ROLL CALL

Doug Slape, Co-Chair (TX)  Steve Kerner (NJ)
Justin Schrader, Co-Chair (NE)  Marc McLeod (NY)
Richard Ford (AL)  Tony Riddick (NC)
Al Bottalico (CA)  Bill Harrington/Dwight Radel (OH)
Bill Arfanis (CT)  Eli Snowbarger (OK)
Cindy Andersen (IL)  Russell Latham/Ryan Keeling (OR)
Cindy Donovan (IN)  Steve Johnson/Annette Szady (PA)
Jim Armstrong/Dan Mathis (IA)  Jack Broccoli (RI)
Stewart Guerin (LA)  Jake Garn (UT)
Kendra Coates (ME)  Dan Petterson (VT)
Chineta Alford (MD)  David Smith (VA)
Judy Weaver (MI)  Pat McNaughton (WA)
Leslie Nehring (MO)  Becky Easland/Amy Maln (WI)

AGENDA

1. Consider Adoption of its Dec. 16, Feb. 17 and March 10 Minutes—Doug Slape (TX)
   Attachment One

2. Discuss Comments Received on Redundancy Exposure—Doug Slape (TX)
   - Exposure Draft
   - Exposure Comments (Indiana, Wisconsin, INS, Interested Parties)

3. Discuss and Consider Exposure of the Group Profile Summary Template and Related Guidance—Doug Slape (TX)
   Attachment Three

4. Receive Update on Qualifications/Skills Project—Justin Schrader (NE)

5. Discuss Any Other Matters Brought Before the Working Group—Justin Schrader (NE)

6. Adjournment
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ATTACHMENT ONE

Risk-Focused Surveillance (E) Working Group
Conference Call
December 16, 2014

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met via conference call Dec. 16, 2014. The following Working Group members participated: Doug Slape, Chair (TX); Al Bottalico (CA); Mark Murphy (CT); Cindy Donovan (IN); Chineta Alford (MD); Judy Weaver (MI); Leslie Nehring (MO); Tony Riddick (NC); Justin Schrader (NE); Mark McLeod (NY); Bill Harrington (OH); Eli Snowbarger (OK); Ryan Keeling (OR); Jack Broccoli (RI); Jake Garn (UT); Dan Petterson (VT); and Patrick McNaughton (WA).

1. Discussed Comments Received on Potential Redundancies

Mr. Slape stated that the Working Group recently received comments from two states and two groups of interested parties on its charge to eliminate redundant efforts in collecting and reviewing insurer information for solvency-monitoring purposes. The purpose of its request for comments was to identify redundancies that can either be directly addressed by the Working Group or referred to another NAIC group for consideration and disposition. Mr. Slape stated that this request for comments was only the first step of the Working Group to address its charge in this area, noting that regulators and interested parties will have additional opportunities to identify potential redundancies for discussion by the Working Group.

Bruce Jenson (NAIC) summarized comments received from Virginia encouraging the Working Group to focus its efforts on redundant requests for the same information, as opposed to guidance on how examiners and analysts can review and assess information received, which Virginia does not consider redundant or duplicative.

Joe Fritsch (INS Regulatory Insurance Services—INS) summarized the INS comments, which focused on potential overlap in the efforts of financial analysts and financial examiners in requesting and reviewing the same or similar information from insurers. Mr. Fritsch encouraged the Working Group to review the existing guidance to identify areas to gain efficiency and reduce redundancies.

Joe Zolecki (Blue Cross and Blue Shield Association—BCBSA) summarized the comments of a joint group of interested parties, which were developed by a group of individuals responsible for the regulatory analysis/examination coordination efforts for their respective companies. The comment letter discussed two different categories of redundancies identified by the group. The first category consists of actual duplication in different filings or regulatory requirements, such as the corporate governance annual disclosure and general interrogatories in the annual financial statement. The second category consists of redundancies created through breakdowns or inefficient processes between regulatory functions, such as financial analysis and financial examination.

Mr. Slape stated that both the INS’ and the joint interested parties’ comments identified areas where regulatory guidance could be improved to more effectively communicate the process to obtain and review company information across the financial analysis and examination functions. Therefore, Mr. Slape proposed that NAIC staff utilize the comments received to draft proposed revisions to the Financial Condition Examiners Handbook for the Working Group to consider. Mr. Slape recommended that staff start with the Financial Condition Examiners Handbook, as many of the inefficiencies referenced in the comment letters likely arise from examiners duplicating work previously performed by analysts.

Ms. Donovan suggested developing a matrix showing where items are required to be reported and how they are made available to financial analysts and examiners. Mr. Slape stated that such a project could be beneficial, but may represent the next phase of this project. He recommended that NAIC staff start work in this area by focusing on those concerns already identified in the comment letters, as opposed to considering all information requests in each handbook. Mr. Slape also asked interested parties to provide an updated matrix, or listing of potential redundancies, to the Working Group for consideration. Mr. Slape stated that if redundancies outside of the traditional purview of the Working Group are identified, they should still be submitted to the Working Group for review and referral to other NAIC groups for disposition.

Adam Kerns (American Insurance Association—AIA) stated that the list of potential redundancies provided by interested parties to the Corporate Governance (E) Working Group might be a good place to start in building such a matrix. Mr. Slape stated that some of the things on that document may be outdated based on the passage of the Corporate Governance Annual Disclosure Model Act (#305) and that the work may need to be updated and resubmitted. Mr. Zolecki agreed with Mr. Slape.
and stated that some of the items referenced on that document were intended to show where guidance on corporate governance matters exists, as opposed to identify redundant information requests. Therefore, Mr. Zolecki agreed to provide an updated listing of redundant information requests of concern to interested parties to the Working Group.

Bob Ridgeway (America’s Health Insurance Plans—AHIP) stated his agreement with Virginia’s comments and indicated that interested parties want to eliminate redundant information requests and not restrict an insurance department’s ability to review, assess or ask follow-up questions on the information provided.

Mr. Zolecki asked whether additions to the Financial Analysis Handbook may be necessary to recognize new information available to regulators. Mr. Slape noted that new filings and reports that will be received in coming years need to be adequately addressed in both handbooks and that the existing NAIC groups responsible for maintaining the handbooks will be working to develop and provide that guidance as it becomes necessary.

2. Received Update on Qualifications Project

Mr. Schrader provided an update on the Working Group’s project to identify qualifications and skillsets necessary for financial analysts and examiners to conduct risk-focused surveillance effectively. Mr. Schrader stated that a group of volunteer states are in the process of conducting a survey to gather opinions in this area. At the conclusion of the initial survey, the results will be summarized and reviewed by the volunteer states before being distributed to a wider group of states for review and input. Mr. Schrader encouraged the volunteer states to finalize and submit their survey results to NAIC staff as soon as possible.

Having no further business, the Risk-Focused Surveillance (E) Working Group adjourned.

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The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met via conference call on Feb. 17, 2015. The following Working Group members participated: Doug Slape, Co-Chair (TX); Justin Schrader, Co-Chair (NE); Al Bottalico (CA); William Arfanis (CT); Dan Mathis (IA); Ginny Godek (IL); Cindy Donovan (IN); Stewart Guerin (LA); Kendra Coates (ME); Judy Weaver (MI); Leslie Nehring (MO); Arthur Schwartz (NC); Steve Kerner (NJ); Mark McLeod (NY); Bill Harrington and Dwight Radel (OH); Eli Snowbarger (OK); Russell Latham and Ryan Keeling (OR); Jack Broccoli (RI); Jake Garn (UT); David Smith (VA); Dan Petterson (VT); and Patrick McNaughton (WA).

1. **Voted to Expose Handbook Redundancy Revisions**

Mr. Slape stated that one of the Working Group’s charges is to consider potential redundancies in the solvency monitoring practices of regulators. On its Dec. 16, 2014, conference call, the Working Group received and discussed specific comments on this topic from regulators and interested parties. Many of the comments were related to redundancies that occur when financial examiners and analysts request information from a company that the department already has available. The Working Group asked NAIC staff to develop some proposed revisions to the *Financial Condition Examiners Handbook* and the *Financial Analysis Handbook* encouraging additional communication between the two functions to discourage the submission of redundant information requests.

Bruce Jenson (NAIC) presented revisions drafted for the *Financial Condition Examiners Handbook* to reduce redundant information requests. The revisions included changes to Phase 1 narrative guidance, as well as changes to Exhibit A – Planning Procedures Checklist and Exhibit B – Exam Planning Questionnaire. The changes encourage additional communication and coordination between examiners and analysts to ensure that requests are not made for information already in the possession of the state insurance department.

Mr. Schwartz stated his approval of the proposed revisions and the level of detail at which changes were made. Mr. Smith asked why discussions with company management early in the exam process are characterized as external planning meetings. Mr. Jenson stated that initial meetings with company management are considered part of the planning process, but that it may not be entirely accurate to label them as “planning meetings.” Mr. Slape encouraged Mr. Smith to provide a comment during the exposure period with alternative suggestions for a title of this meeting.

Dan Daveline (NAIC) presented revisions drafted for the *Financial Analysis Handbook* to reduce redundant information requests. The revisions included changes to narrative guidance related to communication, changes to Level 1 procedures and changes to the analyst reference guide for the Level 1 procedures. The changes encourage analysts to meet with the examiners during the planning of an upcoming examination to discuss what company information is already available to the department.

Mr. McLeod suggested that the financial analyst be required to review Exhibit B – Exam Planning Questionnaire prior to meeting with the financial examiner in order to indicate which requests for information are not necessary. Mr. Daveline stated that could be one option for receiving input from the financial analyst regarding company information already available to the department.

Joe Zolecki (Blue Cross and Blue Shield Association—BCBSA) thanked the Working Group for taking steps to address redundant information requests and stated that interested parties plan to provide a comment letter during the exposure period. Mr. Zolecki also stated that interested parties intend to bring other potential redundancy issues to the Working Group for consideration. Mr. Slape stated that the Working Group sees the revisions discussed on the call today as the first step in addressing regulatory redundancies, adding that the Working Group is willing to review and consider other issues raised by interested parties.

On a motion from Mr. Latham, seconded by Mr. McNaughton, the Working Group agreed to expose the proposed revisions for a 30-day comment period ending March 19.
2. **Voted to Expose Accreditation Part B Revisions**

Mr. Slape stated that the Working Group spent a great deal of time and effort in developing revisions to the Insurer Profile Summary template and related guidance in 2014. The purpose of the revisions was to improve the communication between analysis and examination functions and between the states in relation to solvency risks and concerns facing individual insurers. As a result of the revisions, regulators are required to incorporate branded risk assessments into their Insurer Profile Summary documents this year. Throughout January, the Working Group oversaw the presentation of four different sessions of a webinar to train regulators on the proper use of the new Insurer Profile Summary template and related guidance. However, the NAIC has not yet adopted revisions to the accreditation review team guidelines to explain how compliance with the new guidance will be reviewed and enforced.

Mr. Slape asked NAIC staff support to work with Julie Garber (NAIC) in developing proposed revisions to the Part B accreditation standards to incorporate the new Insurer Profile Summary Guidance. Mr. Jenson provided an overview of the proposed revisions, which included changes to the following standards:

- **Part B1: Financial Analysis**
  - Standard b. Communication of Relevant Information to/from Financial Analysis Staff
  - Standard f. Documented Analysis Procedures

- **Part B2: Financial Examinations**
  - Standard b. Communication of Relevant Information to/from Financial Examination Staff

Mr. Jenson stated that the revisions attempt to provide consistency between the guidelines required of financial analysis and financial examination functions in sharing, receiving and utilizing information from each other. In addition, the revisions clarify the content required to be included in the Insurer Profile Summary.

Mr. Zolecki asked if the Working Group still plans to move forward with the concept of a Group Profile Summary to share information obtained through monitoring of an insurance holding company group. Mr. Slape stated that the Working Group is continuing to move forward on that project and plans to discuss it further at the Spring National Meeting. Mr. Slape stated that the goal will be to learn lessons from the implementation of the new Insurer Profile Summary guidance before finalizing the guidance for holding company groups.

On a motion from Mr. Latham, seconded by Mr. Arfanis, the Working Group agreed to expose the proposed revisions to the Part B accreditation standards for a 15-day comment period ending March 4.

3. **Received Update on Qualifications Project**

Mr. Schrader provided an update on the Working Group’s project to identify the qualifications and skillsets necessary for financial analysts and examiners to effectively conduct risk-focused surveillance. Mr. Schrader stated that an ad hoc group of volunteer states has been working to develop initial thoughts on this topic for presentation to the Working Group later this year. The volunteer group has held a couple of conference calls and conducted a survey to gather input on the qualifications and skills that are necessary to effectively perform analysis and examination processes. Mr. Schrader stated that the volunteers are currently in the process of pulling the input together into sample job descriptions that can be shared with the Working Group in time for the Summer National Meeting.

4. **Discussed Other Matters**

Mr. Schrader stated that one of the responsibilities of the Working Group is to oversee the NAIC’s Peer Review Project. For 2015, three different sessions are scheduled for April, June and September. The April and June sessions will be examiner-only sessions and the September session will include both examiners and analysts. Mr. Schrader stated that there are still quite a few openings, especially for the examiner-only sessions, and encouraged interested states to contact Becky Meyer (NAIC) for additional information.

