2019 Fall National Meeting
Austin, Texas

EXAMINATION OVERSIGHT (E) TASK FORCE
Sunday, December 8, 2019
10:00 – 11:00 a.m.
Lone Star Ballroom DE – Level 3

ROLL CALL

Ohio, Chair
Arkansas, Vice Chair
Alabama
Alaska
California
Colorado
Connecticut
Delaware
District of Columbia

Hawaii
Idaho
Indiana
Iowa
Kansas
Kentucky
Louisiana
Massachusetts
Michigan

Minnesota
Missouri
Nebraska
New Hampshire
New Jersey
New Mexico
North Dakota
Oklahoma
South Dakota

Texas
Utah
U.S. Virgin Islands
Virginia
Washington
Wisconsin
Wyoming

NAIC Support Staff: Miguel Romero

AGENDA

1. Consider Adoption of its Summer National and Sept. 13 Meeting Minutes—Dwight Radel (OH)
   
2. Consider Adoption of its Working Group Reports—Dwight Radel (OH)
   • Electronic Workpaper (E) Working Group—Susan Bernard (CA)
   • Financial Analysis Solvency Tools (E) Working Group—Judy Weaver (MI)
   • Financial Examiners Coordination (E) Working Group—Pat McNaughton (WA)
   • Financial Examiners Handbook (E) Technical Group—Susan Bernard (CA)
   • IT Examination (E) Working Group—Pat McNaughton (WA)

3. Receive Update on LIBOR Transition—Erick Kolchinsky (NAIC)

4. Receive Update on Revisions to JumpStart Reports—Miguel Romero (NAIC)

5. Discuss Any Other Matters Brought Before the Task Force—Dwight Radel (OH)

6. Adjournment
Attachment One

1. Exam Oversight (E) Task Force – Summer National Meeting Minutes

1A. Exam Oversight (E) Task Force – E-Vote to Approve 2020 Charges
The Examination Oversight (E) Task Force met in New York, NY, Aug. 4, 2019. The following Task Force members participated: Jillian Froment, Chair, represented by Dwight Radel (OH); Allen W. Kerr, Vice Chair, represented by Mel Anderson (AR); Lori K. Wing-Heier represented by David Phifer (AK); Jim L. Ridling represented by Richard Ford (AL); Ricardo Lara represented by Susan Bernard and Kim Hudson (CA); Michael Conway represented by Eric Unger and Rolf Kaumann (CO); Andrew N. Mais represented by William Arfanis (CT); Stephen C. Taylor represented by N. Kevin Brown (DC); Trinidad Navarro represented by Rylynn Brown (DE); Colin M. Hayashida represented by Tian Xiao (HI); Doug Ommen represented by Carrie Mears (IA); Dean L. Cameron represented by Eric Fletcher (ID); Stephen W. Robertson represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); James J. Donelon represented by Caroline Fletcher and Stewart Guerin (LA); Gary Anderson represented by James A. McCarthy (MA); Anita G. Fox represented by Judy Weaver (MI); Steve Kelley represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Debbie Doggett (MO); Jon Godfrey represented by Colton Shulz (ND); Bruce R. Ramge represented by Justin Schrader and Lindsay Crawford (NE); John Elias represented by Patricia Gosselin (NH); Marlene Caride represented by John Sirovetz (NJ); Glen Mulready represented by Joel Sander (OK); Larry Deiter represented by Johanna Nickelson (SD); Kent Sullivan represented by Ignatius Wheeler (TX); Todd E. Kiser represented by Jake Garn (UT); Scott A. White represented by Doug Stolte (VA); Tregenza A. Roach represented by Cheryl Charleswell (VI); Mike Kreidler represented by Patrick McNaughton (WA); Mark Afable represented by Amy Malm (WI); and Jeff Rude represented by Linda Johnson (WY). Also participating was: Michael S. Pieciak represented by Karen Ducharme (VT).

1. **Adopted its 2019 Spring National Meeting Minutes**

Mr. Xiao made a motion, seconded by Ms. Bernard, to adopt the Task Force’s April 7 minutes (see NAIC Proceedings – Spring 2019, Examination Oversight (E) Task Force). The motion passed.

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

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

   The Electronic Workpaper (E) Working Group met July 18 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 discussions in evaluating long-term hosting solutions for financial surveillance work and evaluate replacement options for TeamMate AM which will be reaching its end of life in 2023.

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

   The Financial Analysis Solvency Tools (E) Working Group met July 25 (Attachment One) to discuss changes to the Insurance Regulatory Information System (IRIS) for 2019 annual statement filings. The proposal included element changes to several IRIS ratios, which were driven by financial blanks changes for 2019 annual. The proposed changes were exposed for a 30-day public comment period ending Aug. 26.

