

EXAMINATION OVERSIGHT (E) TASK FORCE

Examination Oversight (E) Task Force Aug. 11, 2022, Minutes

Financial Examiners Handbook (E) Technical Group April 18, 2022, Minutes (Attachment One)

Information Technology (IT) Examination (E) Working Group May 2, 2022, Minutes (Attachment Two)

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Draft Pending Adoption

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Examination Oversight (E) Task Force
Portland, Oregon
August 11, 2022

The Examination Oversight (E) Task Force met in Portland, OR, Aug. 11, 2022. The following Task Force members participated: Amy L. Beard, Chair, represented by Roy Eft (IN); Karima M. Woods, Vice Chair, represented by Rebecca Davis (DC); Mark Fowler represented by Sheila Travis (AL); Lori K. Wing-Heier represented by David Pfifer (AK); Alan McClain represented by Leo Liu (AR); Ricardo Lara represented by Susan Bernard (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by William Arfanis (CT); Trinidad Navarro represented by Rylynn Brown (DE); Doug Ommen represented by Daniel Mathis (IA); Dean L. Cameron represented by Jessie Adamson (ID); Gary D. Anderson represented by John Turchi (MA); Anita G. Fox represented by Judy Weaver (MI); Chlora Lindley-Myers represented by Debbie Doggett (MO); Troy Downing represented by Kari Leonard (MT); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); Marlene Caride represented by John Sirovetz (NJ); Judith L. French represented by Dwight Radel (OH); Glen Mulready represented by Diane Carter (OK); Larry D. Deiter represented by Johanna Nickelson (SD); Carter Lawrence represented by Joy Little (TN); Cassie Brown represented by Jamie Walker (TX); Scott A. White represented by Greg Chew and David Smith (VA); Nathan Houdek represented by Amy Malm (WI); and Jeff Rude represented by Doug Melvin (WY).

1. Adopted its 2021 Fall National Meeting Minutes

Ms. Bernard made a motion, seconded by Mr. Radel, to adopt the Task Force's Dec. 1, 2022, minutes (*see NAIC Proceedings – Fall 2022, Examination Oversight (E) Task Force*). The motion passed unanimously.

2. Adopted the Reports of its Working Groups

A. Financial Examiners Coordination (E) Working Group

Mr. Eft provided the report of the Financial Examiners Coordination (E) Working Group. He stated that the Working Group met April 14 in regulator-to-regulator session, pursuant to paragraph 3 of the NAIC Policy Statement on Open Meetings, to continue work on its goals.

B. Financial Analysis Solvency Tools (E) Working Group

Mr. Eft provided the report of the Financial Analysis Solvency Tools (E) Working Group. He stated that the Working Group met Aug. 1 and June 13, in regulator-to-regulator session, pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to continue work on its goals.

C. Electronic Workpaper (E) Working Group

Ms. Bernard provided the report of the Electronic Workpaper (E) Working Group. She stated that the Working Group met July 20, May 23, April 18, Feb. 24, and Jan. 24 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. She said that the Working Group continues its work on the TeamMate+ Transition project.

Ms. Bernard provided an overview of the status of the TeamMate+ Transition project. She stated that state insurance regulators have completed sandbox testing and that pilot testing is underway. Results of this testing

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will be discussed with the vendor, and configuration updates will be made, as appropriate. She stated that legal representatives from the NAIC and the vendor are negotiating special terms for software licensing and cloud hosting, with an expectation that the contract will be finalized by the end of September. Ms. Bernard stated that training content is being developed, and she expects that specific training will begin rolling out later this early and early next year to help state insurance regulators prepare for the transition. Finally, Ms. Bernard stated that state-specific databases are expected to be available by January 2023 and that those databases may be installed in TeamCloud as states sign and execute the NAIC rider incorporating the finalized vendor contract.

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 April 18 discuss its 2022 project list, which includes possible updates to: 1) Exhibit G – Fraud Considerations; and 2) the Capital and Surplus Examination Repository.

Ms. Bernard gave an overview of work being led by other NAIC groups that are expected to eventually be referred to the Technical Group to consider. These include: 1) a referral from the Financial Analysis (E) Working Group requesting the Technical Group to consider additional guidance related to terrorism insurance, uncollected premiums and agent balances, and monitoring startup insurers; 2) a future referral from the Group Solvency Issues (E) Working Group related to its work to incorporate guidance for examining internationally active insurance groups (IAIGs); 3) a future referral from the Climate and Resiliency (EX) Task Force to incorporate guidance to ensure climate-related risks are considered as part of a financial condition exam; and 4) a future referral from the Risk-Focused Surveillance (E) Working Group to incorporate guidance to assist examiners in evaluating affiliated service agreements.

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 May 2 to discuss its 2022 project list, which includes the following topics: 1) possible guidance for monitoring small to mid-size companies that heavily outsource IT functions; and 2) possible guidance for addressing prospective IT risks. Mr. Ehlers stated that a drafting group has been formed to develop guidance related to these topics and that proposed revisions will be brought before the Working Group for consideration later this year.

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

Having no further business, the Examination Oversight (E) Task Force adjourned.

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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.

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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.

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