Mr. Jenson stated that the Working Group plans to meet in person at the Spring National Meeting to discuss comments received on the redundancy exposure and to work on the Group Profile Summary template and related guidance.

Having no further business, the Risk-Focused Surveillance (E) Working Group adjourned.

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The Risk-Focused Surveillance (E) Working Group conducted an e-vote that concluded March 10, 2015. The following Task Force members participated: Richard Ford (AL); Al Bottalico (CA); William Arfanis (CT); Cindy Andersen (IL); Cindy Donovan (IN); Stewart Guerin (LA); Chineta Alford (MD); Kendra Coates (ME); Judy Weaver (MI); Leslie Nehring (MO); Tony Riddick (NC); Steve Kerner (NJ); Dwight Radel (OH); Eli Snowbarger (OK); Russell Latham (OR); Jack Broccoli (RI); Jake Garn (UT); Dan Petterson (VT); and Patrick McNaughton (WA).

1. **Adopted a Referral to Recommend Accreditation Part B Revisions**

The Working Group conducted an e-vote to adopt a referral to the Financial Regulation Standards and Accreditation (F) Committee recommending revisions to the Part B Accreditation Standards. The revisions relate to the incorporation of new guidance on the content and use of the Insurer Profile Summary, as developed by the Working Group in 2014. The Working Group voted to adopt the referral without objection.

Having no further business, the Risk-Focused Surveillance (E) Working Group adjourned.
ATTACHMENT TWO

FCEH/FAH Redundancy Exposure Documents
PHASE 1 – UNDERSTAND THE COMPANY AND IDENTIFY KEY FUNCTIONAL ACTIVITIES TO BE REVIEWED

In Phase 1 of a risk-focused examination, key activities and sub-activities will be confirmed or identified using background information gathered on the company from various sources. Some of this information will already have been available in the department prior to the initial planning meeting, or can be obtained from the company’s internal audit department or external auditors. A Phase 1 goal is to gather any additional or current information necessary to begin a risk-focused examination. Sources of information may include organizational charts, filings required by sections 302 and 404 of the Sarbanes-Oxley Act of 2002 (where applicable), interviews with senior management, or other publicly available information.

To ensure the appropriate risk-focused examination scope, it is important to identify the key functional activities (i.e., business activities) of the company. Information gathered by understanding the company, the company’s corporate governance structure, and assessing the company’s audit function will form the basis for determining key activities. Once key activities are identified, sub-activities should be identified in accordance with how the company is organized.

Essential to executing the risk-focused surveillance process is interviewing executive management and possibly board members of the company to identify key activities and risks. Risks identified through these interviews and each part of Phase 1 should be documented on Exhibit CC – Issue/Risk Tracking Template or a similar document to ensure they are carried through the remaining phases of the examination. Examiners and company officials should attempt to maintain an ongoing dialogue to assist the examiners in understanding the company and identifying key functional activities. It is also critical for the examination team to understand and leverage the company’s risk management program; that is, how the company identifies, controls, monitors, evaluates and responds to its risks. For companies required to submit an Own Risk and Solvency Assessment (ORSA) summary report, the report provided by the company may be a useful tool in this evaluation. The discipline and structure of risk management programs vary dramatically from company to company. “Best practices” are emerging for risk management programs and more companies are appointing chief risk managers whose responsibilities go well beyond the traditional risk management function (the buying of insurance). The Committee of Sponsoring Organizations (COSO) has published internal control standards that are widely-held, although not required, in many industries and has released an Enterprise Risk Management Integrated Framework, which is anticipated to be incorporated by several entities, as well as guidance to apply the integrated framework and internal control standards to small public companies. The examination team should evaluate the strength of the company’s risk management process, which can include a “hind-sight” evaluation of why a particular negative surprise or event occurred (i.e., why was it not identified in the current risk management program of the company).

There are five parts to Phase 1 that are key components of performing a risk assessment, the results of which drive the direction of the risk-focused examination: (1) Understanding the Company; (2) Understanding the Corporate Governance Structure; (3) Assessing the Adequacy of the Audit Function; (4) Identifying Key Functional Activities; and (5) Consideration of Prospective Risks for Indications of Solvency Concerns. The Risk Assessment Matrix (Exhibit K), the tool developed to serve as the central location for the documentation of risk assessment and testing conclusions, should be updated with the identified key activities and sub-activities of the company after the examiner is able to obtain an understanding of the company and corporate governance structure. The five parts of Phase 1 are discussed in detail below.

A. Part 1: Understanding the Company

Step 1: Gather Necessary Planning Information

Meet with the Assigned Analyst

Gathering information becomes the first step in gaining an understanding of the company. However, prior to requesting information from the company, the examination team must first determine what information is already available to the department. To do so, the exam team is required to meet with the assigned financial analyst (and/or analyst supervisor) prior to distributing detailed information requests to the company for use in planning the examination. An email exchange is not deemed sufficient to achieve the expectation of a planning meeting with the assigned analyst.
In addition to gaining an understanding of the information already available to the department, the meeting with the analyst should focus on the company's financial condition, prospective risks and operating results since the last examination. The analyst should be asked to discuss risks and concerns highlighted in the Insurer Profile Summary and to describe the reasons for unusual trends, abnormal ratios and transactions that are not easily discernible. The analyst may also request specific matters or concerns for verification and review during the financial examination. To summarize the input received from financial analysis, the exam team should document significant risks identified by the analyst for further review on the examination and post significant items to Exhibit CC – Issue/Risk Tracking Template for incorporation into the exam process.

Gather Information Already Available to the Department

After meeting with the assigned analyst to gain an understanding of company information already available to the department, gather relevant information for use in examination planning. Establishing an understanding of the insurer and its unique risks and the creation (or updating) of the Insurer Profile Summary (Exhibit H) is critical to a risk-focused examination process and facilitates continuing surveillance. Exhibit A – Examination Planning Procedures Checklist provides examples of information already available to the department that may be relevant for inclusion within the examination file, which may include and Exhibit B – Examination Planning Questionnaire have been included in Section 4 of this Handbook to assist the examiner in gathering the necessary planning information.

During Step 1, the examiner should be identifying operating or financial reporting areas that will require focus during the examination. Sources of information supporting this understanding are:
- Documentation of ongoing monitoring completed by the Insurance Department Analyst, State Insurance Departments’ and other regulators’ reports and information available through public sources.

Obtain Additional Information from the Company

After meeting with the assigned analyst and gathering information already available to the department for review in examination planning, the exam team should determine what additional information is necessary to request from the company to assist in gaining an adequate understanding of the company and the risks it faces. Exhibit B – Examination Planning Questionnaire and the Information Technology Planning Questionnaire (see Exhibit C – Part One) can be utilized to develop customized information requests to obtain additional information from the company to assist in exam planning. These information requests may include requests for third party reports including SOC reports and security assessments (see Section 1, Part III, F – Outsourcing of Critical Functions for a discussion and description of SOC reports) as well as requests for information from the external auditor. Additionally, the examiner should consult with the department analyst prior to requesting such information and leverage any relevant documents already obtained or review analysis that has been previously performed. An Examiner Request Log may be used to assist the examiner in requesting information from the company and its service providers, when necessary.

Organization/Structure of Company

- Description of the organization structure, including legal and business units and any structural changes since the prior review;
- Business strategies, competitive challenges, key business lines, product mix, marketing emphasis, growth areas, acquisition or divestiture plans and new products or distribution channels introduced since the prior examination;
- Organizational charts, including detail on critical front, middle and back office units, existing automated information systems, and accounting and controllers functions;
- Description of the company’s relationship with affiliates and/or subsidiaries (see Section 1, Part IV, C – Review of Affiliated Transactions for additional guidance and requirements for documenting affiliates and affiliated transactions;
- Management contracts and incentive programs; and
- Significant Managing General Agent (MGA) and Third Party Administrator (TPA) contracts.

Corporate Governance Information

(Exhibit M – Understanding the Corporate Governance Structure has been provided to assist in understanding the corporate governance structure.)
• Board and audit committee minutes; and
• A list of critical management and operating committees and their members as well as meeting frequencies.

**Sarbanes-Oxley Act of 2002**
• Sarbanes-Oxley filings and initiatives;
  • Sarbanes-Oxley documentation, including financial reporting risk and control documentation, Section 302 assertions and Section 404 attestations, whistleblower activity logs and conclusions, as applicable (to the extent that they are applicable to the company); and
  • Supporting workpapers for the Sarbanes-Oxley filings including control narratives, flowcharts and testing documentation.

**Annual Financial Reporting Model Regulation (Model Audit Rule #205)**
• Documentation on auditor independence detailing partner rotation, prohibited services and cooling-off periods, as applicable;
• Documentation related to corporate governance, including the composition and independence of the audit committee; and
• Documentation of internal control over financial reporting, including Management’s Report on Internal Control over Financial Reporting.

**Risk-Management Information**
• Descriptions of internal audit’s role in development of the entity’s risk management methodology and in risk monitoring and control;
• Recent external and internal auditor reports and management responses;
• Summary of the company’s overall risk profile, including significant areas of regulatory concern. *(Reviewing the Insurer Profile Summary may provide the examiner with this information.)*
• Recent risk management reports detailing pricing/underwriting, market, credit, liquidity and reserving risk exposures and other key management reports;
• Assessments of the presence and effectiveness of internal control measures across primary business lines; and current year-to-date and prior-year comparisons of financial results to plan. *(This could include assessments made by the company—i.e., internal audit reports—or by the examiner as a result of prior-year examinations.)*; and
• Own Risk and Solvency Assessment (ORSA) summary report.

**Internal Financial Statement and Solvency Information**
• Shareholder/Annual reports;
• Company analyses of financial condition and trends;
• General ledger and supporting detail reconciled to the annual financial statement;
• Premium, claims and reserve data outlined in Exhibit X—Standardized Data Request Template; and
• Material events affecting the insurer since the prior examination.

**External Financial Statement and Solvency Information**
• Rating agency reports and financial strengths;
• External auditor financial statement opinion report and management letters;
• External audit of internal control over financial reporting (Sarbanes-Oxley) report, as applicable to company;
• Actuarial opinion for years under review;
• Independent loss reserve report, if applicable;
• Financial press;
• SEC registration statements, most recent 10-K and 10-Q;
• Stock analyst reports; and
• External analyst reports including a brief summary of the insurer’s operations, as well as the degree to which internal controls are built into activities, the level and sophistication of automation, and whether new management information systems have been implemented since the prior on-site examination.
Regulatory Information

- The in-house financial analyst’s reports on the company’s financial condition and operating results since the last examination, including the Insurer Profile Summary, assessed priority score, the overall financial analysis conclusion and Supervisory Plan;
- Current priority score and insurance departments issues;
- Summaries of regulatory activities since the prior examination, including market conduct and/or limited scope examinations;
- Financial statements for the years under review;
- Previous examination reports and supporting workpapers;
- Market conduct report;
- Management’s discussion and analysis report;
- Risk-based capital report;
- Holding company registration statements for years under review;
- Examination Jumpstart reports;
- IRIS reports;
- FAST scores reports;
- Department correspondence files;
- Inter-divisional memorandums;
- NAIC database reports (SAD, RIRS, CDS);
- Articles of Incorporation, bylaws and amendments;
- Recently approved agreements or contracts (e.g., expense-sharing agreements, reinsurance contracts, custodial agreements);
- Information from other insurance departments or other regulators; and
- Form F – Enterprise Risk Report.

Information Technology (IT)

Obtain and consider responses to Exhibit C: Part One – Information Technology Planning Questionnaire and supplemental exhibits related to:

- IT strategy, goals and objectives;
- IT organization structure and support structure;
- IT standards and procedures for:
  - System development
  - Program change control
  - Configuration management
  - Data center operations
  - Database administration
  - Performance monitoring
  - Capacity planning
  - Network administration
  - Information security
- System development methodology;
- Security incident reporting, monitoring and follow-up process;
- Physical security policy;
- Listing of any outside service provided/third party arrangements for processing;
- Summary of recent hardware/software/operations incident logs (e.g., mainframe, LAN, WAN); and
- Vendor contracts/agreements including any addendums:
  - Disaster recovery plans
  - Disaster recovery testing results
  - Business resumption plans
  - Business resumption testing results

Hold Planning Meetings
After requesting additional information from the company to assist in examination planning, the examination team should be ready to hold meetings to discuss the details of the examination with both internal and external participants.

**Internal Planning Meetings**

An internal department planning meeting, or meetings, should be held to kick-off the examination and receive and review input regarding the company from other areas of the department. In preparation for this meeting, the exam team should request and receive input on the company from areas outside of solvency regulation, such as market conduct, rates and forms, legal, etc. This information received from other areas of the department should be reviewed to determine the impact on the examination plan, if any. In addition, the internal planning meeting(s) should include a discussion with the in-house (department) actuary to discuss the company’s historical reserving issues and extent of data validation required during the examination. This discussion should also cover the topic of actuarial resources to be utilized during the examination.