   The Working Group also met May 28 in joint regulator-to-regulator session with the Group Solvency Issues (E) Working Group, pursuant to paragraph 3 (specific companies, entities or individuals) and paragraph 6 (consultation with NAIC staff members related to technical guidance) of the NAIC Policy Statement on Open Meetings, to consult with NAIC staff on technical guidance regarding expectations for pooled groups, insurers that are also a group’s ultimate controlling person and non-lead state holding company analysis.

   c. **Financial Examiners Coordination (E) Working Group**
Draft Pending Adoption

The Financial Examiners Coordination (E) Working Group met April 8 in 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 exam coordination efforts from selected States.

d. IT Examination (E) Working Group

Mr. McNaughton said the IT Examination (E) Working Group met July 16 (Attachment Two) and exposed guidance revisions for a 30-day public comment period ending Aug. 15 on the following topics: 1) information technology (IT) review conclusions – revisions are intended to clarify the scope of the IT review and the way examiners should respond to IT review findings; 2) use of third-party work – revisions are intended to clarify the ways that third-party work can be evaluated and used during an exam’s IT review; and 3) cybersecurity self-assessment tools – revisions allow state insurance regulators to incorporate the results of a company’s completed self-assessment. Additionally, a drafting group developed a mapping between IT exam guidance and the cybersecurity self-assessment tool developed by the Financial Services Sector Coordinating Council (FSSCC) to facilitate state insurance regulator use of the information contained within the tool.

Mr. McNaughton made a motion, seconded by Ms. Weaver, to adopt the following reports: Electronic Workpaper (E) Working Group; Financial Analysis Solvency Tools (E) Working Group; Financial Examiners Coordination (E) Working Group; and IT Examination (E) Working Group, reports. The motion passed.

3. Exposed Updates to the Task Force and Working Group 2020 Proposed Charges

The Task Force exposed revisions to the Task Force and related Working Group 2020 proposed charges (Attachment Three) for a 30-day public comment period ending Sept. 3. The proposed revisions would: 1) update the charges of the Electronic Workpaper (E) Working Group in recognition of the discussions it has been having in regulator-to-regulator settings; and 2) simplify the principle-based reserving (PBR)-related charges for both the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group.

4. Discussed Other Matters

The Task Force heard an update from Ms. Bernard on the work of the Financial Examiners Handbook (E) Technical Group, which addressed revisions the Working Group will be considering later this year. Topics that will be discussed include: 1) Exhibit V – Prospective Risk Assessment; 2) management letters; 3) examinations of troubled or potentially troubled companies; and 4) the reserves/claims handling repositories.

Having no further business, the Examination Oversight (E) Task Force adjourned.
Examination Oversight (E) Task Force
E-Vote
September 13, 2019

The Examination Oversight (E) Task Force conducted an e-vote that concluded Sept. 13, 2019. The following Task Force members participated: Jillian Froment, Chair, represented by Dwight Radel (OH); Allen W. Kerr, Vice-Chair, represented by Mel Anderson (AR); Jim. L. Ridling represented by Richard Ford (AL); 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 Ryllyn Brown (DE); Colin M. Hayashida represented by Tian Xiao (HI); Doug Ommen represented by Jim Armstrong (IA); Stephen W. Robertson represented by Roy Eft (IN); Nancy G. Atkins represented by Sandra Batts (KY); Anita G. Fox represented by Judy A. Weaver (MI); Steve Kelley represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Shannon Schmoegger (MO); Jon Godfred represented by Matt Fischer (ND); Bruce R. Ramge represented by Lindsay Crawford (NE); John Elias represented by Doug Bartlett (NH); Marlene Caride represented by Steve Kerner (NJ); Glen Mulready represented by Joel Sander (OK); Deiter represented by Johanna Nickelson (SD); Kent Sullivan represented by Ignatius Wheeler (TX); Tregenza A. Roach represented by Gwendolyn Brady (USVI); Todd E. Kiser represented by Jacob W. Garn (UT); Mike Kreidler represented by Patrick H. McNaughton (WA); Mark V. Afable represented by Amy Malm (WI); and Jeffrey Rude represented by Linda Johnson (WY).

1. **Adopted its 2020 Proposed Charges**

The Task Force conducted an e-vote to consider adoption of an amendment to its 2019 charges (Attachment One-A). New in 2020, the groups reporting to the Task Force will have charges updated as follows:

- The Electronic Workpaper (E) Working Group was asked to ensure it’s review of regulator needs includes consideration of both hosting and software needs and considers needs of the broader regulator community as well.
- Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group had a charge related to their principle-based reserving (PBR) work removed. A broad charge asking that the groups work with the Life Actuarial (A) Task Force on PBR remains.

