allocation within affiliated agreements. Ms. Bernard said the Working Group started to develop guidance surrounding this topic in 2021, and it has formed a joint industry/state insurance regulator drafting group to revise the proposed revisions considering the comments received at the end of last year.

Ms. Bernard said the next project to discuss is related to the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which is a global supervisory framework developed by the International Association of Insurance Supervisors (IAIS). ComFrame is aimed at facilitating effective group-wide supervision of internationally active insurance groups (IAIGs). This work is being led by the Group Solvency Issues (E) Working Group, which formed three distinct drafting groups to review and consider if additional guidance is deemed necessary within the *Financial Analysis Handbook*, the *Financial Condition Examiners Handbook*, and the *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual* (ORSA Guidance Manual). Ms. Bernard noted that NAIC staff have been working diligently alongside the examination drafting group to incorporate relevant ComFrame revisions into the Examination process. It is anticipated that this project will be completed within the next few months.

Ms. Bernard indicated that the last project related to the *Financial Condition Examiners Handbook* to discuss is Climate-Related Risks. The Climate Risk and Resiliency (EX) Task Force is leading this work, which is focused on considering updates to enhance the integration of climate change risks into the financial examination process. Ms. Bernard noted that there is a referral out for exposure that outlines specific examination areas in which the Task Force believes guidance should be added. When the referral is finalized, it will be sent to the Technical Group to discuss and develop revisions.

d. Premium Tax Considerations

Ms. Bernard mentioned that the last item to discuss related to the 2022 project listing is premium tax considerations, and she asked the Technical Group to consider if the existing guidance is sufficient or if enhancements should be developed. Mr. Litweiler noted that Wisconsin is a premium tax coordinator and does extensive reviews of incoming files, so he believes this project would be beneficial to clarify how much work is necessary. Ms. Smith said because the North Carolina Department of Revenue (NCDOR) only ties the premium tax return to the Schedule T, it is important to validate all information reported on Schedule T. She mentioned that policy fees have recently been recorded incorrectly, and North Carolina has noticed issues with its insurers underpaying premium taxes; therefore, she believes it is important that states work to validate Schedule T. Bruce Jenson (NAIC) asked members if there is an expectation that all states are validating premium information on Schedule T for their domestic insurers that are licensed in other states. Ms. Smith and Mr. Litweiler agreed that their states would be relying on the other states to ensure Schedule T information is validated. Mr. Nwasoria added that he agrees with Ms. Smith, and he wants to understand how the Technical Group is going to consider this issue and where it would be addressed. Ms. Bernard explained that the Technical Group wants to clarify what the expectation is with respect to premium tax considerations in an exam. Mr. Smith added that he has used the procedures included within the *Financial Condition Examiners Handbook* to assure the Virginia Department of the Treasury, which is responsible for the collection of premium taxes, that other states are looking at premium taxes. Furthermore, he expressed concern that if the procedures in the *Financial Condition Examiners Handbook* get changed or reduced, various state treasury departments may start to require audits if they believe premium taxes are not being appropriately reviewed during financial exams. Mr. Bartlett noted that New Hampshire wants to make sure the Schedule T is accurate but struggles knowing what the retaliatory taxes are in a state tax return and can only note that the premium being reported is accurate. Ms. Little agreed that some work should be done on Schedule T, and she noted that while a lot has changed under the risk-focused approach, some things, such as premium taxes, are a requirement by law. Ms. Bernard concluded that a reminder in a state insurance regulator newsletter regarding premium tax is the best path forward, and multiple Technical Group members agreed.

Having no further business, the Financial Examiners Handbook (E) Technical Group adjourned.

Draft: 5/2/22

Information Technology (IT) Examination (E) Working Group  
Virtual Meeting  
May 2, 2022

The IT Examination (E) Working Group of the Examination Oversight (E) Task Force met May 2, 2022. The following Working Group members participated: Jerry Ehlers, Chair (IN); Ber Vang, Vice Chair (CA); Blasé Abreo (AL); Mel Anderson (AR); William Arfanis and Ken Roulier (CT); Ginny Godek (IL); Dmitriy Valekha (MD); Kim Dobbs and Cynthia Amann (MO); Eileen Fox (NY); Metty Nyangoro (OH); Eli Snowbarger (OK); Melissa Greiner and Matt Milford (PA).

1. Discussed its 2022 Project List

Mr. Ehlers called the meeting to order and said that the purpose of the meeting was to discuss the 2022 Project List. Mr. Ehlers said that prior to the meeting, preliminary feedback regarding possible projects was collected from the Working Group members via an email survey. The results of that survey are captured in the 2022 Project List. Mr. Ehlers then gave a summary of the Working Group's Project List which included: 1) consideration of guidance updates within the Financial Condition Examiners Handbook (Handbook) pertaining to cloud storage environments and insurers that outsource portions of their IT activities; 2) consideration of possible guidance updates within the Handbook to add the concept of prospective risks to the IT Review; and, 3) development of general best practices for supplemental parts of an IT Review, like coordination activities across states or communication with state insurance analysts and/or contract resources (e.g., examiners, specialists, etc.).

Mr. Ehlers proposed the formation of a drafting group to address the projects and bring guidance suggestions back to the Working Group for consideration. There were no objections. Mr. Ehlers asked that individuals interested participating in the drafting group reach out to Jacob Steilen (NAIC) by May 9.

Jenny Jeffers (Jennan Enterprises, LLC) asked if contractors could be on the drafting group. Mr. Steilen said the drafting group would allow contractors due to the specialized knowledge required to accomplish these projects.

Tom Finnell (America's Health Insurance Plans—AHIP) asked how the projects would be brought back to the full working group for review. Specifically, if the full working group would review the projects individually or as a package. Mr. Steilen stated that the changes would be presented to the Working Group as a package and would be exposed for a public comment period prior to the Working Group considering any changes for adoption into the Handbook.

Bruce Jenson (NAIC) asked if the second project related to IT prospective risks is intended to help clarify whether the investigation of prospective risks related to IT systems should be documented on Exhibit V as part of the financial examination or within Exhibit C as part of the IT Review. Mr. Steilen affirmed that is the intention of the project.

Having no further business, the IT Examination (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/EOTF