Another significant element of the internal planning meeting(s) is to discuss plans for the examination with the chief examiner or designee. Discussions with the chief examiner or designee should cover:

- Planning materiality and the preliminary examination approach
- The use of specialists (e.g., actuary, information systems, investment, appraiser, IT examiner, reinsurance expert)
- Significant events and department concerns
- Impact of industry conditions and economy on the company and examination plan
- Staffing and experience requirements
- Relationship with the internal and external auditors

**External Planning Meetings**

After internal department meetings are completed, the examination team should meet with external stakeholders impacted by the examination, including other impacted regulators and the insurance company itself. In preparing to meet with other impacted regulators, the examination team should:

**Holding Company Considerations**

As part of reviewing the organizational structure of the company, the examiner should consider the holding company group the company belongs to, if applicable. Obtaining at least a basic understanding of the holding company group and the companies that compose it will assist the examiner in determining key activities and inherent risks of the company to address during the exam. Inquiries and discussions with federal and international regulators are especially vital when conducting examinations of insurers that are part of holding company groups (domestic or internationally) that include a company or companies that are at least in part regulated by other regulators outside of the state insurance regulatory structure. Prior to contacting these regulators, examiners should speak to other regulators in the holding company group (e.g., financial analysts, examiners from other states) to determine if communication has already taken place. This will help the examiner decide whether additional inquiries and/or a meeting are necessary to plan the examination. A few basic questions that can be asked include:

- What is your view of the current financial condition of the holding company group and the companies therein?
- Are you aware of any regulatory issues with the holding company group and/or the companies therein?
- Are there any other significant events that may affect the upcoming financial examination?

After meeting with other impacted regulators, the examination team should conduct a planning meeting with the company under examination to discuss relevant issues such as:

- The overall scope, extent and timeline of the planned examination
- Significant changes in the company’s operations, major lines of business and corporate governance
- Personnel or systems changes that would significantly affect the areas of accounting controls, procedures, systems or approval authorities
- Obtaining access to audit workpapers and scheduling a meeting with the external auditor
- Plans for scheduling interviews with key members of management and the board of directors
- Whether the company outsources critical functions to third parties
- Follow-up on requests for additional required reports and records (if necessary)
The relationship between the company and its internal and external auditors
Obtaining relevant internal audit reports for review and consideration
Requesting the trial balance and other accounting records used to prepare annual financial statements

In addition to meeting with the company, the exam team should arrange a meeting with the appointed actuary to review the objectives and scope of the actuary’s work and to obtain an understanding of the methods and assumptions used in establishing the actuarially determined asset or liability.

Review prior examination report findings, management letter (if applicable) and working papers related to information systems reviews. Review the work performed by the company’s internal and external auditors relating to information systems reviews.

Other Sources of Planning Information
The AICPA publishes audit risk alerts as nonauthoritative practice aids designed to be used as engagement planning tools. The alerts are valuable resources for the examiners to consider as they develop an overall examination program. The risk alert series includes the Insurance Companies Industry Developments and General Audit Risk Alerts. The AICPA also publishes Audit and Accounting guides that include a Property and Liability Companies guide and a Life and Health Entities guide.

Consideration of Fraud
A consideration of fraud in financial condition examinations should occur during the planning, testing and reporting phases of the examination. The examiner should begin this assessment during Phase 1 of the examination. To facilitate this assessment, the examiner may utilize Exhibit G – Consideration of Fraud in this Handbook (or a similar document). For additional guidance regarding the consideration of fraud, including a discussion of fraud risk factors, refer to Section 1 in this Handbook.
EXHIBIT A
EXAMINATION PLANNING PROCEDURES CHECKLIST

COMPANY NAME __________________________________________________________________________

PERIOD OF EXAMINATION _________________________________________________________________

The following checklist details the components of Phase 1 and Phase 2, as well as other information that should be considered during the planning process. Narrative guidance is provided within Section 2 of this Handbook to aid examiners in understanding the risk-focused surveillance process.

**Pre-planning Procedures**

1. At least six months prior to the as-of date, notify the company and its external auditors, with company personnel’s assistance, that an examination will take place and that the auditor workpapers will be requested when the exam begins.

2. If the examination is to be performed on a company that is part of a holding company group, send an informal notification at least six months prior to the as-of date to other states that have domestics in the group.

3. Call the examination in the Financial Exam Electronic Tracking System (FEETS) at least 90 days prior to the exam start date.
   a. If the examination is to be performed on a company that is part of a holding company group, document your attempts to coordinate the exam with the Lead State and other domestic state(s) within your group. Utilize Exhibit Z – Examination Coordination to assist with this process.

**Phase 1 – Understand the Company and Identify Key Functional Activities to be Reviewed**

**Part 1: Understanding the Company**

Step 1. Gather Necessary Planning Information

*Meet with the Financial Analyst*

1. Meet with the assigned financial analyst (and/or analyst supervisor) to gain an understanding of company information available to the department. In addition, discuss risks and concerns highlighted in the Insurer Profile Summary as well as the company’s financial condition and operating results since the last examination. Ascertain the reasons for unusual trends, abnormal ratios and transactions that are not easily discernible. Document a summary of significant risks identified by the analyst for further review on the examination.
a. If deemed necessary, obtain supporting documentation from the most recent annual financial statement analysis to aid in the identification of significant risks and facilitate ongoing discussion with the analyst.

Obtain Existing Documentation

1. Complete, or have company personnel complete, as early as practical, Exhibit B—Examination Planning Questionnaire and the Information Technology Planning Questionnaire.

2. Obtain the most recent annual financial statement analysis completed by the in-house financial analyst to aid in the identification of significant risks and facilitate discussion with the analyst.

3. Obtain copies of relevant information available to the insurance department as deemed necessary to aid in the identification of significant risks. \(\text{(Note: Review of these documents may have already been performed by the analysis unit, while other documents may readily be available on I-SITE in accordance with NAIC general filing deadlines and requirements.)}\) Such information may include but is not limited to:

   a. Annual financial statements, for years under review.
   b. Previous examination report and supporting workpapers.
   c. Market conduct report.
   d. CPA financial statement audit report.
   e. Actuarial opinion, for years under review.
   f. Independent loss reserve analysis report, if done.
   g. Management’s discussion and analysis letter.
   h. Risk-based capital report.
   i. Holding company registration statements, for years under review.
   j. SEC registration statements, most recent 10-K and 10-Q.
   k. CPA’s audit of internal control over financial reporting (SOX) report.
   l. Examination Jumpstart reports.
   m. IRIS reports.
   n. Department’s correspondence file.
   o. Inter-divisional memorandum.
p. NAIC database reports (SAD, RIRS, CDS).
q. Credit rating agency reports.
r. Articles of incorporation, bylaws and amendments.
s. Recently approved agreements or contracts (e.g., expense-sharing agreements, assumption reinsurance contracts, custodial agreements, etc.).
u. Own Risk and Solvency Assessment (ORSA) summary report.

Obtain Additional Information

3. Use the understanding of company information already available to the department to determine what additional information is necessary to assist in examination planning. Utilize Exhibit B – Examination Planning Questionnaire and the Information Technology Planning Questionnaire (see Exhibit C – Part One) in developing customized information requests to obtain additional information from the company to assist in exam planning.

Meet with Designated Other Department Personnel

4. Meet with the in-house financial analyst to discuss the company’s financial condition and operating results since the last examination. Ascertain the reasons for unusual trends, abnormal ratios and transactions that are not easily discernible. Obtain a summary of significant risks identified by the analyst for further review on the examination.

4. Meet with the in-house actuary to discuss the company’s historical reserving issues and extent of data validation required.

5. Meet with the chief examiner or designee to discuss:
   
a. Planning materiality and the preliminary examination approach.

b. The possible use of a specialist (e.g., actuary, information systems, investment, appraiser, IT examiner, reinsurance expert). If applicable, prepare “request for bid” letters, or similar documents, for the use of a specialist.

c. Significant events (e.g., pending merger/acquisition) and department concerns.

d. Impact of conditions present in the industry and economy relative to the examination plan.
e. Staff experience requirements.

f. Relationship with the internal and external auditors.

**Contact Other Regulators**

6. When conducting an exam of an insurer that is part of a holding company group that includes a company (or companies) that are at least in part regulated by regulators outside of the state insurance regulatory structure, contact the appropriate state, federal and international regulators to determine areas of concern for the group that should be addressed during the exam.

**Meet with Company Representatives**

7. Meet with company personnel to discuss relevant examination issues such as the following:

   a. Significant changes in the company’s operations, major lines of business and corporate governance.

   b. Personnel or systems changes that would significantly affect the areas of accounting controls, procedures, systems or approval authorities. The same inquiries should be made of the electronic data processing (EDP) department and the internal audit department’s procedures and scope.

   c. Scheduling a meeting with the external auditor to review the financial statement audit workpapers and any Sarbanes-Oxley workpapers.

   d. Plans for scheduling interviews with key members of management.

   e. Whether the company outsources critical business functions to third parties. **Note:** If the examiner determines that the insurer outsources critical functions to third parties, additional consideration and test procedures may need to be performed during the review of Exhibit C, Part Two – Evaluation of Controls in Information Technology (IT) Work Program, and during control and substantive testing phases of the examination.

8. **Make Follow-up on requests** for additional required reports and records *(if necessary).*

9. Obtain relevant internal audit reports for review and consideration.

10. Request trial balance and other accounting records used to prepare annual financial statements.

11. If required based on anticipated risk-assessment, request pertinent information to confirm investment and bank accounts.
12. Discuss relationship with the internal and external auditors.

Meet with the Company’s Appointed Actuary

13. Arrange a meeting with the appointed actuary to review the objectives and scope of the actuary’s work and to obtain an understanding of the methods and assumptions used in establishing the actuarially determined asset or liability. Consider:

   a. The materiality and risks (e.g., nature and type of business, loss development, reinsurance, etc.) associated with the accounts.

   b. The actuaries’ professional qualifications (e.g., FCAS or ACAS for casualty insurance), reputation and relationship with the insurer.

   c. Any changes in methodology or assumptions from the prior examination.

   d. The actuaries’ interaction with the internal and external auditors.

Consideration of Fraud

14. Complete planning procedures for the consideration of fraud utilizing Exhibit G – Consideration of Fraud (or similar document).

Conduct Interviews

15. Conduct interviews with key members of management, members of the board of directors and/or audit committee of the insurer, as well as any other employees deemed necessary.

Step 2. Review of Gathered Information

16. Utilizing the gathered information, obtain an understanding of the company’s business. Knowledge of the company’s business should encompass areas such as:

   a. Company background (e.g., organization and formation, principal lines of business, capital structure, ownership, legal and business units, any structural changes since the prior review, last financial condition and market conduct examinations, etc.).

   b. Pending matters (e.g., request for rate increases, approval of custodial agreement, market conduct examinations, etc.).

   c. Related party relationships and transactions (e.g., identify parent, affiliates, subsidiaries and ultimate controlling person, principal owners, large shareholders, board of directors, officers, etc.).

   d. Management and control environment (see Exhibit B and Exhibit C) (e.g., stable management, role of the board of directors, management’s response to examination inquiries, etc.). Management should be assessed in terms of experience of senior staff, past performance, management approach.
(e.g., aggressive/conservative accounting or sales practices, etc.).

e. Sarbanes-Oxley requirements (if applicable); and

f. Business strategies, competitive challenges, marketing emphasis, growth areas, acquisition or divestiture plans and new products or distribution channels introduced since the prior examination.

17. Prepare a time budget and allocate work assignments for the examination and obtain the chief examiner or designee’s approval.

Step 3. Analytical and Operational Reviews

18. Perform high-level analytical and operational reviews directed toward overall financial condition and profitability of the company. The examiner should leverage the NAIC Financial Profile Report and rely on work previously performed by the analyst when possible.

Assess the Effects of External Environmental Conditions

19. Assess the effects of external environmental conditions and factors. Focus on conditions which affect the company’s operations, primary lines of business and investments. Changes in ratings, ownership/management/corporate structure, business strategy or plan, CPA reports or independent audit and legal or regulatory status are all changes in the internal/external environment that should be considered by the examiner.

Set Planning Materiality Levels

20. Based on the preliminary analytical review and understanding of the company’s business, determine planning materiality and tolerable error. Consider the following:

a. Policyholders’ surplus relative to state’s minimum financial requirements.

b. Policyholders’ surplus relative to risk-based capital action levels.

c. Stability of operations.

d. Quality of policyholders’ surplus.

e. Nature of the principal lines of business.

Identify Significant Accounting/Reporting Issues

21. Identify significant accounting and reporting issues affecting the examination. Consider the impact of changes in the NAIC Accounting Practices and Procedures Manual, Annual Statement Instructions, statutes and department rulings. Also consider company departures from statutory accounting principles, permitted practices, significant accounting transactions (e.g., loss portfolio transfers, financial reinsurance, assumption reinsurance, loss reserve discounting) and new types of investments (e.g., derivatives, private placements, etc.).
Step 4. Consideration of Information Technology Risks

22. Consider IT risks at the company, including:
   a. The overall IT environment.
   b. IT systems supporting the financial reporting process, including risks of access controls, authorizations, availability and timeliness of information, confidentiality and recoverability.
   c. Probability and impact of failures at each significant location and their potential impact to the overall organization. Consider various IT processing locations and/or business units within the company.