The motion passed unanimously.

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

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Attachment Two

Working Group Meeting Minutes:

2. FASTWG – September 4, 2019
2A. FASTWG – October 15, 2019
2B. FEHTG – September 12, 2019
2C. FEHTG – November 14, 2019
2D. ITEWG – September 26, 2019
Financial Analysis Solvency Tools (E) Working Group
Conference Call
September 4, 2019

The Financial Analysis Solvency Tools (E) Working Group of the Examination Oversight (E) Task Force met via conference call Sept. 4, 2019. The following Working Group members participated: Judy Weaver, Chair (MI); Patricia Gosselin, Vice Chair represented by Douglas Bartlett (NH); Sheila Travis (AL); Scott Persten and Kurt Regner (AZ); Emma Hirschhorn (CA); Kathy Belfi and Lynn Reed (CT); N. Kevin Brown (DC); Eric Moser (IL); Roy Eft (IN); James Matheson (NY); Dwight Radel and Tim Biler (OH); Ryan Keeling (OR); Kimberly Rankin (PA); Jack Broccoli (RI); Amy Garcia (TX); and Kristin Forsberg (WI).


Ms. Weaver said an NAIC staff proposal was received to expose revisions to certain benchmarks and guidance in the *Financial Analysis Handbook*. She called on NAIC staff to summarize the proposed revisions.

Bree Wilson (NAIC) summarized a proposal to eliminate two questions from the annual property/casualty (P/C) reserving repository because of the lack of a materiality threshold and because the subsequent questions address both the metric and materiality threshold (Attachment 1). She said eliminating these questions prevents the repositories from flagging the same exposure multiple times.

Ms. Wilson said other proposed revisions resulted from NAIC staff’s review of benchmarks across all analysis tools and that the proposed revisions are to sync-up the benchmarks in certain *Financial Analysis Handbook* procedures where differences were noted (Attachments 2–4).

Ms. Wilson also summarized the proposed revisions to the P/C Statement of Actuarial Opinion Worksheet to align with changes in the current instructions (Attachment 5).

Hearing no objections, Ms. Weaver said the proposals would be exposed for a 30-day public comment period ending Oct. 4.


Ms. Weaver said the Financial Analysis (E) Working Group sent two referrals to add enhanced regulatory guidance to the *Financial Analysis Handbook* related to parental guarantees (Attachment 7a) and troubled insurance companies (Attachment 8a) for the Working Group’s consideration.

Regarding parental guarantees, Ms. Weaver said that referral stems from the Financial Analysis (E) Working Group’s observation of situations where such agreements were not honored or fulfilled.

Ms. Weaver said the troubled insurance company referral was to consider adding new guidance in the *Financial Analysis Handbook* on communication expectations of troubled or potentially troubled insurers and pre-receivership considerations. She said this proposal resulted from recent revisions made to the *Troubled Insurance Company Handbook*.

Ms. Weaver called on NAIC staff to summarize the proposed updates to the *Financial Analysis Handbook* related to these referrals.

Rodney Good (NAIC) summarized the additional guidance in the *Financial Analysis Handbook* related to parental guarantees and capital maintenance agreements (Attachment 7b). He said that NAIC staff propose the additional guidance to be added to the analyst reference guide for strategic risk. The added guidance outlines certain considerations for the analyst in assessing current and prospective risks related to such agreements. For example, he said that in addition to reviewing and understanding the terms of the agreement, the guidance includes: 1) assessing the financial background of the entity providing the commitment; 2) obtaining additional information from the insurer, such as contingency plans if the agreement...
is not honored; and 3) for the analyst to review the holding company analysis for additional insight into the parent company or ultimate controlling person, specifically the financial condition and in determining if there are liquidity concerns.

Regarding the troubled insurance company referral, Mr. Good summarized NAIC staff’s proposal to include the additional guidance under the Department Organization and Communication section of the Financial Analysis Handbook (Attachment 8b). Mr. Good said that this consists of a new section for Considerations for Troubled Insurance Companies. He said that, the associated guidance is a condensed version of what is included in the Troubled Insurance Company Handbook, which is a regulator-only resource. The proposed guidance in the Financial Analysis Handbook includes communication of troubled or potentially troubled companies within the department and with other states and/or other parties, as needed.

Hearing no objections, Ms. Weaver said the enhanced regulatory guidance to the Financial Analysis Handbook would be exposed for a 30-day public comment period ending Oct. 4.

3. Adopted a Referral from the Risk-Focused Surveillance (E) Working Group

Ms. Weaver said the third agenda item is to consider adoption of salary compensation guidance drafted by the Risk-Focused Surveillance (E) Working Group in the 2020 Financial Analysis Handbook (Attachment 9a). She called on NAIC staff to summarize the referral and updates to the handbook.

