

Draft date: 8/1/24

2024 Summer National Meeting
Chicago, Illinois

FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Tuesday, August 13, 2024

12:15 – 12:45 p.m.

McCormick Place Convention Center—S105—Level 1

ROLL CALL

Lori K. Wing-Heier, Chair	Alaska	Mike Causey	North Carolina
Sharon P. Clark, Co-Vice Chair	Kentucky	Jon Godfread	North Dakota
Andrew R. Stolfi, Co-Vice Chair	Oregon	Elizabeth Kelleher Dwyer	Rhode Island
Alan McClain	Arkansas	Michael Wise	South Carolina
Andrew N. Mais	Connecticut	Larry D. Deiter	South Dakota
Robert Carey	Maine	Scott A. White	Virginia
Kevin P. Beagan	Massachusetts	Jeff Rude	Wyoming
Eric Dunning	Nebraska		

NAIC Support Staff: Bailey Henning/Sara Franson/Dan Schelp/Bruce Jenson

AGENDA

1. Consider Adoption of its Spring National Meeting Minutes Attachment One
—*Director Lori K. Wing-Heier (AK)*
2. Consider Adoption of a Recommendation from the Receivership and Attachment Two
Insolvency (E) Task Force—*Director Lori K. Wing-Heier (AK)*
3. Consider Clarification of the Group Capital Calculation (GCC) Accreditation Attachment Three
Standard for Risk Retention Groups (RRGs)
—*Director Lori K. Wing-Heier (AK)*
4. Consider Exposure of Accreditation Manual Revisions/Updates
— *Director Lori K. Wing-Heier (AK)*
 - A. Volunteer Group Memo of Proposed Changes Attachment Four-A
 - B. Proposed Revisions to the B1 Analysis Review Team Guidelines Attachment Four-B
 - C. Proposed Revisions to the B1 Analysis Self-Evaluation Guide Attachment Four-C
5. Discuss a Proposed Referral to the Risk-Focused Surveillance (E) Working Attachment Five
Group—*Director Lori K. Wing-Heier (AK)*
6. Discuss Any Other Matters Brought Before the Committee
—*Director Lori K. Wing-Heier (AK)*
7. Adjournment

Draft Pending Adoption

Date: 3/20/24

Financial Regulation Standards and Accreditation (F) Committee
Phoenix, Arizona
March 16, 2024

The Financial Regulation Standards and Accreditation (F) Committee met in Phoenix, AZ, March 16, 2024. The following Committee members participated: Lori K. Wing-Heier, Chair (AK); Sharon P. Clark, Co-Vice Chair represented by Vicki Lloyd (KY); Andrew R. Stolfi, Co-Vice Chair (OR); Alan McClain (AR); Andrew N. Mais represented by Jack Broccoli (CT); Robert L. Carey represented by Vanessa Sullivan (ME); Gary D. Anderson represented by Rachel M. Davison (MA); Eric Dunning (NE); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Elizabeth Kelleher Dwyer represented by Ted Hurley and John Tudino (RI); Michael Wise (SC); Larry D. Deiter (SD); and Scott A. White represented by David Smith and Doug Stolte (VA). Also participating was Donna Wilson (OK).

1. Adopted its 2023 Summer National Meeting Minutes

Director Deiter made a motion, seconded by Commissioner Stolfi, to adopt the Committee's Aug. 13 minutes (see *NAIC Proceedings – Summer 2023, Financial Regulation Standards and Accreditation (F) Committee*). The motion passed unanimously.