23. Consider the completed Information Technology Planning Questionnaire.

Step 5. Update the Insurer Profile Summary

24. Provide updates to the analyst regarding any significant initial findings for incorporation into the Insurer Profile Summary. Updates to the Insurer Profile Summary can be suggested throughout the examination process.

Part 2: Understand the Corporate Governance Structure

1. Conduct interviews with key members of management, members of the board of directors and/or audit committee of the insurer, as well as any other employees deemed necessary.

2. Document an understanding and assessment of the insurer’s corporate governance framework by considering the information included in Exhibit M – Understanding the Corporate Governance Structure to address each of the following significant categories:
   a. Board of directors
   b. Organizational structure
   c. Assignment of authority and responsibility
   d. Management
   e. Risk-management function (for ORSA companies, complete the ORSA Documentation Template found in Section 1, Part X).

Part 3: Assessing the Adequacy of the Audit Function

Meet with Internal and External Auditors

1. Conduct a meeting with the external auditors to review both the financial statement audit workpapers and any Sarbanes-Oxley workpapers to discuss the scope of the audits (e.g., materiality, risk assessment and significant accounts/processes).
EXHIBIT B
EXAMINATION PLANNING QUESTIONNAIRE

The Examination Planning Questionnaire contains procedures and questions that are designed to assist the examiner in gathering necessary planning information and obtaining an understanding of the insurer’s organization. The examiner or company personnel should complete this questionnaire as early in exam planning as practical. If company personnel complete this exhibit, identification of who completed each request, as well as supporting documentation, should be provided to the examination team and the responses to this questionnaire should be critically evaluated by the examiner. The substance of the information collected during the completion of this questionnaire should be incorporated into the Examination Planning Memorandum. The questionnaire responses should be considered when identifying the inherent risks of the insurer. They should also impact the planned examination approach, and the nature, timing and extent of examination procedures performed.

Examiners may consider requesting the completion of Section K: Liquidity during intervals outside of the full-scope examination period (e.g., annually). The majority of questions in this section are intended for all insurers; however, questions 9, 10 and 11 in this section apply to life insurers only. Therefore, the questionnaire should be customized before it is provided to the insurer. If the examiner has prior knowledge or reason to believe the company may be facing significant liquidity risks, the additional liquidity tables included at Attachment 1 may also be requested to prompt the company to provide greater detail regarding potential liquidity risks (typically most applicable to life insurers). Alternatively, if the examiner is not already aware of significant liquidity risks, it may be appropriate to first review the company’s responses to the liquidity questions before determining whether the additional detail provided by the tables should be gathered.

Customization of Questionnaire Prior to Distribution

Before providing the planning questionnaire to the company, the financial exam team should meet with the assigned financial analyst to determine what information on the company is already available to the department. After meeting with financial analysis, the questionnaire should be customized to remove requests for information already available or not applicable to the insurer being examined, in order to allow the examiner and the company personnel completing the questionnaire to focus only on the applicable questions and requests for information not already available to the department. The questions that remain should be completely addressed, using providing additional sheets if necessary. It is possible that the financial analyst has performed work in these areas as part of the analysis procedures; therefore, prior to completion of the questionnaire, the exam team should communicate with the analyst to determine whether the information has already been obtained in order to reduce duplication of work and duplicative information requests to the insurer. To assist the exam team in identifying information that may already be provided to the department, requests that may be collected through the financial analysis process have been denoted with an asterisk (*) for ease in identification and potential removal from the questionnaire.

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1. OWNERSHIP AND MANAGEMENT INFLUENCES

A. Concentration of Ownership

1. Provide documentation explaining:

a. The concentration of ownership.*

b. The approximate number of shareholders.*

c. Any significant shareholders.*

d. Changes in ownership.*
COMPLETED BY 

SUPPORTING DOCUMENTATION 

e. Whether shares are actively traded * 

f. The extent of management’s ownership interest * 

B. Board of Directors 

1. Provide documentation describing the makeup of the board of directors, including number of directors, affiliations of outside directors, relationship of each director to the organization and number of years as a director. If biographical summaries are available for the directors, these should also be included. Include information on board members who served at any time during the period under examination. *

C. Audit Committee 

1. Provide information on the audit committee. This information should include: 

   a. The number of members that serve on the committee.*

   b. The names of the members of the audit committee that could qualify as financial experts, in that they hold an accounting certification (CPA, CFE, etc.) and have previously been employed in a financial oversight role.

   c. The number of members that are not part of company management and do not have business relationships with the company.*

   d. How often the committee meets.*

   e. Whether each member of the audit committee is a member of the board of directors and considered independent. (Independent members are individuals who are not part of company management and who do not have business relationships with the company.)*

   f. Whether the audit committee has an established charter. If so, provide a copy.

   g. Whether minutes of meetings are prepared and retained.

D. Duties of the Board and Its Committees 

1. Provide the excerpt from the articles of incorporation and bylaws that provides a description of the duties assigned and performed by the board of directors, its audit committee and any other committees of the board. Include a current list of committees and the members as of the examination date.*
Organization Chart

The organizational structure of a state insurance department varies by state. There are several basic functions that are performed by all departments. It is important for the analyst to understand the purpose of each function and the information obtained that may assist the analyst in the financial monitoring and solvency surveillance process. Due to the variance in organizational structure, the chart below depicts typical state insurance department functions rather than trying to highlight a typical organizational structure.

Chart of State Insurance Department Functional Units

In many states, more than one of the above functions may be performed or supervised by the same individuals. For example, the financial analysts may also perform financial examinations and financial examiners may also perform market conduct examinations. Additionally, some insurance departments rely on the Attorney General’s office for legal assistance rather than having separate department counsel.

Communication

Communication with other divisions or areas within the department (intra-departmental communication) on a timely basis is an important element of effective solvency surveillance and is essential to the coordination of results of the risk-focused surveillance approach. Upon identifying a problem or concern during the financial analysis process, the financial analyst should communicate this information to other divisions within the department. In addition, other divisions within the department should communicate certain information to the financial analyst so that the analyst has all of the relevant information available regarding the insurer being analyzed. (Refer to the example of an Insurer Profile Summary in the Analyst Reference Guide for Level 1 procedures.)
Communication from the Financial Analyst to Other Divisions or Areas

The analyst may identify concerns as a result of the financial analysis process that, when communicated to the financial condition examinations division, may lead to a targeted or limited scope financial condition examination. In addition, since the analysis process and risk-focused examinations are interactive processes, the analyst should be familiar with the insurer’s current financial condition, including any changes in its operations since the last periodic financial condition examination. Analysts should **meet with the examiner to** actively communicate findings from the analysis process to examiners, as this type of communication is beneficial to the financial condition examination staff during the planning of risk-focused examinations and any follow-up. An example of the type of communication may include significant financial variances found in the insurer’s business plan projections. Another example may include a material turnover of high-level management positions. **Such information may be shared by providing and discussing the current Insurer Profile Summary, as well as other supporting analysis documentation as necessary.** Statutory violations identified as a part of the analysis process should be communicated to the enforcement division for the issuance of appropriate penalties and/or corrective orders against the insurer. Additionally, solvency related concerns, when communicated to the legal division, may result in the restriction, suspension, or revocation of an insurer’s Certificate of Authority.

III. Annual Procedures – A. Level 1 (All Statement Types)

Instructions

Insurance department staff should be aware that an insurance department may choose to utilize the Handbook or a set of procedures that are substantially similar as outlined within the Accreditation Guidelines. If the insurance department chooses to utilize the Handbook, the Level 1 procedures should be completed. It is important to note that the depth of review will depend on the complexity and financial strength as well as known risks of the insurer. Therefore, the insurance department may consider a tailored set of procedures that addresses the specific risks of the insurer.

The analyst may choose to document the results of the review following each applicable procedure or within the summary and conclusions.

Assessment of Latest Examination Report and Results

25. If a financial examination is currently being planned, meet with the assigned examiner-in-charge to:
   a. discuss information on risks and concerns provided in the Insurer Profile Summary as well as additional information on the company’s financial condition, operating results since the last examination, and reasons for any unusual trends, abnormal ratios and transactions that are not easily discernible;
   b. communicate the information that has already been obtained by the analyst function and therefore available to the department. It may be helpful for the analyst to review the Examiner’s Exhibit B questionnaire and note specific items that have already been accumulated and available to the examiner.

25.26. Review General Interrogatories, Part 1, #3 and determine if a financial examination report was released by the domiciliary state since the last review.
   a. As of what balance sheet date was the latest financial examination of the insurer?
   b. As of what balance sheet date was the latest financial examination report available from either the state of domicile or the insurer?
   c. As of what release date was the latest financial examination report available from either the state of domicile or the insurer, and what state department or departments completed the Financial Examination Report?
   d. Have any financial statement adjustments within the latest financial examination report not been accounted for in a subsequent financial statement filed with the Department?
   e. Have any of the recommendations within the latest financial examination report not been complied with?

If “yes,” or if follow-up was required from the review of the examination report in a previous analysis period, complete the following procedures:
III. Annual Procedures – A. Level 1 (All Statement Types)

| f. | If the answer to 25.d or 25.e is “yes,” follow up with the insurer regarding the implementation of recommendations in the Financial Examination Report. |
| g. | Assess the current and future impact of any financial statement adjustments on the insurer’s financial condition. |

| 26.27. | During the review of the latest state examination report, the results from that examination and communication with the examiner-in-charge (for domestic insurers), note any risks, including prospective risks, that indicate further review is essential? |

| 27.28. | Follow-up and document any management letter comments that should be addressed in the current period, if applicable. |
Risk-Focused Examinations

The concept of risk in the risk-focused examination encompasses not only risk as of the examination date, but risks that extend or commence during the time in which the examination was conducted, and risks which are anticipated to arise or extend past the point of completion of the examination. Risks in addition to the financial reporting risks may be reviewed as part of the examination process.

The risk-focused examination anticipates that risk assessment may extend through all seven phases of the examination.

- **Phase 1** – Understand the Company and Identify Key Functional Activities to be Reviewed—Researching key business processes and business units.
- **Phase 2** – Identify and Assess Inherent Risk in Activities - these risks include credit, market, pricing/underwriting, reserving, liquidity, operational, legal, strategic and reputational.
- **Phase 3** – Identify and Evaluate Risk Mitigation Strategies/Controls - these strategies/controls include management oversight, policies and procedures, risk measurement, control monitoring, and compliance with laws.
- **Phase 4** – Determine Residual Risk—once this risk is determined, the examiner can determine where to focus resources most effectively.
- **Phase 5** – Establish/Conduct Detail Examination Procedures - upon completion of risk assessment, determine nature and extent of detail examination procedures to be performed.
- **Phase 6** – Update Prioritization and Supervisory Plan - incorporate the material findings of the risk assessment and examination in the determination of the prioritization and supervisory plan.
- **Phase 7** – Draft Examination Report and Management Letter - incorporate into the examination report and management letter the results and observations noted during the examination.

The goals of risk-focused examinations are to:

- Assess the quality and reliability of corporate governance to identify, assess and manage the risk environment facing the insurer in order to identify current or prospective solvency risk areas. By understanding the corporate governance structure and assessing the “tone at the top,” the examiner will obtain information on the quality of guidance and oversight provided by the board of directors and the effectiveness of management, including the code of conduct established in cooperation with the board. To assist in this assessment, examiners may utilize board and audit committee minutes; lists of critical management and operating committees, their members and meeting frequencies; and Sarbanes-Oxley filings and initiatives, as applicable.

- Assess the risks that a company’s surplus is materially misstated.

The role of the financial analyst in risk-focused examinations should be to assist in the planning and scope of the examination including: 1) provide information from recent analysis performed that identifies current and prospective risks; and 2) provide information to assist examiners in understanding the company (e.g., structure, management, functional areas and business segments, affiliated agreements, etc.)

Communication between the analyst and the examiner in preparation of an examination should include a thorough discussion of key risks, highlighted in the Insurer Profile Summary, as well as the company’s financial condition and operating results since the last examination. The analyst
should be prepared to explain during this discussion the reasons for any unusual trends, abnormal ratios and transactions that are not easily discernible. This discussion should occur through a meeting, rather than through an e-mail exchange, which is not deemed sufficient to achieve the expectation of a planning meeting with the examiner. During the course of this discussion, the analyst should communicate the information that has already been obtained by the analyst function and therefore available to the department. It may be specifically helpful for the analyst to review the Exhibit B questionnaire and note specific items that have already been accumulated and available to the examiner. This communication and coordination may be best accomplished not only through written documentation but through face-to-face interaction. For example, the examiners and analysts could meet for pre-examination planning, follow-up conduct follow-up meetings/calls to discuss analysis of subsequent filings may also be helpful to the examination process, and finally, meet at the end of the examination, the analyst should meet with the examiners again to understand and communicate any material examination findings to the analysts that in turn may help the analysts to focus their next review. This may include, but may not be limited to, follow-up on information collected during the examination.

Discussion of Level 1 Annual Procedures

The Level 1 Annual Procedures are designed to identify potential areas of concern. As noted above, the principal areas of focus in the Level 1 Annual Procedures include the overall analysis of the insurer and its operations. The following provides a brief description of the purpose of each procedure.