Mr. Good said the salary compensation guidance was drafted by the Risk-Focused Surveillance (E) Working Group and exposed at the 2018 Fall National Meeting for a 45-day comment period ending Jan. 18, 2019. No comments were received. As such, the guidance was referred to Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group for consideration of adoption. The proposed guidance in the Financial Analysis Handbook reflects the final draft and is ready for consideration of adoption (Attachment 9b).

Ms. Rankin made a motion, seconded by Mr. Regner, to adopt the guidance in the 2020 Financial Analysis Handbook. The motion passed unanimously.

4. Adopted a Referral from the Group Solvency Issues (E) Working Group

Ms. Weaver said that no comments were received on the previously exposed updates to the 2020 Financial Analysis Handbook related to analysis documentation standards for insurers that are part of a large insurance group, which resulted from a referral received from the Group Solvency Issues (E) Working Group (Attachment 10a). She called on NAIC staff to provide a brief overview of the referral.

Ralph Villegas (NAIC) said that these referrals were jointly exposed in June for a public comment period ending July 12. He said there was one comment letter received from Wisconsin to address how to efficiently document analysis of pooled insurance groups, as well as information on the insurance group when the ultimate controlling person of the group is an insurance entity, and additional information that would be expected from the non-lead state.


5. Adopted its July 25 Minutes

Ms. Weaver said the Working Group met on July 25 to expose revisions to the life Insurance Regulatory Information System (IRIS) Ratio 4, Adequacy of Investment Income; Ratio 10, Change in Product Mix; and Ratio 12, Change in Reserving for a 30-day public comment period ending Aug. 26.

Mr. Regner made a motion, seconded by Ms. Garcia, to adopt the Working Group’s July 25 minutes (Attachment 11). The motion passed unanimously.

6. Adopted Revisions to the Life IRIS

Ms. Weaver said the next agenda item is to hear comments received from the exposed IRIS revisions and consider adoption of those changes. She called on NAIC staff to summarize the comments and revisions.
Kelly Hill (NAIC) said comments were received from the American Council of Life Insurers (ACLI) (Attachment 12a), with the first two comments relating to the mortality risk column that was added by the Blanks (E) Working Group to the analysis by line of business table. She said that NAIC staff agreed that these elements should be included; therefore, the elements were added to IRIS (Attachment 12b). Ms. Hill said the third comment was to include group credit life in the credit life element for Ratio 10. She agreed that these elements should be considered and revised the proposed changes to IRIS accordingly.

Mr. Regner made a motion, seconded by Mr. Broccoli, to adopt the IRIS revisions. The motion passed unanimously.

Having no further business, the Financial Analysis Solvency Tools (E) Working Group adjourned.
Financial Analysis Solvency Tools (E) Working Group
E-Vote
October 15, 2019

The Financial Analysis Solvency Tools (E) Working Group of the Examination Oversight (E) Task Force conducted an e-vote that concluded Oct. 15, 2019. The following Working Group members participated: Patricia Gosselin, Vice Chair (NH); Kurt Regner (AZ); Emma Hirschhorn (CA); Lynn Reed (CT); N. Kevin Brown (DC); Eric Moser (IL); Debbie Doggett (MO); John Sirovetz (NJ); Tim Biler (OH); Ryan Keeling (OR); Kimberly Rankin (PA); Jack Broccoli (RI); Amy Garcia (TX); and Kristin Forsberg (WI).

1. **Adopted Exposed Revisions to the 2020 Financial Analysis Handbook**


A majority of the Working Group members voted in favor of adopting these revisions. The motion passed.

Having no further business, the Financial Analysis Solvency Tools (E) Working Group adjourned.
The Financial Examiners Handbook (E) Technical Group of the Examination Oversight (E) Task Force met via conference call Sept. 12, 2019. The following Technical Group members participated: Susan Bernard, Chair, and Laura Clements (CA); Richard Ford (AL); William Arfanis (CT); N. Kevin Brown (DC); Grace Kelly (MN); Levi Nwasoria (MO); Lindsay Crawford (NE); Colin Wilkins (NH); John Sirovetz (NJ); Joel Bengo (NV); Tracy Snow (OH); Jamille Jaffurs (OK); Melissa Greiner (PA); John Jacobson (WA); and John Litweiler (WI).

1. **Adopted Handbook Guidance**

   a. **Salary Range Guidelines**

   Ms. Bernard said the Risk-Focused Surveillance (E) Working Group referred proposed revisions regarding salary range guidelines for the Technical Group to consider. The proposed salary range guidelines were developed based on a survey of the states, as well as research to understand compensation practices in similar job roles, such as public accounting, private industry and other areas of financial regulation.