Director Wing-Heier said the Committee met March 15 in regulator-to-regulator session, pursuant to paragraph 7 (consideration of individual state insurance department's compliance with NAIC financial regulation standards) of the NAIC Policy Statement on Open Meetings. During this meeting, the Committee voted to award continued accreditation to Arizona and California

2. Adopted 2023 NAIC Publications

Director Wing-Heier said there are several NAIC publications currently included in the accreditation standards by reference. At each Spring National Meeting, the Committee reviews revisions made to these publications in the prior year. Each of the applicable groups that developed revisions to the publications in 2023 has provided the Committee with a memorandum discussing the revisions, and they indicated whether the revisions should be considered significant or insignificant for accreditation purposes. The publications include the *Accounting Practices and Procedures Manual* (AP&P Manual) (Attachment One); the *Annual Statement Blanks and Instructions* (Attachment Two); the *Financial Condition Examiners Handbook* (Handbook) (Attachment Three); the *RBC Formulas and Instructions for Life and P&C Insurers* (Attachment Four); the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) (Attachment Five); and the *Valuation Manual* (Attachment Six). The working group or task force responsible for each of these publications has deemed their 2023 changes insignificant to the accreditation process.

Commissioner Stolfi made a motion, seconded by Broccoli, to adopt the revisions deemed insignificant to each of the publications immediately by reference to the accreditation standards. The motion passed unanimously.

3. Exposed a Referral from the Receivership and Insolvency (E) Task Force Recommending That 2023 Revisions to Model #540 Be Acceptable for Accreditation but Not Required

Director Wing-Heier stated that a memorandum was received regarding recently adopted revisions to the *Property and Casualty Insurance Guaranty Association Model Act* (#540) from the Receivership and Insolvency (E) Task Force. Because the model is part of the accreditation standards, the Committee needs to consider the impact

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of any changes. Wilson, vice chair of the Receivership and Insolvency (E) Task Force, presented the memorandum and the Task Force's recommendation.

Commissioner McClain made a motion, seconded by Broccoli, to expose the referral from the Receivership and Insolvency (E) Task Force recommending that the 2023 revisions to Model #540 be acceptable for accreditation but not required for a 30-day public comment period ending April 19. The motion passed unanimously.

Having no further business, the Financial Regulation Standards and Accreditation (F) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/F CMTE/2024Spring



TO: Director Lori K. Wing-Heier, Chair of Financial Regulation Standards and Accreditation (F) Committee

FROM: Director Dana Popish Severinghaus, Chair of Receivership and Insolvency (E) Task Force

DATE: February 29, 2024

RE: 2023 Amendments to the *Property and Casualty Insurance Guaranty Association Model Act* (#540)

In December 2023, the *Property and Casualty Insurance Guaranty Association Model Act* (#540) was amended to include the following updated provisions: 1) to preserve guaranty fund coverage for policyholders subject to insurance business transfers (IBT) and corporate divisions (CD) where the policyholder had guaranty fund coverage before the transaction; and 2) to clarify guaranty fund coverage of cyber security insurance.

The Receivership and Insolvency (E) Task Force recommends that the 2023 amendments to Model 540 be considered acceptable but not required, and therefore does not recommend any changes to the current Part A Accreditation standard #14—Guaranty Funds.

The current accreditation standards include Part A: Laws and Regulations standard #14 – Guaranty Funds.

- This standard requires a regulatory framework, such as that contained in the NAIC’s model acts on the subject, to ensure the payment of policyholder obligations subject to appropriate restrictions and limitations when a company is deemed insolvent. The applicable models include the *Life and Health Insurance Guaranty Association Model Act* (#520) for life companies and the *Property and Casualty Insurance Guaranty Association Model Act* (#540) for property/casualty companies.
- For this standard in which a “regulatory framework” is required rather than specific elements of the models, the revisions do not necessitate an exposure period by the Committee to include them as part of the acceptable framework for accreditation. The inclusion of the revisions as acceptable within the framework would allow a state to either adopt the revisions or not adopt the revisions and still remain in compliance with the regulatory framework required by accreditation. Following this process, the model will be considered acceptable but not required when determining if a regulatory framework is in place in accordance with the accreditation standard.

If you have any questions, please contact NAIC staff, Jane Koenigsman (jkoenigsman@naic.org).



MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Risk Retention Group (E) Task Force

DATE: September 1, 2022

RE: Response to Group Capital Calculation Accreditation Standard Exposure

The Risk Retention Group (E) Task Force is charged with following the work of the Financial Regulation Standards and Accreditation (F) Committee and providing input on the applicability to risk retention groups (RRGs) of new or revised standards. The F Committee exposed significant elements to include the 2020 revisions to the *Insurance Holding Company System Model Act* (#440) and *Insurance Holding Company System Model Regulation* (#450) as updates to the Part A accreditation standards. The revisions implement a Group Capital Calculation (GCC) for the purpose of group solvency supervision and a Liquidity Stress Test (LST) for macroprudential surveillance.

The Task Force discussed the proposed revisions and provides the following recommendations.

Liquidity Stress Test

The Task Force recommends the proposed significant elements not be included in the RRG Part A standards because the Liquidity Stress Test applies to large life insurers and RRGs are not authorized to write life business.

Group Capital Calculation

The Task Force recommends that the proposed significant elements be included in the RRG Part A standards, with the understanding that the proposed significant elements are adopted as exposed. Specifically, the allowance for commissioners to grant exemptions to groups meeting the qualifications set forth in Model #450 Section 21A and Section 21B without the requirement to file at least once. This flexibility is necessary to allow for the unique nature of many RRG holding company groups without limiting regulatory authority in situations when the filing is appropriate.

Thank you for the opportunity to comment on this matter.

MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: F Committee Volunteer Group

DATE: July 23, 2024

RE: Review Team Guidelines and Self-Evaluation Guide Updates for Contractor Use in Analysis

The Volunteer Group has met and discussed various parts of the Accreditation Program Manual in the interest of updating it to address the current environment. The Review Team Guidelines and Self-Evaluation Guide for Part B1: Financial Analysis currently do not include consideration of the increased use of contractors for financial analysis among states. The proposed revisions, summarized below, are consistent with existing guidance in place in B2: Financial Examinations for the use of contractors.

Review Team Guidelines

Under Sufficient Qualified Staff and Resources, the Volunteer Group recommends including contractors under both a results-oriented guideline and a process-oriented guideline. Under the results-oriented guideline, it is proposed to include contractors when assessing whether a department has qualified staff and resources. For the process-oriented guideline, contractors are proposed to be included when determining the backgrounds and if individuals are appropriate for the work they perform.

Under Appropriate Supervisory Review, the Volunteer Group recommends including clarifying language to state there should be evidence of department oversight of the IPS and/or GPS. The current guidance states it is required to review the IPS and/or GPS, but not necessarily show evidence (i.e., sign-off, email, etc.) that the review occurred.

Self-Evaluation Guide

Under Sufficient Qualified Staff and Resources, the Volunteer Group recommends including contractor information and requesting the numbers of contractors used by a state. The updates bring this standard more in-line with the information requested for examinations under the same standard. Additionally, when requesting the list of analysis staff, it is also recommended that the state indicate whether the person(s) listed serve as the department oversight of contractors.

The Volunteer Group recommends the Committee consider these enhancements to the Review Team Guidelines and Self-Evaluation Guide for exposure and possible inclusion.

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Accreditation Program Manual
Review Team Guidelines

**NAIC FINANCIAL REGULATION STANDARDS
AND ACCREDITATION PROGRAM**

REVIEW TEAM GUIDELINES

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Part B1: Financial Analysis

a. Sufficient Qualified Staff and Resources

Standard: The department should have the appropriate staff and resources to effectively and timely review the financial condition of all domestic insurers.

Results-Oriented Guidelines:

1. The department should have qualified analysts or contractual resources with appropriate skill sets, abilities, knowledge and experience levels to satisfactorily and effectively perform analysis tasks and procedures. Such experience should match the sophistication and complexity of the domestic industry. When assessing whether a department has qualified staff and resources, consideration should be given to the following:
 - The quality of the work performed by the financial analysis staff and/or contractors as documented in the financial analysis files.
 - The financial analysis staff's and/or contractor's knowledge and comprehension of the insurance industry and its domestic insurers, as demonstrated during interviews with the staff.
2. The analysis of various financial filings should be completed timely, as discussed in the process-oriented guidelines. If the analysis tasks and procedures were not completed timely, consideration should be given to the size and complexity of the department's multistate insurers and the insurance holding company systems for which the department acts as the lead state. If the analysis tasks and procedures were not completed timely, the department should document the reasons for such, and the review team may take extenuating circumstances into consideration.