Background Analysis

Assessment of Latest Examination Report and Results

Procedures #25, 26, and 27 assist the analyst in planning the upcoming examination activities and gathering specific information related to the insurer’s most recently completed financial examination. Communication between the analyst and the examiner in preparation of an examination should include a thorough discussion of key risks and concerns highlighted in the Insurer Profile Summary, as well as the company’s financial condition and operating results since the last examination. In following up on completed examinations, during a review of the examination report, the analyst should note any items or areas that indicate further review is necessary. This might include such things as internal control issues, risk management, information technology, or other issues that could impact the insurer’s priority. The analyst should also review the management letter comments, which may include risks or progress on issues that the analyst should give attention to while the current analysis is being performed. Effective communication between the analyst and the examination staff is important in developing a good understanding of the insurer’s management and financial position. As an example, the examination staff may have specific information on the reliability of the insurer’s financial reporting. In addition, the analyst may want to utilize the Financial Exam Electronic Tracking System (FEETS) on I-SITE. The analyst should consider the impact, if any, of the Financial Examination Report findings on the conclusions reached as a result of the analysis of the Annual Financial Statement and consider the need to perform additional analysis (e.g., complete additional supplemental procedures).

Assessment of Results from Prioritization and Analytical Tools
III. Analyst Reference Guide – A. Level 1

Procedure #298 requires the analyst to review and comment on the Annual Scoring System ratio results of the insurer, which can assist in identifying any unusual financial results.

Procedure #3029 requires the analyst to review the IRIS ratios of the insurer (for property/casualty, life and fraternal), which can assist in identifying any unusual financial results.

Procedure #3149 requires the analyst to review and understand the assigned Analyst Team System Validated Level, documented within the ATS Report and the ATS Validated Level Report on I-SITE. In addition, the analyst can reference the ATS Procedures Manual and ATS Level Definitions documents on I-SITE. The Analyst Team typically completes the validation process by mid-April.

Procedure #3241 requires the analyst to review the Annual Financial Profile Report, which can assist in identifying unusual trends and results.

Procedure #3322 alerts the analyst to review any communication from the state’s market analysis unit, including the results of market conduct exams as well as information drawn from the review of market analysis tools available on I-SITE, such as the Market Analysis Profile (MAP), Examination Tracking System (ETS), Market Analysis Review System (MARS), Regulatory Information Retrieval System (RIRS), Special Activities Database (SAD), Market Initiative Tracking System (MITS), Market Conduct Annual Statement (MCAS) and the Complaints database. Analysts should review any market conduct issues identified by market analysis staff (such as the Market Analysis Chief or the Collaborative Action Designee) or I-SITE tools and consider the financial implications those issues may have on the insurer. For example, large fines levied by states, suspensions or revocations of licenses, market conduct exam settlements (whether financial or other), or other regulatory actions taken based on market conduct violations may have a material impact on the financial solvency of the insurer.

Assessment of Supplemental Filings

Procedure #3433 requires the analyst to review the Statement of Actuarial Opinion to assess the adequacy of the insurer’s reserves. See the Statement of Actuarial Opinion Supplemental Procedures for additional guidance in this area.

Procedure #3544 requires the analyst to review the MD&A, which can provide additional information to the analysis of the insurer. See the MD&A Supplemental Procedures for additional guidance.

Procedure #3655 requires the analyst to review the Audited Financial Report, which helps to assess the reliance placed on the validity of the insurer’s financial statements. The Audited Financial Report also contains additional financial information that is generally not included in the Annual Financial Statement and can be helpful to the analyst. See the Audited Financial Report Supplemental Procedures for additional guidance.

Procedure #3766 requires the analyst to review the most recent financial statement of the holding company, as filed in the SEC 10-K Report. In addition, the analyst should review Forms A, B, D, E, F (if required) and Extraordinary Dividend/Distributions, if available. If there are affiliated insurers within the holding company system, the analyst should document communication with the domestic departments of insurance for those affiliated insurers.
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ATTACHMENT TWO-A

Comments on Redundancy Exposure
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Assessment of Latest Examination Report and Results

25. If a financial examination is currently being planned, meet with the assigned examiner-in-charge to:
   a. Discuss information on risks and concerns provided in the Insurer Profile Summary as well as additional information on the company’s financial condition, operating results since the last examination, and reasons for any unusual trends, abnormal ratios and transactions that are not easily discernible;

   b. Communicate the information that has already been obtained by the analyst function and therefore available to the department. It may be helpful for the analyst to review the Examiner’s Exhibit B questionnaire and note specific items that have already been accumulated and available to the examiner. Although it will be helpful for the analyst to review the Exhibit B questionnaire, it should be the responsibility of the examiner to review the analysis files, meet with the analyst to determine the information already available, and ultimately make the final decision on the information to be requested from the insurer scheduled for examination. It should not be the responsibility of the analyst to review the Exhibit B questionnaire and note specific items that have already been accumulated and available to the examiner, although there should be an in-depth discussion between the examiner and analyst pertaining to the information contained in the analysis files, the examiner in responsible for the information utilized during the examination. This process will allow the examiner to review the information available in detail and make a more informed decision on the information to be requested from the insurer. Follow-up meetings/calls to discuss analysis of subsequent filings may also be helpful to the examination process. Finally, at the end of the examination, the analyst should meet with the examiners again to understand any material examination findings that in turn may help the analysts to focus their next review. This may include, but may not be limited to, follow-up on information collected during the examination.
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DATE: March 19, 2015

TO: Mr. Doug Slape (TX), Co-Chair
    Mr. Justin Schrader (NE), Co-Chair
    Members of the Risk-Focused Surveillance (E) Working Group
    Bruce Jenson, NAIC Support Staff

FROM: Ms. Rebecca Easland, Director, Bureau of Financial Analysis and Examinations

SUBJECT: Proposed Revisions to the Financial Condition Examiners Handbook (FCEH), Phase 1

Wisconsin would like to thank the working group for exposing the proposed revisions to the FCEH for comment. We request that the members consider the impact of these changes on state regulators and consider some suggested wording changes.

Impact on Regulators

We would like to bring to the working group’s attention that the change to the time when the examination team and analyst meet may result in regulators needing to make substantial changes in current processes. These changes, when compared to current processes, may result in regulatory inefficiencies and cause delays in the examination process. We agree the common goal between regulators and insurers is to improve overall efficiency, but we feel regulators should have the flexibility in conducting examinations to improve efficiency and outcomes.

The proposed changes to the FCEH guidance for phase one mandate that the analyst and examination team have a meeting prior to sending requests, particularly the Exhibit B questionnaire. This mandate does not take into consideration how insurance departments are organized (i.e. some states have the same staff perform the analyst and examiner functions, while others rely heavily on contractors to perform the examination function) and is forcing a process onto regulators that could lead to inefficiencies, depending on the insurance departments structure. We think it would be better for the FCEH to focus on outcomes based on professional judgment, not mandating a prescriptive process.

The current guidance for the Exhibit B questionnaire allows regulators to send the Exhibit B questionnaire prior to assigning an Examiner-In-Charge (EIC). For example, soon after Exhibit B is ratified at the NAIC Fall National meeting, Wisconsin posts Exhibit B on its Internet site and an office assistant e-mails the company contact person(s) in November or December to inform them of the upcoming examination, with instructions on how they can download the Exhibit B questionnaire from our website. This process provides the following benefits:

- The EIC can be named closer to the actual examination date providing less confusion to companies and other regulators when there is a change in EIC due to workload or turnover.
- Companies are provided a longer duration (i.e. at least 2 – 3 months) to respond to the planning questionnaires. If the proposed changes are approved, it is likely that companies will have a shorter timeframe (i.e. possibly 2 weeks) to provide their responses.
The EIC and the examination team have already reviewed information available to the department and the Exhibit B questionnaire responses prior to meeting with the analyst, which results in a more productive discussion of potential risks to the company.

The proposed guidance could have the following impacts on regulators:

- It creates additional scheduling complexity because Bureau management has to plan for many EIC-analyst meetings in December, which takes the EIC (and analyst/examiner) away from their current exam assignments, to spend time focusing on next year’s examination.
- It could result in examination delays, and possibly result in states not meeting the 18-month rule for adoption of examination reports, particularly for examinations commencing later in the year. The delays will occur:
  - For exams scheduled early in the year, because the Exhibit B cannot be sent out as early in the planning process, since it is not finalized until the NAIC Fall National meeting (which will end on November 22 or December 13 in the next couple of years) and then the in-person meeting between each EIC and analyst must occur before Exhibit B is sent out. Particularly when the NAIC meeting ends in mid-December, it will be difficult to arrange all of the EIC-analyst meetings before examiners begin to take seasonal holiday/vacation time off, which likely means Exhibit B would not be sent out until January.
  - For exams scheduled later in the year, delays will occur because the Exhibit B cannot be requested until the EIC and analyst meet. This meeting cannot occur until an EIC is assigned, which in some cases may be one month before active planning begins because of workloads, delays in other examinations, and turnover.

- In cases where a company does not promptly respond to examination requests, examinations could be delayed because they cannot effectively develop questions for executive level interviews, assess corporate governance, identify risks, etc.

Wisconsin requests changing the proposed guidance to allow for an email exchange to occur between the analyst (and/or analyst supervisor) and EIC (and/or designated examination team member(s)) to determine what items in Exhibit B that the department may already have prior to active planning commencing for an examination. This will allow regulators to still have some efficiency while also tailoring the request. Then at the commencement of active planning, the EIC (examination team) and analyst can meet in person to discuss significant concerns.

**Suggested Wording Changes**

Wisconsin suggests the following:

- Be consistent when there is a requirement. For example, under “Meet with the Assigned Analyst”, the third sentence says “…the exam team is required to meet with the assigned financial analyst (and/or analyst supervisor) …”, but in other areas of the FCEH “should” is used to show a requirement. We suggest changing the third sentence for consistency to read:

  “To do so, the exam team should be required to meet with the assigned financial analyst…”

- Rewording the first sentence under “External Planning Meetings” to reflect that “external stakeholders” is not referring to policyholders, stockholders, reinsurers, etc. as follows:

  “After internal department meetings are completed, the examination team should meet with external stakeholders impacted by the examination, including other impacted regulators and the insurance company itself, as deemed necessary.”

Finally, we understand the WG has heard complaints from insurers about having to provide materials for Exhibit B that have already been filed with the State Insurance Department, and have asked the WG to
require the pre-screening of Exhibit B and elimination of requests for items previously filed. On the other hand, it has also been every regulator’s experience that some insurers forget to file updated Articles and Bylaws, fail to properly record newly elected or appointed Officers and Directors on the Jurat Page and fail to make appropriate biographical filings on those persons, forget to make appropriate Form D filings, etc. So the State Insurance Department cannot be certain, for examination planning purposes, that the materials it has on file are truly the most current or accurate version of company documents. We suggest that some instruction or header on Exhibit B be added that tells the company that they can refer to a recently filed document as still being current or accurate as long as they provide the date of the referenced filing.

We appreciate the opportunity to submit these comments and thank you for your consideration. Please notify us of any questions you may have.
This page was intentionally kept blank.
TO: Bruce Jenson
FROM: The INS Companies
DATE: March 19, 2015
SUBJECT: Proposed Revisions to the Financial Condition Examiners Handbook and to the Financial Analysis Handbook to Address Redundancy Concerns

Introduction:

The INS Companies are pleased to provide comments concerning the proposed revisions to the Financial Condition Examiners Handbook and to the Financial Analysis Handbook to address redundancy concerns issued February 17, 2015, by the Risk-Focused Surveillance (E) Working Group. First, we would like to thank the working group and NAIC staff for all their hard work.

Our comments follow.

Financial Condition Examiners Handbook Exhibit A:

Exhibit A, Phase 1, Part 1, 2.e.
The actuarial opinions to be reviewed are "for all years under review," but other documents to be obtained appear to only be the most recent. With the 5-year history in the annual statement, we do not believe actuarial opinions for years prior to the examination date warrant collection unless there is an issue found in the trends or annual statements during the period of review. The annual valuation certification should have ensured the interim actuarial opinions were statutorily compliant. We recommend the wording be changed to: "Actuarial Opinions for reserves as of the examination date."

Exhibit A, Part 1, 13.b.
The sentence stops in the middle of a prepositional phrase. We think the word "company" was omitted at the end of the sentence. We also recommend adding "continuing education" as a part of 13.b.

We further recommend the addition of two more items to Exhibit A, Part 1, 13:
13. e. The flow of data (both contract data and reserve assumptions) used for the reserving
process.
13. f. The reserving platform (i.e. computer program), and any changes to this platform since the prior examination.

Exhibit A, Phase 1, Part 5, 1.b. We recommend the item be re-worded to read "Processes for establishing actuarial reserves." There are processes and reserves other than loss reserves which should be considered, especially when considering life insurance. As worded now, the item has a Property-Casualty focus, but the suggested change would make it more applicable to all forms of insurance.

Also, several of the items listed are not generally actual risks, such as concerns about liquidity. Item 1.f. could be reworded to say "Lack of liquidity of assets." We suggest that several of the items could be reworded to reflect the actual risk being considered.

