

FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Financial Regulation Standards and Accreditation (F) Committee Dec. 7, 2020, Minutes

2021 Proposed Charges (Attachment One)

Revisions to the NAIC Accreditation Program Manual to Reference Salary Ranges (Attachment Two)

Referral from the Risk Retention Group (E) Task Force Related to the RRG Analysis Guideline (Attachment Three)

Draft Pending Adoption

Date: 12/10/20

Financial Regulation Standards and Accreditation (F) Committee
Virtual 2020 Fall National Meeting
December 7, 2020

The Financial Regulation Standards and Accreditation (F) Committee met Dec. 7, 2020. The following Committee members participated: Elizabeth Kelleher Dwyer, Chair (RI); Mark Afable, Vice Chair, (WI); Lori K. Wing-Heier (AK); Jim L. Ridling (AL); Andrew N. Mais (CT); Sharon P. Clark (KY); Gary Anderson (MA); Eric A Cioppa (ME); Mike Causey represented by Jackie Obusek (NC); Bruce R. Ramage (NE); Tynesia Dorsey (OH); Larry D. Deiter (SD); Tanji Northrup (UT); Scott A. White (VA); and Jeff Rude (WY);

1. Adopted its Summer National Meeting Minutes

Commissioner Clark made a motion, seconded by Commissioner Afable, to adopt the Committee's Aug. 20 minutes (*see NAIC Proceedings – Summer 2020, Financial Regulation Standards and Accreditation (F) Committee*). The motion passed unanimously.

Superintendent Dwyer said the Committee met Dec. 3 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 its meeting, the Committee voted to award continued accreditation to Idaho, Kentucky, Oklahoma and Vermont.

2. Adopted its 2021 Proposed Charges

Superintendent Dwyer discussed a memorandum that includes the Committee's 2021 proposed charges, noting the proposed charges are unchanged from the Committee's 2020 charges.

Commissioner Rude made a motion, seconded by Director Wing-Heier, to adopt the Committee's 2021 proposed charges (Attachment One). The motion passed unanimously.

3. Adopted Revisions to the NAIC Accreditation Program Manual to Reference Salary Ranges

Superintendent Dwyer stated that the Risk-Focused Surveillance (E) Working Group recently developed new salary ranges for inclusion in both the NAIC *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook*. The final salary ranges were the result of extensive research on job descriptions, industry comparisons and surveying states. The work also includes a process for the Working Group to maintain and update this guidance on an ongoing basis. The first iteration of the new salary ranges was published in the 2020 editions of both handbooks. Following adoption into the respective handbooks, the Working Group turned its attention to its charge to consider how the salary range recommendations and supporting guidance should affect accreditation standards and guidelines. The Working Group recommended revisions to the Review Team Guidelines that states report if their salaries fall below the established range. The revised guideline is contained in Part C: Organizational and Personnel Practices of the NAIC *Accreditation Program Manual* since this section already addresses issues related to resources and compensation. In addition, Part C is not taken into consideration by the review team in making a recommendation regarding the state insurance department's overall accreditation standing. Placing the guideline in this section allows for a review of department practices in this area, without directly affecting a state's accreditation standing if it cannot compensate state insurance regulators within the established ranges. Other standards relating to the sufficiency and qualifications of staff are already included in Part B of the accreditation standards, which are taken into consideration in making a recommendation on a state insurance department's overall accreditation standing. There were no comments received during the exposure period.

Commissioner Clark made a motion, seconded by Commissioner Mais, to adopt the referral to reference salary ranges in Part C: Organizational and Personnel Practices in the NAIC *Accreditation Program Manual* (Attachment Two). The motion passed unanimously.

4. Adopted the Referral from the Risk Retention Group (E) Task Force Related to the RRG Analysis Guideline

Draft Pending Adoption

Superintendent Dwyer stated that the accreditation Review Team Guidelines include an analysis guideline specifically related to risk retention groups (RRGs). The extra review by the domiciliary state required by the guideline is important due to the limitations on non-domiciliary state regulation set by the federal Liability Risk Retention Act (LRRRA). The referral from the Risk Retention Group (E) Task Force recommends a change to the guideline to clarify that the Task Force intends the guideline to be applied to all RRGs regardless of accounting treatment (generally accepted accounting principles [GAAP]/statutory accounting principles [SAP]) or organizational structure (captive/traditional). To do this, the referral recommends removing a reference to the “Captives and/or Insurers Filing on a U.S. GAAP Basis Worksheet” in the NIAC *Financial Analysis Handbook*. The reference implies the guideline is only applicable to GAAP filers, which can be misleading. The recommendation does not change the substance of the guideline. In addition, the referral recommends changing the term “business plan” to “plan of operations” for consistency with terminology used in the LRRRA. No comments were received during the exposure period.