   To avoid causing undue burden to the states using the existing salary and per diem guidance within the *Financial Condition Examiners Handbook* (Handbook), the Working Group recommends that the existing guidance be retained, with explanatory language describing its purpose and expectations. The Working Group also recommends that each set of salary guidelines be maintained, with annual updates to the existing salary and per diem guidelines and biennial updates to the proposed salary range guidelines.

   Ms. Bernard said no comment letters were received regarding this proposed change.

   b. **Interviews**

   Ms. Bernard said NAIC staff developed proposed revisions to address a referral received in 2018 from the Risk-Focused Surveillance (E) Working Group regarding takeaways from the 2018 Exam Peer Review sessions. These revisions attempt to emphasize the importance of customizing questions that are asked during C-level interviews in examination planning. The proposed revisions also suggest that the chief risk officer be among the first C-level individuals to be interviewed, when possible, as the information obtained through that interview can help inform subsequent interviews. NAIC staff also developed a new template for interviewing a chief marketing officer. This template provides possible questions that the exam team may consider when conducting this interview.

   Ms. Bernard said two comment letters were received regarding these proposed changes. Ms. Clements said the comment letter that California submitted suggested additional language to clarify that information obtained during each interview could be used to tailor subsequent interviews. Ms. Bernard said these suggestions were incorporated as friendly amendments.

   A comment letter that Tom Finnell (America’s Health Insurance Plans—AHIP) submitted suggested additional language to clarify specific questions on the interview template for the chief marketing officer. These minor revisions were accepted as friendly amendments. Ms. Bernard said that other comments provided in the letter related to items already covered in other sections of the Handbook and, therefore, were not incorporated. Mr. Finnell thanked the Technical Group for considering the comment letter provided.

   Mr. Arfanis made a motion, seconded by Mr. Nwasoria, to adopt the guidance related to salary range guidelines and C-level interviews (Attachment One). The motion passed unanimously.

2. **Exposed Handbook Guidance**

   a. **Troubled Insurance Companies**

   Ms. Bernard said NAIC staff developed proposed revisions to incorporate considerations when examining a troubled or...
potentially troubled insurance company in response to a referral from the Financial Analysis (E) Working Group. The proposed revisions provide guidance regarding specific key elements from the *Troubled Insurance Company Handbook*, including communication expectations for companies that are troubled or potentially troubled, and pre-receivership considerations. Ms. Bernard said the referral also requested consideration of guidance regarding the priority rating framework. However, because existing guidance addresses the priority framework, no additional changes were made.

b. Management Letters

Ms. Bernard said NAIC staff developed proposed revisions to guidance for management letters in response to a referral from the Chief Financial Regulator Forum. The proposed revisions clarify that there may be circumstances in which the insurance department provides the management letter to a different level within the holding company structure. Situations when this may be appropriate include when the examination team wishes to issue a group management letter covering multiple entities and when a board of directors with members independent of management exists above the legal entity level.

Ms. Bernard said the referral also requested that the Technical Group consider whether the management letter issued as part of a financial examination should be proactively shared among the states using the Financial Exam Electronic Tracking System (FEETS). Ms. Bernard said that FEETS implementation is pending and asked NAIC staff to continue to monitor the status of implementation.

c. Exhibit V – Prospective Risk Assessment and Exhibit AA – Summary Review Memorandum

Ms. Bernard said the referral regarding 2018 Exam Peer Review takeaways also suggested that the Technical Group consider the format of Exhibit V – Prospective Risk Assessment. The referral indicated that peer review attendees thought the format of the exhibit created confusion and did not appropriately emphasize the importance of the risks that should be addressed using the exhibit. Proposed revisions to the exhibit include revising the columns and column headers to more clearly indicate the expected documentation and aligning the exhibit more closely with the Summary Review Memorandum (SRM) and the Insurer Profile Summary (IPS). The examples provided in the Exhibit were also updated to reflect the proposed format changes. Ms. Bernard said that proposed guidance for the second part of the exhibit clarifies that common areas of concern are included for reference only. Examiners are not required to included risks for each common area of concern, nor are they required to provide a rationale for not identifying a risk for each area of concern. Proposed revisions also include using the Own Risk and Solvency Assessment (ORSA) filing, when available, as a source for identifying potential prospective risks. Ms. Bernard said that Exhibit AA – Summary Review Memorandum was revised to include definitions and considerations for determining the trend and risk assessment level of identified risks.

Mr. Finnell said that examiners may need to engage a specialist to assist in performing some of the procedures that are illustrated within the examples on Exhibit V. He also said that examiners should attempt to test mitigation strategies in place at the insurer before conducting independent testing, as some of the testing can become very specialized and require additional resources. Ms. Bernard agreed that examiners are expected to first gain an understanding of the mitigation strategies and controls in place, and only perform additional independent testing if warranted based on the risk assessment.