Financial Condition Examiners Handbook Exhibit B:

The document says that the in-house analyst and the exam team should meet to prepare a customized Exhibit B prior to it being sent out. This is difficult to accomplish when contract examiners are used. Exhibit B should be sent to the Company well in advance of the start of field work. Often the contracting firm has not yet been selected at that time.

Additionally, Exhibit B now notes that the in-house analyst should already have certain supporting information (marked on Exhibit B with an ‘*’). Some of this information has not previously been obtained/maintained. Is there a specified format for that information?

Exhibit B, Part I. F.1 should also include to whom in the Company specialists provide their reports and to whom they have access: Board of Directors, Senior Management, Audit Committee, etc.

Exhibit B, Part II. B.1 refers to background checks of new employees in the administrative and financial areas. We recommend that verification of qualifications of professionals (whether consultants or employees) should be either included here or as another item.

Exhibit B, Part II. Should include questions related to succession plans for key personnel.

It has been our pleasure to provide the foregoing comments. Should you have any questions or wish to discuss these comments further, please contact Pat Casey Davis at pcasey@insris.com or 239-673-7716 or Barry Armstrong at barmstrong@insris.com or 267-239-8914.
March 19, 2015

Doug Slape, Co-Chair, Risk-Focused Surveillance (E) Working Group
Justin Schrader, Co-Chair, Risk-Focused Surveillance (E) Working Group
National Association of Insurance Commissioners
Attn: Mr. Bruce Jensen, Risk-Focused Surveillance Policy Manager
Via e-mail: bjensen@naic.org

Re: Industry Comments on RFSWG Exposure Documents

Dear Sirs:

The undersigned interested parties appreciate the opportunity to provide comments in response to the working group exposure drafts for both the NAIC Financial Analysis and NAIC Financial Condition Examiners Handbooks and we appreciate that several of the suggestions included in our October 31, 2014 comment letter have been incorporated in the current exposure drafts.

As noted in our previous comment letter, a significant amount of redundancies are created through breakdowns or inefficient processes between regulatory functions and we believe that changes in the process and strengthening the necessary communications between regulatory functions will eliminate a significant number of the redundancies that are created by duplicative requests and requirements. The clarifying guidance that was added to the exposure draft to address this issue was a good start, but we believe that additional guidance is necessary to clarify the expectations of the analysts’ final work product and the examiners’ use of that work product.

The information that insurers submit to the insurance department which are received and reviewed by the analysts as well as their final work product should be documented in a standard format that can be easily integrated into the risk-focused examination workpaper files (e.g. Teammate) and readily available for the examiners prior to the start of the on-site examination. In particular, the method of the analysts’ review, an outline or mapping of what documentation was reviewed and report of the analysts’ final determinations should be maintained in a workpaper file format that can be discussed during the pre-examination communication meeting with the examiner.

For example, if an insurer submits a new agreement (e.g. management, reinsurance, etc.) to the insurance department, the analyst typically conducts a review of the agreement terms for reasonableness and compliance with related insurance department rules or laws. As part of their review, the analyst should document the pertinent information in the agreement as part of their final work product and that documentation should be maintained in the Teammate project or some other detailed analyst file that should be readily available for discussion with the examiner prior to the next on-site financial or other examination. This process will eliminate duplication by not requiring the examiner to conduct a similar review during the on-site examination.

During the three to five year period between examinations, the analyst should summarize the company background information while conducting his or her review to ensure that the information is always current. This process would ultimately save significant examination
resources avoid duplication and not require the analyst to gather all of the detailed charter files of company correspondence in advance of the communication meeting with the examiner.

Similar to the importance of meeting with the analysts, the examiners should establish initial contact with and meet with the external auditors, where applicable, prior to the examination commencement or before examination requests for information are made to the insurer. This will give the examiners a better understanding of what information is available in the external auditor workpapers and avoid duplicate requests for information.

Additionally, suggested revisions to the exposure drafts are attached to this comment letter.

We appreciate your consideration of our comments and the continued opportunity to work closely with you on this project, which is of critical importance to both regulators and our various members of all sizes. We look forward to the discussion at the NAIC Spring 2015 National Meetings, and in the interim please let us know if you have any questions.

The interested parties, as noted below, agree with the comments contained in this letter.

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</tr>
</thead>
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<tr>
<td>American Council of Life Insurers</td>
<td>Wayne Mehlman</td>
<td>202-624-2135</td>
<td><a href="mailto:WayneMehlman@acli.com">WayneMehlman@acli.com</a></td>
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<tr>
<td>American Insurance Association</td>
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<td>202-828-7163</td>
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<tr>
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<tr>
<td>Blue Cross Blue Shield Association</td>
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<td><a href="mailto:Joseph.Zolecki@bcbsa.com">Joseph.Zolecki@bcbsa.com</a></td>
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<tr>
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<td>Property Casualty Insurers Association of America (PCI)</td>
<td>Stephen W. Broadie</td>
<td>847-553-3606</td>
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<td><a href="mailto:morell@reinsurance.org">morell@reinsurance.org</a></td>
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Organization Chart

The organizational structure of a state insurance department varies by state. There are several basic functions that are performed by all departments. It is important for the analyst to understand the purpose of each function and the information obtained that may assist the analyst in the financial monitoring and solvency surveillance process. Due to the variance in organizational structure, the chart below depicts typical state insurance department functions rather than trying to highlight a typical organizational structure.

Chart of State Insurance Department Functional Units

- Commissioner of Insurance
  - Financial Condition Examinations
  - Market Conduct Examinations
  - Financial Analysis
  - Company Licensing & Admissions
  - Consumer Affairs
  - Enforcement
  - Policy/Forms Analysis
  - Rate Filings
  - Agent Licensing
  - Legal

In many states, more than one of the above functions may be performed or supervised by the same individuals. For example, the financial analysts may also perform financial examinations and financial examiners may also perform market conduct examinations. Additionally, some insurance departments rely on the Attorney General’s office for legal assistance rather than having separate department counsel.

Communication

Communication with other divisions or areas within the department (intra-departmental communication) on a timely basis is an important element of effective solvency surveillance and is essential to the coordination of results of the risk-focused surveillance approach. Upon identifying a problem or concern during the financial analysis process, the financial analyst should communicate this information to other divisions within the department. In addition, other divisions within the department should communicate certain information to the financial analyst so that the analyst has all of the relevant information available regarding the insurer being analyzed. (Refer to the example of an Insurer Profile Summary in the Analyst Reference Guide for Level 1 procedures.)
Communication from the Financial Analyst to Other Divisions or Areas

The analyst may identify concerns as a result of the financial analysis process that, when communicated to the financial condition examinations division, may lead to a targeted or limited scope financial condition examination. In addition, since the analysis process and risk-focused examinations are interactive processes, the analyst should be familiar with the insurer’s current financial condition, including any changes in its operations since the last periodic financial condition examination. Analysts should meet with the examiner to actively communicate findings from the analysis process to examiners, as this type of communication is beneficial to the financial condition examination staff during the planning of risk-focused examinations and any follow-up. An example of the type of communication may include significant financial variances found in the insurer’s business plan projections. Another example may include a material turnover of high-level management positions. Such information may be shared by providing and discussing the current Insurer Profile Summary, as well as other supporting analysis documentation as necessary. Statutory violations identified as a part of the analysis process should be communicated to the enforcement division for the issuance of appropriate penalties and/or corrective orders against the insurer. Additionally, solvency related concerns, when communicated to the legal division, may result in the restriction, suspension, or revocation of an insurer’s Certificate of Authority.

The avoidance of redundancy in the analysis process and risk-focused examinations is of critical importance for an enhanced and more efficient overall regulatory process that will benefit both regulators and industry. An efficient regulatory process fosters clarity and consistency, which results in a better understanding of how individual insurers operate across the different aspects of the regulatory spectrum, including the areas of financial examination, financial analysis and other solvency-related regulation.

The information that insurers submit to the insurance department which are received and reviewed by the analysts as well as their final work product should be documented in a standard format that can be easily integrated into the risk-focused examination workpaper files (e.g. Teammate) and readily available for the examiners prior to the start of the on-site examination. In particular, the method of the analysts’ review, an outline or mapping of what documentation was reviewed and report of the analysts’ final determinations should be maintained in a workpaper file format that can be discussed during the pre-examination communication meeting with the examiner.

By utilizing the analysts resultant work product allows the examiners to request information from the insurer that is focused more on providing current updates to information rather than requesting similar information previously submitted to the analyst. This process eliminates the need for examiners to redevelop the financial analysis information in the examination workpapers so that examination resources may instead be used updating the information while on-site at the insurer. Similar to the benefits of reviewing and use of external or internal auditor workpapers, examiners use of detailed financial analysis workpapers in the examination files should result in examinations being more efficient and streamlined.
Risk-Focused Examinations

The concept of risk in the risk-focused examination encompasses not only risk as of the examination date, but risks that extend or commence during the time in which the examination was conducted, and risks which are anticipated to arise or extend past the point of completion of the examination. Risks in addition to the financial reporting risks may be reviewed as part of the examination process.

The risk-focused examination anticipates that risk assessment may extend through all seven phases of the examination.

- **Phase 1** – Understand the Company and Identify Key Functional Activities to be Reviewed—Researching key business processes and business units.
- **Phase 2** – Identify and Assess Inherent Risk in Activities - these risks include credit, market, pricing/underwriting, reserving, liquidity, operational, legal, strategic and reputational.
- **Phase 3** – Identify and Evaluate Risk Mitigation Strategies/Controls - these strategies/controls include management oversight, policies and procedures, risk measurement, control monitoring, and compliance with laws.
- **Phase 4** – Determine Residual Risk—once this risk is determined, the examiner can determine where to focus resources most effectively.
- **Phase 5** – Establish/Conduct Detail Examination Procedures - upon completion of risk assessment, determine nature and extent of detail examination procedures to be performed.
- **Phase 6** – Update Prioritization and Supervisory Plan - incorporate the material findings of the risk assessment and examination in the determination of the prioritization and supervisory plan.
- **Phase 7** – Draft Examination Report and Management Letter - incorporate into the examination report and management letter the results and observations noted during the examination.

The goals of risk-focused examinations are to:

- Assess the quality and reliability of corporate governance to identify, assess and manage the risk environment facing the insurer in order to identify current or prospective solvency risk areas. By understanding the corporate governance structure and assessing the “tone at the top,” the examiner will obtain information on the quality of guidance and oversight provided by the board of directors and the effectiveness of management, including the code of conduct established in cooperation with the board. To assist in this assessment, examiners may utilize board and audit committee minutes; lists of critical management and operating committees, their members and meeting frequencies; and Sarbanes-Oxley filings and initiatives, as applicable.

- Assess the risks that a company’s surplus is materially misstated.

The role of the financial analyst in risk-focused examinations should be to assist in the planning and scope of the examination including: 1) provide information from recent analysis performed that identifies current and prospective risks; and 2) provide information to assist examiners in understanding the company (e.g., structure, management, functional areas and business segments, affiliated agreements, etc.)

Communication between the analyst and the examiner in preparation of an examination should include a thorough discussion of key risks, (current and prospective), highlighted in the Insurer Profile Summary, a review of the detailed analyst workpaper files as well as the company’s financial condition and operating
Discussion of Level 1 Annual Procedures

The Level 1 Annual Procedures are designed to identify potential areas of concern. As noted above, the principal areas of focus in the Level 1 Annual Procedures include the overall analysis of the insurer and its operations. The following provides a brief description of the purpose of each procedure.

Background Analysis

Assessment of Latest Examination Report and Results

Procedures #25, 26, and 27 assist the analyst in participation in the planning of upcoming examination activities and gathering specific information related to the insurer’s most recently completed financial examination. Communication between the analyst and the examiner in preparation of an examination should include a thorough discussion of key risks and concerns highlighted in the Insurer Profile Summary, as well as the company’s financial condition and operating results since the last examination. In following up on completed examinations, during a review of the examination report, the analyst should note any items or areas that indicate further review is necessary. This might include such things as internal control issues, risk management, information technology, or other issues that could impact the insurer’s priority. The analyst should also review the management letter comments, which may include risks or progress on issues that the analyst should give attention to while the current analysis is being performed. Effective communication between the analyst and the examination staff is important in developing a good understanding of the insurer’s management and financial position. As an example, the examination staff may have specific information on the reliability of the insurer’s financial reporting. In addition, the analyst may want to utilize the Financial Exam Electronic Tracking System (FEETS) on I-SITE.
analyst should consider the impact, if any; of the Financial Examination Report findings on the conclusions reached as a result of the analysis of the Annual Financial Statement and consider the need to perform additional analysis (e.g., complete additional supplemental procedures).

**Assessment of Results from Prioritization and Analytical Tools**

*Procedure #298* requires the analyst to review and comment on the Annual Scoring System ratio results of the insurer, which can assist in identifying any unusual financial results.

*Procedure #3029* requires the analyst to review the IRIS ratios of the insurer (for property/casualty, life and fraternal), which can assist in identifying any unusual financial results.

*Procedure #310* requires the analyst to review and understand the assigned Analyst Team System Validated Level, documented within the ATS Report and the ATS Validated Level Report on I-SITE. In addition, the analyst can reference the *ATS Procedures Manual* and ATS Level Definitions documents on I-SITE. The Analyst Team typically completes the validation process by mid-April.

