National Association of Insurance Commissioners

The Center for Insurance Policy and Research

To: Financial Regulation Standards and Accreditation (F) Committee
From: Leslie Jones, Chair, Risk Retention Group (E) Task Force
Date: July 28, 2010
Re: Recent Changes to Part A Accreditation Standards

The Financial Regulation Standards and Accreditation (F) Committee previously received a referral from the Risk Retention Group (E) Task Force on Part A: Laws and Regulations standards for risk retention groups (RRGs). The Committee voted at the 2008 Winter National Meeting to require RRGs to follow these Part A standards as of Jan. 1, 2011.

The Task Force's deliberations on the Part A standards took nearly five years. During that time, some of the NAIC model laws and regulations were revised, but the revisions were not considered by the Task Force at that time. The Task Force reviewed these revisions in 2009 and 2010. Included below are the models in the Part A standards that changed since the Task Force first began addressing the Part A Standards in 2003, and the Task Force's recommendation on whether these should be applied to RRGs.

1. Liabilities and Reserves

Effective Jan. 1, 2009, two new significant elements were added to this standard for traditional insurers. The new elements are from the 2001 revisions to the *Actuarial Opinion and Memorandum Regulation* (#822) and require assets adequacy testing for all applicable companies and the filing of a regulatory asset adequacy summary by March 15 of each year. Since Model #312 only applies to life/health companies, the Task Force agreed that the revisions are not applicable to RRGs.

2. Liabilities and Reserves

The *Property and Casualty Actuarial Opinion Model Law* (#745) became an accreditation standard for traditional insurers, effective Jan. 1, 2010. Sections 2A, 2B, 3A and 3B(1) of Model #745 are considered significant elements and will be required for accreditation. Below is a matrix that includes the new significant elements, and the Task Force's recommendations.

3. CPA Audits – 2001 Revision

Effective Jan. 1, 2008, a new significant element was added to this standard for traditional insurers. The new significant element is from the 2001 revisions to the *Annual Financial Reporting Model Regulation* (#205) and indicates that a qualified independent certified public accountant may not enter into indemnification agreements in regard to the audit of an insurer. The Task Force agreed that this significant element should be required for RRGs. Below is a matrix that includes the new significant element.

4. CPA Audits – 2006 Revisions

In June 2009, the Committee voted that the 2006 revisions to Model #205 should be required for accreditation for traditional insurers, effective Jan. 1, 2010. The revisions made to the model are numerous and are related to auditor independence, corporate governance and internal control over financial reporting. Below is a matrix that includes the new significant elements, and the Task Force's recommendation.

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Property/Casualty Actuarial Opinion Model Law (NEW)

Significant Element	Task Force Consensus or Comments
(1) Requires annual submission of a "Statement of Actuarial Opinion" similar to Section 2A of the model?	Applicable to captive RRGs.
(2) Requires annual submission of an "Actuarial Opinion Summary" similar to Section 2B of the model?	Applicable to captive RRGs.
(3) Requires that the Statement of Actuarial Opinion is provided with the Annual Statement and is treated as a public document similar to Section 3A of the model?	Applicable to captive RRGs.
(4) Includes requirements that various documents related to the Actuarial Report or Actuarial Opinion Summary are confidential by law and privileged similar to Section 3B(1) of the model?	Applicable to captive RRGs.

CPA Audits – 2001 Revisions to the Annual Financial Reporting Model Regulation

Significant Element	Task Force Consensus or Comments
Prohibits CPA from entering into an agreement of indemnity or release from liability similar to Section 7A of the model rule?	Applicable to captive RRGs.

CPA Audits – 2006 Revisions to the Annual Financial Reporting Model Regulation

Significant Element	Task Force Consensus or Comments
(1) Requires that every insurer required to file an annual audited financial report under the model shall designate a group of individuals as constituting an audit committee similar to that discussed in Section 4D or in accordance with the "Governance Standards for Risk Retention Groups" adopted by the Property and Casualty Insurance (C) Committee?	Applicable to captive RRGs with the additional language noted to the left.
(2) Prohibits a certified public accountant that performs an audit on an insurer from also providing certain non-audit services to that same insurer as discussed in Section 7G?	Applicable to captive RRGs.
(3) Requires audit committee pre-approval of all auditing services and non-audit services provided by the certified public accountant similar to that discussed in Section 7J or in accordance with the "Governance Standards for Risk Retention Groups" adopted by the Property and Casualty Insurance (C) Committee?	Applicable to captive RRGs with the additional language noted to the left.

(4) Commissioner shall not recognize a CPA as qualified for a particular insurer if an employee in certain positions with the insurer was previously employed by the CPA and participated in the audit of the insurer for a certain period of time as discussed in Section 7L?	Applicable to captive RRGs.
(5) Requires communication of internal control-related matters noted in an audit similar to Section 11?	Applicable to captive RRGs.
(6) Includes requirements for audit committees similar to that discussed in Section 14 or in accordance with the "Governance Standards for Risk Retention Groups" adopted by the Property and Casualty Insurance (C) Committee?	Applicable to captive RRGs with the additional language noted to the left.
(7) Includes requirements for conduct of the insurer in connection with the preparation of certain reports and documents similar to Section 15?	Applicable to captive RRGs.
(8) Includes requirements related to management's report of internal control over financial reporting similar to Section 16? If a state does not have any captive RRGs with premium over $500 million, it is not required to have this significant element in statute or regulation.	Applicable to captive RRGs with the additional language noted to the left.

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