Process-Oriented Guidelines:

1. The financial analysts and supervisors, including contractors (if applicable), should have an accounting, insurance, financial analysis and/or actuarial background, and insurance backgrounds should be financial in nature. College degrees should focus on accounting, insurance, finance, business or actuarial science. Professional designations and credentials may also demonstrate expertise in insurance and/or financial analysis.
2. The analysis of priority insurers should be completed by the analyst and reviewed by the supervisor by:
 - Annual statements and actuarial-related filings: End of April.
 - Quarterly statements: Within 60 days from receipt of filing.
 - Supplemental filings (excluding holding company filings): Within 60 days from receipt of filing.
 - Holding company filings: by Oct. 31st for analysis conducted by the lead state; by Dec. 31st for analysis conducted by the domestic state.

Accreditation Program Manual
Review Team Guidelines

3. The analysis of non-priority insurers should be completed by the analyst and reviewed by the supervisor by:
 - Annual statements and actuarial-related filings: End of June or if a preliminary analysis, as outlined in the NAIC *Financial Analysis Handbook* (Analysis Handbook), indicates no immediate concerns, then by the end of July.
 - Preliminary analysis performed and relied upon for analysis completion dates should be completed within two weeks from receipt of filing.
 - Quarterly statements: Within 90 days from receipt of filing.
 - Supplemental filings (excluding holding company filings): Within 120 days from receipt of filing.
 - Holding company filings: by Oct. 31st for analysis conducted by the lead state; by Dec. 31st for analysis conducted by the domestic state.

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c. Appropriate Supervisory Review

Standard: The department’s financial analysis process should provide for appropriate supervisory review and comment. Supervisory review may be conducted by the analyst’s supervisor or a senior-level analyst whose job functions include such review duties.

Results-Oriented Guidelines:

1. The supervisory review should be an in-depth and challenging review of the analyst’s findings. An in-depth and challenging review should ensure the financial analyses performed are thorough and substantive. When assessing whether the supervisory review is in-depth and challenging, consideration should be given to the following:
 - Substantive review notes provided by the supervisor. Although supervisory review notes may assist the accreditation review team in assessing the supervisory review, they are not required to be created or maintained.
 - The overall quality of the analysis work as documented in the analysis file, including whether all material matters have been identified and adequately discussed.
 - Why issues with the quality of the analysis were not identified and resolved by the supervisor.

Process-Oriented Guidelines:

1. There should be evidence of at least one level of supervisory review on the financial analysis. This does not include scenarios when the company “passed” an automated review, such as the Quarterly Assessment of Non-Troubled Insurers. The supervisory review should be evidenced by sign-off and dating.
2. If the department uses an automated review such as the Quarterly Assessment of Non-Troubled Insurers, and the company did not “pass” the automated review but the analyst documented the rationale that no further documented analysis was necessary, a supervisor should approve the conclusion.

Accreditation Program Manual
Review Team Guidelines

3. The supervisory review should include a review of the risk assessment and significant supporting documentation, and include at least some review of the source documents, the level of which should be based on the experience of the analyst.
4. The supervisory review should be performed within two to three weeks of completion of the original analysis.
5. The supervisory review should include a review of any written responses from the company received by the primary analyst that contain significant information.
6. The supervisory review should include a review of any change in an insurer's priority rating.
7. If the department utilizes a contractor to perform the primary supervisory review of financial analysis, there should be evidence of an additional level of review ~~is required~~ on the IPS and/or Group Profile Summary (GPS) by a qualified department employee.

Accreditation Program Manual
SEG/IAR Form | Part B1

PART B1: FINANCIAL ANALYSIS

a) Sufficient Qualified Staff and Resources

The department should have the appropriate staff and resources to effectively and timely review the financial condition of all domestic insurers.