*Procedure #321* requires the analyst to review the Annual Financial Profile Report, which can assist in identifying unusual trends and results.

*Procedure #332* alerts the analyst to review any communication from the state’s market analysis unit, including the results of market conduct exams as well as information drawn from the review of market analysis tools available on I-SITE, such as the Market Analysis Profile (MAP), Examination Tracking System (ETS), Market Analysis Review System (MARS), Regulatory Information Retrieval System (RIRS), Special Activities Database (SAD), Market Initiative Tracking System (MITS), Market Conduct Annual Statement (MCAS) and the Complaints database. Analysts should review any market conduct issues identified by market analysis staff (such as the Market Analysis Chief or the Collaborative Action Designee) or I-SITE tools and consider the financial implications those issues may have on the insurer. For example, large fines levied by states, suspensions or revocations of licenses, market conduct exam settlements (whether financial or other), or other regulatory actions taken based on market conduct violations may have a material impact on the financial solvency of the insurer.

**Assessment of Supplemental Filings**

*Procedure #343* requires the analyst to review the Statement of Actuarial Opinion to assess the adequacy of the insurer’s reserves. See the Statement of Actuarial Opinion Supplemental Procedures for additional guidance in this area.

*Procedure #354* requires the analyst to review the MD&A, which can provide additional information to the analysis of the insurer. See the MD&A Supplemental Procedures for additional guidance.

*Procedure #365* requires the analyst to review the Audited Financial Report, which helps to assess the reliance placed on the validity of the insurer’s financial statements. The Audited Financial Report also contains additional financial information that is generally not included in the Annual Financial Statement and can be helpful to the analyst. See the Audited Financial Report Supplemental Procedures for additional guidance.

*Procedure #376* requires the analyst to review the most recent financial statement of the holding company, as filed in the SEC 10-K Report. In addition, the analyst should review Forms A, B, D, E, F (if required) and Extraordinary Dividend/Distributions, if available. If there are affiliated insurers within the
holding company system, the analyst should document communication with the domestic departments of insurance for those affiliated insurers.
Instructions

Insurance department staff should be aware that an insurance department may choose to utilize the Handbook or a set of procedures that are substantially similar as outlined within the Accreditation Guidelines. If the insurance department chooses to utilize the Handbook, the Level 1 procedures should be completed. It is important to note that the depth of review will depend on the complexity and financial strength as well as known risks of the insurer. Therefore, the insurance department may consider a tailored set of procedures that addresses the specific risks of the insurer.

The analyst may choose to document the results of the review following each applicable procedure or within the summary and conclusions.

Assessment of Latest Examination Report and Results

25. If a financial examination is currently being planned, meet with the assigned examiner-in-charge to:
   a. discuss information on risks and concerns provided in the Insurer Profile Summary as well as additional information on the company’s financial condition, operating results since the last examination, and reasons for any unusual trends, abnormal ratios and transactions that are not easily discernible;
   b. review the detailed analyst workpaper files and communicate the information that has already been received, and reviewed obtained by the analyst function, including the analysts’ final work product, the method of the analysts’ review, an outline or mapping of what documentation was reviewed and report of the analysts’ final determinations should be maintained in a workpaper file format that can be discussed during the pre-examination communication meeting with the examiner and therefore available to the department. It may be helpful for the analyst and examiner should also review the Examiner’s Exhibit B questionnaire and note specific items that have already been accumulated and available to the examiner.

25.26. Review General Interrogatories, Part 1, #3 and determine if a financial examination report was released by the domiciliary state since the last review.
   a. As of what balance sheet date was the latest financial examination of the insurer?
   b. As of what balance sheet date was the latest financial examination report available from either the state of domicile or the insurer?
   c. As of what release date was the latest financial examination report available from either the state of domicile or the insurer, and what state department or departments completed the Financial Examination Report?
   d. Have any financial statement adjustments within the latest financial examination report not been accounted for in a subsequent financial statement filed with the Department?
e. Have any of the recommendations within the latest financial examination report not been complied with?

   If “yes,” or if follow-up was required from the review of the examination report in a previous analysis period, complete the following procedures:

f. If the answer to 25.d or 25.e is “yes,” follow up with the insurer regarding the implementation of recommendations in the Financial Examination Report.

g. Assess the current and future impact of any financial statement adjustments on the insurer’s financial condition.

| 26.27. During the review of the latest state examination report, the results from that examination and communication with the examiner-in-charge (for domestic insurers), note any risks, including prospective risks, that indicate further review is essential? |

| 27.28. Follow-up and document any management letter comments that should be addressed in the current period, if applicable. |
PHASE 1 – UNDERSTAND THE COMPANY AND IDENTIFY KEY FUNCTIONAL ACTIVITIES TO BE REVIEWED

In Phase 1 of a risk-focused examination, key activities and sub-activities will be confirmed or identified using background information gathered on the company from various sources. Some of this information will already have been available in the department prior to the initial planning meeting, or can be obtained from the company’s internal audit department or external auditors. A Phase 1 goal is to gather any additional or current information necessary to begin a risk-focused examination. Sources of information may include organizational charts, filings required by sections 302 and 404 of the Sarbanes-Oxley Act of 2002 (where applicable), interviews with senior management, or other publicly available information.

To ensure the appropriate risk-focused examination scope, it is important to identify the key functional activities (i.e., business activities) of the company. Information gathered by understanding the company, the company’s corporate governance structure, and assessing the company’s audit function will form the basis for determining key activities. Once key activities are identified, sub-activities should be identified in accordance with how the company is organized.

Essential to executing the risk-focused surveillance process is interviewing executive management and possibly board members of the company to identify key activities and risks. Risks identified through these interviews and each part of Phase 1 should be documented on Exhibit CC – Issue/Risk Tracking Template or a similar document to ensure they are carried through the remaining phases of the examination. Examiners and company officials should attempt to maintain an ongoing dialogue to assist the examiners in understanding the company and identifying key functional activities. It is also critical for the examination team to understand and leverage the company’s risk management program; that is, how the company identifies, controls, monitors, evaluates and responds to its risks. For companies required to submit an Own Risk and Solvency Assessment (ORSA) summary report, the report provided by the company may be a useful tool in this evaluation. The discipline and structure of risk management programs vary dramatically from company to company. “Best practices” are emerging for risk management programs and more companies are appointing chief risk managers whose responsibilities go well beyond the traditional risk management function (the buying of insurance). The Committee of Sponsoring Organizations (COSO) has published internal control standards that are widely-held, although not required, in many industries and has released an Enterprise Risk Management Integrated Framework, which is anticipated to be incorporated by several entities, as well as guidance to apply the integrated framework and internal control standards to small public companies. The examination team should evaluate the strength of the company’s risk management process, which can include a “hind-sight” evaluation of why a particular negative surprise or event occurred (i.e., why was it not identified in the current risk management program of the company).

There are five parts to Phase 1 that are key components of performing a risk assessment, the results of which drive the direction of the risk-focused examination: (1) Understanding the Company; (2) Understanding the Corporate Governance Structure; (3) Assessing the Adequacy of the Audit Function; (4) Identifying Key Functional Activities; and (5) Consideration of Prospective Risks for Indications of Solvency Concerns. The Risk Assessment Matrix (Exhibit K), the tool developed to serve as the central location for the documentation of risk assessment and testing conclusions, should be updated with the identified key activities and sub-activities of the company after the examiner is able to obtain an understanding of the company and corporate governance structure. The five parts of Phase 1 are discussed in detail below.

A. Part 1: Understanding the Company

Step 1: Gather Necessary Planning Information

Meet with the Assigned Analyst

Gathering information becomes the first step in this phase in gaining an understanding of the company. However, prior to requesting information from the company, the examination team must first determine what information is already available to the department. To do so, the exam team is required to meet with the assigned financial analyst (and/or analyst supervisor) prior to distributing detailed information requests to the company for use in planning the examination. An email exchange is not deemed sufficient to achieve the expectation of a planning meeting with the assigned analyst.
In addition to gaining an understanding of the information already available to the department, the meeting with the analyst should focus on the company’s financial condition, prospective risks and operating results since the last examination. The analyst should be asked to discuss risks and concerns highlighted in the Insurer Profile Summary and to describe the reasons for unusual trends, abnormal ratios and transactions that are not easily discernible. The analyst may also request specific matters or concerns for verification and review during the financial examination. To summarize the input received from financial analysis, the exam team should document significant risks identified by the analyst for further review on the examination and post significant items to Exhibit CC – Issue/Risk Tracking Template for incorporation into the exam process.

Gather Information Already Available to the Department

After meeting with the assigned analyst to gain an understanding of company information already available to the department, gather relevant information for use in examination planning. Establishing an understanding of the insurer and its unique risks and the creation (or updating) of the Insurer Profile Summary (Exhibit H) is critical to a risk-focused examination process and facilitates continuing surveillance. Exhibit A – Examination Planning Procedures Checklist provides examples of information already available to the department that may be relevant for inclusion within the examination file, which may include and Exhibit B – Examination Planning Questionnaire have been included in Section 4 of this Handbook to assist the examiner in gathering the necessary planning information.

During Step 1, the examiner should be identifying operating or financial reporting areas that will require focus during the examination. Sources of information supporting this understanding are:

Documentation of ongoing monitoring completed by the Insurance Department Analyst, State Insurance Departments’ and other regulators’ reports and information available through public sources.

The avoidance of redundancy in the analysis process and risk-focused examinations is of critical importance for an enhanced and more efficient overall regulatory process that will benefit both regulators and industry. An efficient regulatory process fosters clarity and consistency, which results in a better understanding of how individual insurers operate across the different aspects of the regulatory spectrum, including the areas of financial examination, financial analysis and other solvency-related regulation.

The information that insurers submit to the insurance department which are received and reviewed by the analysts as well as their final work product should be documented in a standard format that can be easily integrated into the risk-focused examination workpaper files (e.g. Teammate) and readily available for the examiners prior to the start of the on-site examination. In particular, the method of the analysts’ review, an outline or mapping of what documentation was reviewed and report of the analysts’ final determinations should be maintained in a workpaper file format that can be discussed during the pre-examination communication meeting with the examiner.

By utilizing the analysts resultant work product allows the examiners to request information from the insurer that is focused more on providing current updates to information rather than requesting similar information previously submitted to the analyst. This process eliminates the need for examiners to redevelop the financial analysis information in the examination workpapers so that examination resources may instead be used updating the information while on-site at the insurer. Similar to the benefits of reviewing and use of external or internal auditor workpapers, examiners use of detailed financial analysis workpapers in the examination files should result in examinations being more efficient and streamlined.

Similar to the importance of meetings with the analysts, the examiners should establish initial contact with and meet with the external auditors, where applicable, prior to the examination commencement or before examination requests for information are made to the insurer. This will give the examiners a better understanding of what information is available in the external auditor workpapers and avoid duplicate requests for information.

Obtain Additional Information from the Company

After meeting with the assigned analyst, the insurers external auditor and gathering information already available to the department for review in examination planning, the exam team should determine what additional information is necessary to request from the company to assist in gaining an adequate understanding of the company and the risks it faces. Exhibit B – Examination Planning Questionnaire and the Information Technology Planning Questionnaire (see Exhibit C – Part
The following checklist details the components of Phase 1 and Phase 2, as well as other information that should be considered during the planning process. Narrative guidance is provided within Section 2 of this Handbook to aid examiners in understanding the risk-focused surveillance process.

### Pre-planning Procedures

1. At least six months prior to the as-of date, notify the company and its external auditors, with company personnel’s assistance, that an examination will take place and that the auditor workpapers will be requested when the exam begins.

2. If the examination is to be performed on a company that is part of a holding company group, send an informal notification at least six months prior to the as-of date to other states that have domestics in the group.

3. Call the examination in the Financial Exam Electronic Tracking System (FEETS) at least 90 days prior to the exam start date.
   a. If the examination is to be performed on a company that is part of a holding company group, document your attempts to coordinate the exam with the Lead State and other domestic state(s) within your group. Utilize Exhibit Z – Examination Coordination to assist with this process.

### Phase 1 – Understand the Company and Identify Key Functional Activities to be Reviewed

#### Part 1: Understanding the Company

Step 1. Gather Necessary Planning Information

*Meet with the Financial Analyst*

1. Meet with the assigned financial analyst (and/or analyst supervisor) and review the detailed analyst workpaper files including the information that has already been received, and reviewed by the analyst function including the analysts’ final work product, the method of the analysts’ review, an outline or mapping of what documentation was reviewed and report of the analysts’ final determinations. This information should be maintained in a workpaper file format that can be easily integrated into the risk-focused examination workpaper files (e.g. Teammate). The analyst and examiner should also review the Examiner’s Exhibit B questionnaire and note specific items that have already been accumulated and available to
to gain an understanding of company information available to the department. In addition, discuss risks and concerns highlighted in the Insurer Profile Summary as well as the company’s financial condition and operating results since the last examination. Ascertain the reasons for unusual trends, abnormal ratios and transactions that are not easily discernible. Document a summary of significant risks identified by the analyst for further review on the examination.

a. If deemed necessary, obtain supporting documentation from the most recent annual financial statement analysis to aid in the identification of significant risks and facilitate ongoing discussion with the analyst.