The Technical Group agreed to expose the proposed revisions to: 1) Troubled Insurance Companies; 2) Management Letters; 3) Exhibit V – Overarching Prospective Risk Assessment; and 4) Exhibit AA – Summary Review Memorandum for a 30-day public comment period ending Oct. 14.

3. Received an Update on Reserves/Claims Handling Repository Project

Bailey Henning (NAIC) said that a group of volunteers from the Technical Group has now reviewed two of the three reserves/claims handling repositories, using input provided by the Life Actuarial (A) Task Force, the Health Actuarial (B) Task Force and the Actuarial Opinion (C) Working Group. She said the volunteers plan to meet at the end of September to discuss the remaining repository. After each repository has been reviewed, the volunteers expect to meet at least once more before providing a recommendation of changes for the Technical Group to consider. Miguel Romero (NAIC) said that it is possible that this project may extend into 2020.

4. Received an Update on IT Examination (E) Working Group Projects

Mr. Romero informed the Technical Group that the IT Examination (E) Working Group plans to meet via conference call
Sept. 26 to consider adopting revisions related to: 1) language used when documenting the conclusions reached as a result of the information technology (IT) review; 2) considerations when using the work of third parties; and 3) considerations when using company-prepared cybersecurity self-assessments to supplement the IT review. Mr. Romero said that due to the technical nature of the subject matter, the IT Examination (E) Working Group has authority to adopt guidance directly into the Handbook. Therefore, anybody wishing to be part of the discussion should attempt to participate in the upcoming conference call.

Having no further business, the Financial Examiners Handbook (E) Technical Group adjourned.
The Financial Examiners Handbook (E) Technical Group met via conference call Nov. 14, 2019. The following Technical Group members participated: Susan Bernard, Chair (CA); William Arfanis (CT); N. Kevin Brown (DC); Cindy Andersen (IL); Shannon Schmoeger (MO); Justin Schrader (NE); Colin Wilkins (NH); John Sirovetz (NJ); Tracy Snow (OH); Joel Sander (OK); Melissa Greiner (PA); Pat McNaughton (WA); and John Litweiler (WI).

1. **Adopted Minutes from its Sept. 12, Conference Call**

The Financial Examiners Handbook (E) Technical Group met via conference call Sept. 12 and took the following action: 1) adopted salary range guidelines for inclusion in the Financial Condition Examiners Handbook (Handbook); 2) adopted revisions Handbook guidance to emphasize the importance and timing of interviews; 3) adopted a new template for interviewing a chief marketing officer; 4) exposed Handbook guidance related to troubled insurance companies, management letters, Exhibit V – Overarching Prospective Risk Assessment, and Exhibit AA – Summary Review Memorandum; 5) received an update on the status of the examination repository updates; and 6) received an update from IT Examination (E) Working Group on the status of its projects.

Mr. Schrader made a motion, seconded by Ms. Greiner, to adopt the Sept. 12 conference call minutes. The motion passed unanimously.

2. **Adopted Handbook Guidance**

a. **Troubled Insurance Companies**

Ms. Bernard said NAIC staff developed proposed revisions to incorporate considerations when examining a troubled or potentially troubled insurance company in response to a referral from the Financial Analysis (E) Working Group. The revisions provide guidance regarding specific key elements from the *Troubled Insurance Company Handbook*, including communication expectations for companies that are troubled or potentially troubled, and pre-receivership considerations. Ms. Bernard said the referral also requested consideration of guidance regarding the priority rating framework. However, because existing guidance addresses the priority framework, no additional changes were made. Ms. Bernard said no comment letters were received regarding this proposed change.

b. **Management Letters**

Ms. Bernard said NAIC staff developed proposed revisions to clarify to whom the management letter should be provided and what information should be provided therein. Ms. Bernard said that a comment letter was received from interested parties during the exposure period. The comment letter suggested that the circumstances in which a management letter is provided to a level beyond the legal entity be more clearly defined.

Ms. Bernard said that the revisions were amended as follows: 1) indicate that depending on the issues to be communicated, it may be appropriate to prepare two different management letters: one to be provided at the legal entity level and one to be provided to a level above the legal entity; and 2) additional guidance for determining which findings would be appropriate to communicate to a higher level within the organizational structure. Ms. Bernard said that the additional guidance describes several considerations to be used when determining the significance of both financial reporting matters and other-than-financial-reporting matters.