YES **NO**

1. Does the department have analysts on staff or under contract whose primary responsibility is to review the financial statements as well as other information and data to discern potential and actual financial problems of all domestic insurers?

2. Indicate the number below for each of the following:

- **Financial-Department analysts:** include the total number of analysts employed ~~or contracted~~ by the state who are performing or have performed financial analyses.
- **Department Supervisors:** include the total number of supervisors employed ~~or contracted~~ by the state who are performing or have performed financial analysis.
- **Contract analysts:** include the total number of individual contractors, whether associated with a firm or as an independent contractor, that performed financial analysis on behalf of the state.
- **Contract supervisors:** include the total number of individual contractors, whether associated with a firm or as an independent contractor, that performed supervisory oversight of financial analysis work on behalf of the state.
- **Department Analyst vacancies:** include the current number of vacant analyst positions.
- **Department Supervisor vacancies:** include the current number of vacant supervisor positions.
- **Multi-state companies:** include all forms of traditional insurers (L&H, P&C, HMO, title, fraternal, non-captive RRGs, etc.) that meet the definition of a multi-state insurer as defined in the Part B Preamble. Only provide the total number of multi-state companies the financial analysis staff is responsible for monitoring.
- **RRGs organized as captives:** include all RRGs that are organized under the state’s captive statutes. Only provide the total number of RRGs organized as captives the financial analysis staff is responsible for monitoring.
- **Single state companies:** include all forms of traditional insurers (L&H, P&C, HMO, title, fraternal, etc.) that are domiciled and operating in one state. Only provide the total number of single state companies the financial analysis staff is responsible for monitoring.
- **Other:** include any other domestic insurers that are not subject to accreditation, not listed in the single or multi-state column and are the responsibility of the financial analysis staff. Additionally, please provide a brief note discussing the company types included in this count.
- **Total domestic companies:** include a total of all the insurers the financial analysis staff is responsible for monitoring. The total should equal the sum of multi-state, RRGs as captives, single state and other columns.

	Financial <u>Department</u> Analysts	<u>Department</u> Supervisors	<u>Contract</u> Analysts	<u>Contract</u> Supervisors	<u>Department</u> Analyst Vacancies	<u>Department</u> Supervisor Vacancies
Current Year (CY)						
CY – 1						
CY – 2						

Accreditation Program Manual
SEG/IAR Form | Part B1

	Multi- State	RRGs as Captives	Single State	Other	Total Domestic
Current Year (CY)					
CY - 1					
CY - 2					

Notes:

- In the event the department has financial analysis staff that act as both an analyst and a supervisor, include them in both counts and provide a note that discusses the circumstance.
 - Surplus lines companies and reinsurers licensed in one state but operating in more than one state are considered multi-state companies.
 - When counting the total number of insurers for the current year, the department should provide the current count at the time this document is being prepared.
 - The total number of multi-state domestic companies, including RRGs licensed as captives, for the current year should tie to the total number of companies included in the attachment for #5 below. In the event the total counts do not match, please provide information as to why (i.e., a company redomesticated, two companies merged, a new company, etc.).
 - Throughout the SEG | IAR document, there will be reference to domestic insurers. Domestic insurers are to include all domestic multi-state insurers, including any RRGs licensed as captives, unless explicitly stated otherwise.
3. As a separate attachment, provide a current list of staff members who completed financial analysis work on behalf of the department, and include the following information on each:
- Name,
 - Professional designation(s), if any,
 - Title,
 - Years employed by the department (include functional area),
 - Type of college degree, including major area of concentration,
 - Prior regulatory and/or insurance experience,
 - Indicate whether the individual is responsible for supervisory reviews of multi-state financial analyses, including any RRGs licensed as captives,
 - Indicate whether the individual is a department employee (full/part time) or a contractual employee,
 - [Indicate whether the individual is responsible for department oversight of contractors performing supervisory reviews of analysis \(if applicable\).](#)
4. If the department utilized contractual analysts, during the past twelve months, please describe in a separate attachment the manner and extent of utilization in the department's analysis activities. If there are individual contractors dedicated to completing financial analysis on behalf of the department, include the information outlined in #3 above for each individual.