Commissioner White made a motion, seconded by Commissioner Rude, to adopt the revision to the Review Team Guidelines as described in the referral dated Aug. 3, 2019 (Attachment Three). The motion passed unanimously.

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

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MEMORANDUM

TO: Members of the Financial Regulation Standards and Accreditation (F) Committee

FROM: Becky Meyer, Senior Accreditation Manager

DATE: Oct. 8, 2020

RE: 2021 Proposed Charges

Below are the Financial Regulation Standards and Accreditation (F) Committee's 2021 proposed charges. There have been no substantive changes from the Committee's 2020 charges.

The mission of the Financial Regulation Standards and Accreditation (F) Committee is both administrative and substantive, as it relates to the administration and enforcement of the NAIC Financial Regulation Standards and Accreditation Program. This includes, without limitation: 1) the consideration of standards and revisions of standards for accreditation; 2) the interpretation of standards; 3) the evaluation and interpretation of the states' laws and regulations, as well as departments' practices, procedures and organizations as they relate to compliance with standards; 4) the examination of members for compliance with standards; 5) the development and oversight of procedures for the examination of members for compliance with standards; 6) the selection of qualified individuals to examine members for compliance with standards; and 7) the determination of whether to accredit members.

Ongoing Support of NAIC Programs, Products or Services

1. The **Financial Regulation Standards and Accreditation (F) Committee** will:
 - A. Maintain and strengthen the NAIC Financial Regulation Standards and Accreditation Program.
 - B. Assist the states, as requested and as appropriate, in implementing laws, practices and procedures and obtaining personnel required for compliance with the standards.
 - C. Conduct a yearly review of accredited jurisdictions.
 - D. Consider new model laws; new practices and procedures; and amendments to existing model laws, practices and procedures required for accreditation. Determine the timing and appropriateness of the addition of new model laws, practices and procedures, and amendments.
 - E. Render advisory opinions and interpretations of model laws required for accreditation and on substantial similarity of state laws.
 - F. Review existing standards for effectiveness and relevancy, and make recommendations for change, if appropriate.
 - G. Produce, maintain and update the NAIC *Accreditation Program Manual* to provide guidance to state insurance regulators regarding the official standards, policies and procedures of the program.
 - H. Maintain and update the "Financial Regulation Standards and Accreditation Program" pamphlet.
 - I. Perform enhanced pre-accreditation review services, including, but not limited to, additional staff support, increased participation, enhanced report recommendations, and informal feedback.

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MEMORANDUM

TO: Commissioner Todd Kiser, Chair, Financial Regulation Standards and Accreditation (E) Committee

FROM: Justin Schrader, Chair, Risk-Focused Surveillance (E) Working Group

DATE: April 6, 2019

RE: Proposed Revisions to Accreditation Program Manual to Reference Salary Ranges

In 2017, the Risk-Focused Surveillance Working Group began work on a project to study regulator resources and review salary recommendations for financial regulators. After reviewing job requirements for financial regulators conducting risk-focused surveillance, completing a detailed salary survey of 40+ states and comparing the results against other similar regulatory and industry positions, the Working Group developed new salary range recommendations and supporting guidance for financial analyst and examiner compensation.

On Feb. 15, 2019, updated salary ranges and supporting guidance were referred to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group for consideration of adoption into the NAIC's *Financial Analysis Handbook* and *Financial Condition Examiners Handbook* respectively. It is expected that the updated salary ranges and supporting guidance will be included in the 2020 publication of these handbooks.

In addition to developing salary range recommendations, the Working Group was asked to consider how its work should impact the NAIC accreditation standards and guidelines, as outlined in the following charge:

Consider recommendations to the Financial Regulation Standards and Accreditation (F) Committee for the purpose of evaluating the suitability of insurance department staffing in relation to the necessary skillsets.