These considerations may include: 1) the level at which corrective measures can be taken; 2) whether the findings meet the definitions for significant deficiency or material weakness; 3) the likelihood of the finding having a significant adverse impact on the insurer’s overall condition; 4) whether a conflict of interest exists; and 5) whether management has sufficient understanding and capacity to anticipate and respond to changing conditions.

Tom Finnell (America’s Health Insurance Plans—AHIP) said that it appears that amendments made to the exposure draft, based on the comments provided in the interested party comment letter, appear to capture the spirit of the interested party
feedback. Mr. Finnell requested that the guidance explaining that two management letters may be prepared be moved after the paragraph describing how to determine the significance of the findings. Mr. Finnell suggested that it would be clearer to discuss the difference in issues to be reported and because of that, it may be appropriate to prepare two different letters. There were no objections, and therefore, the suggestion was accepted and incorporated into the proposed revisions.

Mr. Finnell asked if it was common for there to be a conflict of interest with the management at the legal entity level that would necessitate sending a management letter to a level above the legal entity. Ms. Bernard said that there are circumstances when many or all individuals of the management team are also members of the board of directors. In this case, it would be beneficial to be able to send the management letter to a higher level within the organization to ensure independence in considering the communication provided and action taken, if needed. Joe Zolecki (Blue Cross Blue Shield Association—BCBSA) agreed with commentary provided by Mr. Finnell.

Mr. Arfanis requested that additional guidance be added to indicate that the content and recipient(s) of the management letter(s) is at the discretion of the examination team. There were no objections, and therefore, the suggestion was accepted and incorporated into the proposed revisions.

Ms. Bernard said that enhancements will be added to the Financial Exam Electronic Tracking System (FEETS) to all regulators to proactively share the management letter with each other. Changes are expected to be implemented early 2020. Mr. Snow asked if management letters shared in FEETS will be kept confidential. Ms. Henning said that FEETS is a regulator-only tool. Furthermore, it is expected that a management letter is uploaded to FEETS or an explanation is provided regarding why a management letter was not uploaded. Additional language is anticipated to be added to indicate that the viewer should contact the domestic regulator with any questions or to request a management letter if it is not uploaded to FEETS. Mr. Snow asked if all FEETS users would have access to view the management letter. Ms. Henning said that all FEETS users have access to view all information in the application.

c. Exhibit V and Exhibit AA Enhancements

Ms. Bernard said NAIC staff developed proposed revisions to Exhibit V – Overarching Prospective Risk Assessment and Exhibit AA – Summary Review Memorandum to enhance the documentation prospective risk assessment. Changes include: 1) revised column headings to clarify the purpose of each column; 2) additional columns to align the assessment made on Exhibit V with the communication used on the SRM/IPS when transitioning information between exam and analysis; and 3) updated the examples shown on Exhibit V. Minor changes to Exhibit AA – Summary Review Memorandum were made to include definitions and considerations related to the trend and risk assessment level for identified risks. Ms. Bernard said no comment letters were received regarding this proposed change.

Mr. Arfanis made a motion, seconded by Ms. Andersen, to adopt the guidance related to 1) Troubled Insurance Companies; 2) Management Letters, as amended; 3) Exhibit V – Overarching Prospective Risk Assessment; and 4) Exhibit AA – Summary Review Memorandum.

3. Discussed 2019 Project Listing

Bailey Henning (NAIC) said that most of the items on the project listing have been completed. Ms. Henning said that volunteers from the Technical Group have met to discuss updates to the reserves examination repositories and that work is ongoing. Ms. Henning said that the volunteers expect to wrap up their work and provide a recommendation to the Technical Group to consider in spring 2020. Ms. Henning also stated that the Technical Group will need to consider the impact of changes to the NAIC Credit for Reinsurance Model Law and Regulation (#785/786) on the guidance provided in the Handbook.

4. Received an Update on IT Examination (E) Working Group Projects

Mr. Romero informed the Technical Group that the IT Examination (E) Working Group recently adopted revisions related to: 1) language used when documenting the conclusions reached as a result of the information technology (IT) review; 2) considerations when using the work of third parties; and 3) considerations when using company-prepared cybersecurity self-assessments to supplement the IT review.

Having no further business, the Financial Examiners Handbook (E) Technical Group adjourned.
The IT Examination (E) Working Group of the Examination Oversight (E) Task Force met via conference call Sept. 26, 2019. The following Working Group members participated: John Jacobson, Chair (WA); Jerry Ehlers, Vice Chair (IN); Blase Abreo (AL); Mel Heaps (AR); Ber Vang (CA); William Arfanis and Ken Roulier (CT); Ginny Godek (IL); Shane Mead (KS); Greg Brelsford (MD); Kim Dobbs and Cynthia Amann (MO); Justin Schrader (NE); Eileen Fox (NY); Metty Nyangoro (OH); Eli Snowbarger (OK); Melissa Greiner (PA); and Dave Jensen (WI).