MEMORANDUM

TO: Amy Malm, Chair of Risk-Focused Surveillance (E) Working Group

FROM: Financial Regulation Standards and Accreditation (F) Committee

DATE: July 26, 2024

RE: Use of Independent Contractors for Analysis and Examinations

Financial Analysis & Department Oversight of Contractors

As states continue to face challenges with staffing and resources, more and more states are turning to the use of independent contractors to assist in the completion of financial analyses. This is a recent, yet growing, trend that accreditation review teams are encountering while conducting accreditation reviews. When a state utilizes the services of an independent contractor for analysis, the only guidance that is afforded a review team member when a state questions appropriate oversight is under the process-oriented guidelines for the Appropriate Supervisory Review standard in the Accreditation Program Manual that states:

- If the department utilizes a contractor to perform the primary supervisory review of financial analysis, an additional level of review is required on the IPS and/or Group Profile Summary (GPS) by a qualified department employee.

Unlike the Financial Condition Examiners Handbook, the Financial Analysis Handbook does not appear to provide guidance for the use of independent contractors in conducting analysis.

While the use of independent contractors for analysis is a newer development, the question is raised whether having just a process-oriented guideline is appropriate, or should there be consideration for a results-oriented guideline that focuses on the depth or level of understanding expected of a qualified department employee that reviews the IPS and/or GPS.

Additionally, should there be defined timeliness requirements for the department oversight review? In practice, review teams have been following the overall timeliness guidelines for the review of independent contractor work by a department qualified employee, regardless of when the initial supervisory review occurred. In other words, review teams do not expect the department's oversight to be performed within a certain timeframe, but rather, by the overall review dates, which are:

- Annual review of a priority company: April 30
- Annual review of a non-priority company: June 30 (or July 31 if a preliminary review is performed)
- Quarterly review of a priority company: within 60 days from receipt of filing

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- Quarterly review of a non-priority company: within 90 days from receipt of filing
- Holding company filings: by October 31/December 31, accordingly

The above timing guidelines are currently considered a best practice for when the department oversight review of the IPS and/or GPS occur; however, because there is not a direct accreditation guideline, the team would generally not be reporting on any deficiencies that exceed these best practices.

Financial Examinations & Department Designee

The *Financial Condition Examiners Handbook* (FCEH) provides some requirements and guidance on the role of the department designee, indicating it should be a person who is certified by the Society of Financial Examiners (SOFE) as a Certified Financial Examiner (CFE) or a person with substantially similar experience, qualifications and background, and who is employed by and conducting work solely on behalf of the state. Additionally, the guidance requires that the department designee participate by reviewing and approving various work papers and documents (i.e., Examination Planning Memorandum, Exhibit CC-Issue/Risk Tracking Template, Exhibit DD-Critical Risk Categories, Exhibit V-Pro prospective Risk Assessment, status and budget updates, risks identified, and planned test procedures prior to beginning Phase 3 and Phase 5 fieldwork). In events where the entire examination, including supervisory review, is to be conducted by contract examiners, review teams often have questions about assessing the role of the department designee.

There is currently just one process-oriented accreditation guideline pertaining to the department designee role:

- If a department elects to utilize contract examiners, the department should demonstrate involvement of appropriate department personnel during the course of the examination in accordance with the Examiners Handbook and the department's policies and procedures.

Questions often arise around whether the department designee should be able to demonstrate their level of overall understanding of the examination and its risks and findings at a broad/high level. Currently, there is no process-oriented guideline specific to the qualifications of the department designee, nor a results-oriented guideline that focus on the depth or level of understanding expected of a department designee and the question is, should there be?

Lastly, the FCEH states the department designee's review should be timely; however, it is not clear what timely means.

Additional guidance in these areas would be helpful for review teams to be able to reference when states under review ask questions or when states may not be following intended expectations.