In fulfillment of this charge, the Working Group is referring proposed revisions to Part C: Organizational and Personnel Practices, as well as the Self-Evaluation Guide/Interim Annual Review Form of the NAIC's *Accreditation Program Manual* to the Committee for consideration of adoption. We recognize that Part C is reviewed by the accreditation team members but is not included in the Recommendation A or B and therefore does not impact a state's accredited status. Because of this assessment structure and because Part C already includes questions related to competitive pay structures, we feel this is a logical place to reference the updated salary ranges being incorporated into NAIC handbooks. In addition, we believe the proposed questions in the Self-Evaluation Guide/Interim Annual Review Form related to whether the state is paying below the recommended salary ranges would provide beneficial information to the accreditation team and the Committee. Therefore, we request that you consider adoption of the proposed additions/revisions to the Accreditation Program Manual, as shown in tracked-change format in **Attachment A**.

If there are any questions regarding the proposed revisions, please contact me or NAIC staff (Bruce Jensen at bjensen@naic.org) for clarification. Thank you for your consideration of this referral.

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Attachment A – Proposed Revisions to the Accreditation Program Manual

Part C: Organizational and Personnel Practices

a. Professional Development

Standard: The department should recognize and provide necessary training needs for staff involved with financial surveillance and regulation. The department should also have a policy that encourages professional development through job-related college courses, professional programs and/or other training programs.

Results-Oriented Guidelines:

1. The department should have the ability to provide adequate training for staff involved in financial surveillance and regulation commensurate with the needs of the department. When assessing compliance with this guideline, consideration should be given to the following:
 - The department’s recognition of when financial surveillance personnel may require additional training.
 - Whether appropriate training is provided.
 - The effectiveness of training programs, including how the department assesses effectiveness.
 - The use of on-the-job training.
 - Sufficiency of budgeted hours and finances to support training needs of the department.

Process-Oriented Guidelines:

1. The department should have a policy that focuses on training and developing staff involved with financial surveillance and regulation—in particular, staff that is new to financial surveillance and regulation.
2. The department should have a continuing education policy that encourages professional development in place for staff involved with financial surveillance and regulation.

b. Minimum Educational and Experience Requirements

Standard: The department should establish minimum educational and experience requirements for all professional employees and contractual staff positions in the financial regulation and surveillance area, which are commensurate with the duties and responsibilities of the position.

Results-Oriented Guidelines:

1. Financial surveillance staff should have the ability to perform the necessary duties and responsibilities, as well as meet the minimum educational and experience requirements commensurate with each position’s role in financial surveillance.

Process-Oriented Guidelines:

1. The department should establish minimum educational and experience requirements for staff positions in the financial surveillance and regulation area.
2. The department should maintain current and relevant job descriptions for staff positions in the financial surveillance and regulation area.

c. Retention of Personnel

Standard: The department should have the ability to attract and retain qualified personnel for those positions involved with financial surveillance and regulation.

Results-Oriented Guidelines:

1. The department should demonstrate the ability to attract and retain qualified personnel for those positions involved with financial surveillance and regulation. When assessing compliance with this guideline, consideration should be given to the following:
 - The department's hiring policy.
 - The overall retention of personnel in key financial surveillance regulation areas.
 - The performance appraisal, the review process and/or coaching programs.
 - The ability to provide promotional opportunities and/or career paths.
 - The ability to provide a competitive pay structure commensurate with the job duties and responsibilities, [including whether average salaries fall below the ranges defined in the Examiners Handbook and Analysis Handbook](#).

Process-Oriented Guidelines:

1. The department should have a hiring policy that allows for personnel needs to be addressed.
2. The department should [compare employee salaries to the suggested salary ranges defined in the Examiners Handbook and Analysis Handbook and](#) identify how it determines that pay structures are or are not competitive for positions involved with financial surveillance and regulation.
3. The department should have a performance appraisal and/or coaching program for staff.

d. Use of Contract Personnel

Standard: A department that utilizes contract personnel to assist in financial surveillance and regulation should ensure that those hired in the capacity of a contractor are subject to standards that are comparable to or exceed those standards applicable to employees of the state.

Results-Oriented Guidelines:

1. The department should assess contractors used in performing financial surveillance and regulation activities to ensure the work being performed is commensurate with the department's processes and procedures.

Process-Oriented Guidelines:

1. The department should have a process in place to consider qualifications, training and professional development of contractors performing financial surveillance and regulation activities.