1. **Adopted Revisions to Handbook Guidance**

Mr. Ehlers and Jacob Steilen (NAIC) provided a brief overview of updates to the revisions that were being considered by the Working Group. The guidance considered covered three topics. The first topic relates to the conclusions reached on IT General Controls at the end of an information technology (IT) examination. The second topic relates to updates on using IT work performed by a third party to assist in a state insurance regulator’s IT review process. The final agenda topic for revisions would create a new reference to cyber self-assessments and create a mapping to one of those self-assessments developed by the Financial Services Sector Coordinating Council (FSSCC). The revisions would affect Section 1-3 and Exhibit C of the Handbook guidance. Materials were previously exposed and subject to a public comment period ending Aug. 30, with several comments received and incorporated into the newly updated conference call materials. Mr. Steilen provided an update on updates that were incorporated to the draft guidance.

Tom Finnell (America’s Health Insurance Plans—AHIP) inquired as to whether the updated Section 1-3 guidance was clear enough that the use of cyber assessment tools was optional. The way the guidance is stated, companies may opt to use cyber tools depending on their business type. Mr. Finnell noted that the wording made it sound like IT examiners should choose between the listed examples. A friendly amendment was added to clarify that use of the tool is optional.

The next comment related to the criteria for concluding on a generally effective versus ineffective IT general controls environment. Criteria were added to the existing list that included in-process remediation and management’s risk tolerance as mitigating factors that could be used to conclude that an IT general controls environment is generally effective. Mr. Roulier, Ms. Dobbs and Mr. Mead suggested the revisions be removed as they did not consider the new factors to be appropriate considerations in evaluating the impact of findings on IT general controls. A friendly amendment was therefore made to remove the previously added guidance. As these criteria are also reflected on Exhibit C, the Working Group elected to make the same changes for internal consistency. Michael Monahan (ACLI) had two additional clarification suggestions in Section 1-3 that were accepted as friendly amendments. The first edit changed the phrase “may be required to perform additional testing” to “may perform additional testing.” The second edit changed the phrase “may also need to consider additional procedures” to “may also consider additional procedures.”

On Exhibit C – IT Review Standard Summary Memorandum, Ms. Dobbs suggested a friendly amendment to change a sentence to the past-tense because at the time an IT examiner would be filling out the Summary Review Memorandum, the work would already have been performed. The suggested change was accepted as a friendly amendment. Mr. Nyangoro asked if non-IT factors should be considered in the “mitigating factors” column on the Exhibit C findings chart. Miguel Romero (NAIC) stated that the mitigating factors columns is meant to allow IT examiners to provide context in support of why their individual findings were or were not significant to the broader conclusion on IT general controls. The group did not have questions or concerns on the remainder of Exhibit C.

In conjunction with the edit regarding the optional nature of using cyber assessment reports, Mr. Romero suggested adding a similar clarification to the instructions provided at the beginning of the FSSCC mapping tool. There were no objections to this suggestion.

Mr. Roulier made a motion, seconded by Mr. Jensen, to adopt the Handbook guidance, which would include the friendly amendments noted above. The motion passed.

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

NAIC Staff Update on LIBOR Transition
MEMORANDUM

TO: Jillian Froment, Chair, Examination Oversight (E) Task Force
    Members of the Examination Oversight (E) Task Force

FROM: Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau
    Michele Wong, Manager, Capital Markets Bureau

CC: Dan Daveline, Director, Financial Regulatory Services
    Todd Sells, Director, Financial Regulatory Policy & Data
    Miguel Romero, Financial Examination Manager, Financial Regulatory Services

RE: Update on LIBOR Transition

Date: November 7, 2019

The London Inter Bank Offered Rate, or LIBOR, is the primary benchmark for short-term and variable interest rates and is used to determine interest rates on approximately $400 trillion in assets, such as corporate and structured bonds, home mortgages, business loans and derivatives contracts. However, due to price manipulation concerns that came to light in 2012, the financial markets will be transitioning away from using LIBOR as a reference benchmark.

By the end of 2021, Britain’s Financial Conduct Authority will no longer require banks to provide quotes used to calculate LIBOR. The U.S. has been testing a potential alternative rate, the Secured Overnight Financing Rate (SOFR) which is based on the cost of overnight loans.

As we close in on the transition date, the Capital Markets Bureau will be publishing educational materials that will provide details on the LIBOR transition to help regulators better understand how insurance companies will be affected. The impact on insurance company invested assets is unclear and will vary by asset type. However, one key issue that will arise from the transition is the need for insurance companies to review, and potentially revise, all financial agreements that reference LIBOR.