2. The department should have the authority to terminate a contract for services related to financial surveillance and regulation on the basis of poor performance.

Related Self-Evaluation Guide/Interim Annual Review Form

c) Retention of Personnel

The department should have the ability to attract and retain qualified personnel for those positions involved with financial surveillance and regulation.

	YES	NO
1. Is the department’s pay structure for those positions involved with financial surveillance and regulation competitive to:		
▪ Attract qualified personnel?	_____	_____
▪ Retain qualified personnel?	_____	_____
2. Do the salaries of applicable department personnel fall below the suggested salary ranges defined in the Examiners Handbook and Analysis Handbook, adjusted for market and cost of living variances?		
▪ Financial Analyst?	_____	_____
▪ Senior Financial Analyst?	_____	_____
▪ Supervisor/Assistant Chief Analyst?	_____	_____
▪ Chief Analyst?	_____	_____
▪ Financial Examiner?	_____	_____
▪ Senior Financial Examiner?	_____	_____
▪ Examiner-In-Charge (EIC)/Supervisor/Assistant Chief Examiner?	_____	_____
▪ Chief Examiner?	_____	_____

32. In a separate attachment, identify how the department determines that pay structures are or are not competitive. Discuss the conclusion and any compensating factors or future plans in place if the salaries are deemed not competitive or fall below the range.

**If this is an interim annual review, only identify how the department determines that pay structures are or are not competitive if there have been substantial changes from the previous submission of this information, otherwise note "no changes".*

43. In a separate attachment, discuss the level of turnover that occurred during the past year and the reason for the turnover within the financial solvency monitoring staff, including the financial solvency senior management.

45. In a separate attachment, please discuss the department's hiring policy that allows for addressing personnel needs.

**If this is an interim annual review, only provide the department's hiring policy that allows for addressing personnel needs if there have been substantial changes from the previous submission of this information, otherwise note "no changes".*

65. Does the department have a performance appraisal and/or coaching program for financial solvency monitoring staff?

76. If the answer to #5 above is yes, please briefly describe the department's performance appraisal and/or coaching program for financial solvency monitoring staff.

**If this is an interim annual review, only provide the department's performance appraisal and/or coaching program for the financial solvency monitoring staff if there have been substantial changes from the previous submission of this information, otherwise note "no changes".*



MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee
FROM: Risk Retention Group (E) Task Force
DATE: August 3, 2019
RE: Part B1: Analysis Guidelines for Risk Retention Groups

The accreditation Review Team Guidelines include a guideline specifically related to risk retention groups (RRGs) within the financial analysis section (Part B1). This guideline was originally drafted by the Risk Retention Group (E) Task Force and adopted by the Financial Regulation Standards and Accreditation (F) Committee. It is the intention of the Task Force that this guideline is applied to all RRGs regardless of accounting treatment (GAAP/SAP) or organizational structure (captive/traditional laws).

In 2017, a number of revisions were made to the accreditation guidelines to incorporate risk-focused analysis. In conjunction with those revisions, a reference to the “Captives and/or Insurers Filing on a U.S. GAAP Basis Worksheet” in the NAIC *Financial Analysis Handbook* was added to the analysis guideline specific to RRGs. This worksheet can be a helpful tool, however, it applies only to GAAP filers with an emphasis on a review of accounting differences. Adding this reference implies the accreditation guideline is only applicable to GAAP filers, which is inconsistent with the Task Force’s position that the guideline applies to all RRGs.

The Task Force therefore asks the Committee to consider the following revision to B1(e), process-oriented guideline #8 to return to the language used prior to 2017 and clarify the guideline applies to all RRGs.

If the company is a risk retention group (RRG), the following procedures should be performed and documented within the analysis file, as applicable ~~(refer to the Analysis Handbook, Captives and/or Insurers Filing on a U.S. GAAP Basis Worksheet):~~

- Annual review of the ~~business plan~~ plan of operation to ensure that it is unchanged from the prior year.
- Ensure that all changes in the plan of operations have been approved.
- Review of the Note 1 reconciliation to ensure that it appears accurate and can be relied upon by others.
- Review of the General Interrogatory, Part 2 question 13.1 and ensure that the amount agrees with the approved plan of operations.
- Ensure that the financial projections on file accurately reflect the operations as presently conducted.
- Ensure that the “Notes” relating to the operation of the company agree with the approved plan of operation.

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