Obtain Existing Documentation

1. Complete, or have company personnel complete, as early as practical, Exhibit B — Examination Planning Questionnaire and the Information Technology Planning Questionnaire.

2. Obtain the most recent annual financial statement analysis completed by the in-house financial analyst to aid in the identification of significant risks and facilitate discussion with the analyst.

2. Obtain copies of relevant information available to the insurance department as deemed necessary to aid in the identification of significant risks. (Note: Review of these documents may have already been performed by the analysis unit, while other documents may readily be available on I-SITE in accordance with NAIC general filing deadlines and requirements.) Such information may include but is not limited to:

   a. Annual financial statements, for years under review.
   b. Previous examination report and supporting workpapers.
   c. Market conduct report.
   d. CPA financial statement audit report.
   e. Actuarial opinion, for years under review.
   f. Independent loss reserve analysis report, if done.
   g. Management’s discussion and analysis letter.
   h. Risk-based capital report.
   i. Holding company registration statements, for years under review.
   j. SEC registration statements, most recent 10-K and 10-Q.
   k. CPA’s audit of internal control over financial reporting (SOX)
EXHIBIT B
EXAMINATION PLANNING QUESTIONNAIRE

The Examination Planning Questionnaire contains procedures and questions that are designed to assist the examiner in gathering necessary planning information and obtaining an understanding of the insurer’s organization. The examiner or company personnel should complete this questionnaire as early in exam planning as practical. If company personnel complete this exhibit, identification of who completed each request, as well as supporting documentation, should be provided to the examination team and the responses to this questionnaire should be critically evaluated by the examiner.

The substance of the information collected during the completion of this questionnaire should be incorporated into the Examination Planning Memorandum. The questionnaire responses should be considered when identifying the inherent risks of the insurer. They should also impact the planned examination approach, and the nature, timing and extent of examination procedures performed.

Examiners may consider requesting the completion of Section K: Liquidity during intervals outside of the full-scope examination period (e.g., annually). The majority of questions in this section are intended for all insurers; however, questions 9, 10 and 11 in this section apply to life insurers only. Therefore, the questionnaire should be customized before it is provided to the insurer. If the examiner has prior knowledge or reason to believe the company may be facing significant liquidity risks, the additional liquidity tables included at Attachment 1 may also be requested to prompt the company to provide greater detail regarding potential liquidity risks (typically most applicable to life insurers). Alternatively, if the examiner is not already aware of significant liquidity risks, it may be appropriate to first review the company’s responses to the liquidity questions before determining whether the additional detail provided by the tables should be gathered.

**Customization of Questionnaire Prior to Distribution**

Before providing the planning questionnaire to the company, the financial exam team should meet with the assigned financial analyst to determine what information on the company is already available to the department and included in the analysts’ detailed workpaper files, including the method of the analysts’ review, an outline or mapping of what documentation was reviewed and report of the analysts’ final determinations. After meeting with financial analysis, the questionnaire should be customized to remove requests for information already available or not applicable to the insurer being examined, to allow the examiner to focus on only the applicable questions and requests for information not already available to the department. The questions that remain should be completely addressed, using providing additional support if necessary. It is possible that the financial analyst has performed work in these areas as part of the analysis procedures; therefore, prior to completion of the questionnaire, the exam team should communicate with the analyst to determine whether the information has already been obtained in order to reduce duplication of work and duplicative information requests to the insurer. To assist the exam team in identifying information that may already be provided to the department, requests that may be collected through the financial analysis process have been denoted with an asterisk (*) for ease in identification and potential removal from the questionnaire.

<table>
<thead>
<tr>
<th>COMPLETED BY</th>
<th>SUPPORTING DOCUMENTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**I. OWNERSHIP AND MANAGEMENT INFLUENCES**

**A. Concentration of Ownership**

1. Provide documentation explaining:

   a. The concentration of ownership.*

   b. The approximate number of shareholders.*

   c. Any significant shareholders.*
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ATTACHMENT THREE

Group Profile Summary Template and Proposed Revisions to Holding Company Analysis Checklist
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XX DEPARTMENT OF INSURANCE
GROUP PROFILE SUMMARY
GROUP NAME
As of 12/31/20XX
Updated as of XX/XX/20XX

HOLDING COMPANY SYSTEM SUMMARY
Provide a summary of the structure and business operations of the holding company system, including any significant recent events or changes in structure.

COMPANY 1 was incorporated in the state of X in 1950 with the purpose of providing vehicle insurance. Today COMPANY 1 provides a wide range of financial products to millions of customers. The GROUP is divided into two business segments: insurance and banking. The insurance and banking segments are designed for and marketed to TARGET MARKET. The insurance segment includes most personal property & casualty and life insurance lines of business.

Insurance policies are sold through internet, mail and telephone on a direct basis, primarily from its LOCATION office. There are 13 financial centers in cities with TARGET MARKET LOCATION to assist members with insurance, banking and investments. In 20XX, GROUP introduced a mobile app that allows account service and claims processing. The insurance companies are currently undergoing a financial examination by the Department of Insurance. No significant findings have been discovered as of the June 20XX progress report.

COMPANY 9 is an alien insurer domiciled outside the US. The Company is authorized to provide insurance in the other countries in that region. COMPANY 9 reported $547 million in retained profit in 2011, so its operations are not overly significant to the Group.

The group offers many financial products including credits cards, consumer loans, home equity loans, mortgages, auto loans, checking and savings accounts through COMPANY10 and COMPANY 11. Auto loans are securitized and purchased by COMPANY 1. The Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) are the regulators over the banks.

In 2012, the Group was examined by the Federal Reserve Bank (FRB). No significant findings were noted during the exam. In 2013, the Group issued $800 million in additional bank debt through Company 1. However, this additional debt does not appear to significantly increase the group’s current leverage position, which is conservative in comparison to most competitors and does not represent a significant concern at this time.

CORPORATE GOVERNANCE SUMMARY
Provide a summary of the corporate governance structure and an overall assessment for the holding company.

The Group is governed by a board of directors at the bank holding company level but separate boards are in place for each insurance and banking entity, but they are led by company employees and have limited responsibilities. Strategic direction is set by the COMPANY 1 board and the audit committee for COMPANY 1 has assumed responsibility for the financial reporting and internal controls of all insurance entities. The board is made up of 10 members, 8 of which are independent from management. The Board and its committees are governed by formal written charters and the board meets a minimum of 4 times a year to fulfill its responsibilities. Based on the results of the most recent financial exam, board members of Company 1 were deemed suitable for their positions with a wide-range of experience and expertise demonstrated including financial and actuarial knowledge. A review of insurance board meeting materials and minutes indicated that the board is actively engaged in reviewing reported financial results of the organization and taking action to address strategy when necessary.

Senior Management is led by a CEO that has been in place since 20XX and has a background in insurance company leadership going back more than 25 years. Based on the most recent discussions with management at the department and through discussions at the last supervisory college, the CEO appears to be well informed in regards to all significant operations of the group. All of the other members of senior management appear to have appropriate knowledge, background and experience to fulfill their responsibilities and appear to be actively engaged in the group’s strategic initiatives. The assignment of authority and responsibility across the group

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appears to be clear and effective and the management team has demonstrated its competence through numerous interviews and meetings with the department. Overall, the Group’s corporate governance is assessed as strong.

**ENTERPRISE RISK MANAGEMENT SUMMARY**

Provide a summary of the enterprise risk management function and an overall assessment for the holding company, as well as a discussion of the ORSA Summary Report filing status.

The Enterprise Risk Management function is organized at the COMPANY 1 level, although an ERM function is also organized for the banking subsidiaries. Both are overseen by a Risk Management Committee of the board. The Risk Management Committee is governed by a charter that makes it responsible for developing, communicating and implementing a risk appetite statement and supporting risk limits/tolerances across the organization. The Chief Risk Officer reports to the Risk Management Committee at least quarterly, providing updates on the organizations compliance with risk limits/tolerances, describing new and emerging risks the organization is facing, and seeking input on changes to risk limits/tolerances and remediation efforts to address breaches. Individual risks are assigned to risk owners for development of mitigation strategies, monitoring and day-to-day management. The results of the organization’s ERM efforts are documented in an ORSA Summary Report and similar information is reviewed and approved by the Risk Management Committee and the Board of Directors on an annual basis. The results of the most recent regulatory assessment of the organization’s ORSA Summary Report (filed 10/25/XX) indicate that the ERM function is generally performing at “Level 4”, which is at or above the majority of its peers in this area. Similar conclusions were reached during the last supervisory college conducted for the Group.

**REGULATORY ACTIONS**

Discuss any significant actions taken against the group, issues of non-compliance, results from the most recent financial exam, etc.

In 20XX, COMPANY 1 was cited for failing to provide Form D filings in accordance with holding company requirements. The results of the most recent coordinated exam showed the issue has been addressed and that all required documents were filed as of 12/31/XX.

**FINANCIAL SNAPSHOT (SELECTED SUMMARY DATA)**

Provide financial data to outline the group’s financial position, which may be more detailed than the insurer profile summary as the availability of group data differs significantly from one group to the next and fewer tools are available at the group level. However, the information presented may vary depending upon the availability of consolidated financial data from one group to the next.

<table>
<thead>
<tr>
<th>Consolidated Balance Sheet (U.S. GAAP)</th>
<th>20XX</th>
<th>20XX</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td>13,447</td>
<td>8,786</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td>38,944</td>
<td>35,033</td>
</tr>
<tr>
<td><strong>Real estate investments, net</strong></td>
<td>2,370</td>
<td>1,956</td>
</tr>
<tr>
<td><strong>Loans receivable</strong></td>
<td>38,103</td>
<td>37,548</td>
</tr>
<tr>
<td><strong>Premiums due from policyholders</strong></td>
<td>2,309</td>
<td>2,124</td>
</tr>
<tr>
<td><strong>Property and equipment, net</strong></td>
<td>1,309</td>
<td>1,343</td>
</tr>
<tr>
<td><strong>Securities lending collateral</strong></td>
<td>205</td>
<td>473</td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td>7,665</td>
<td>6,999</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$104,352</td>
<td>$94,262</td>
</tr>
</tbody>
</table>

| **Insurance reserves**                | $15,588| $14,062|
| **Life insurance-funds on deposit**  | 15,368 | 13,626 |
| **Bank deposits**                     | 46,432 | 39,775 |
| **Borrowings**                       | 1,974  | 3,441  |
| **Securities lending payable**       | 208    | 477    |
| **Other liabilities**                | 4,842  | 4,170  |
| **TOTAL LIABILITIES**                | $84,312| $75,551|
| **Equity**                           | 20,040 | 18,711 |
| **TOTAL LIABILITIES AND EQUITY**     | $104,352| $94,262|

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Insurance premiums $11,960 $11,205
Total investment return 2,940 2,723
Fees, sales and loan income, net 3,489 3,422
Real estate investment income 253 190
Other income 424 406

Total revenues 19,036 17,946

LOSSES, BENEFITS AND EXPENSES

Policyholder Benefits 177 157
Net losses, benefits and settlement expenses 10,998 9,160
Deferred policy acquisition costs 574 556
Real estate investment expenses 189 153
Interest expense 475 604
Dividends to policyholders 112 223
Other operating expenses 3,899 3,669

Total losses, benefits and expenses 16,247 14,365
Pre-tax income 2,789 3,581
Income tax expense 661 944
NET INCOME $2,148 $2,637

BRANDED RISK ASSESSMENTS

Summarize your assessment of the branded risk classifications for the group based upon both quantitative (e.g. 5 year trending of key ratios) and qualitative information. An assessment of each significant individual risk component (including prospective risks) relevant to the classification should be provided by indicating either “no/minimal concern,” “moderate concern” or “significant concern” as well as the direction in which the risk is trending. If no significant individual risk components are identified for a branded risk classification, documentation should be provided to support this conclusion. Consider the materiality and/or significance of each individual risk component in aggregating the overall assessment and overall trend for each branded risk classification. Update the Branded Risk Classification Heat Map to illustrate your conclusions.

**Credit:** Based upon a review of consolidating financial statements, the primary credit risk for the group appears to be in the...
banking segment. The banks have a significant amount invested in mortgages and automobile loans. Through discussions with the group wide supervisor, the Federal Reserve Bank, and a review of documentation they provided, it appears that the loans carry a moderate risk of default. However, current loans past due are less than 1% of loans receivable, indicating that the Group appears to manage its loan portfolio well. Other investments are heavily concentrated in investment grade bonds associated with the insurance operations, which represent a minimal concern. We requested the group provide us with summary investment information for the group, which indicated that there was no material concentrations in either non-investment grade bonds, equities, private securities or other types of invested assets. In addition, the group’s ORSA Summary Report does not list credit as an area of material risk. Since most of these assets are within the individual insurers, we also reviewed the legal entity insurer profile summaries and noted no significant concerns with either investments or reinsurance.

<table>
<thead>
<tr>
<th>No/Minimal Concern</th>
<th>Moderate Concern</th>
<th>Significant Concern</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Portfolio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reinsurance/Insurer investments</td>
<td></td>
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</table>

**Overall Credit Assessment: Moderate Concern**

<table>
<thead>
<tr>
<th>No/Minimal Concern</th>
<th>Moderate Concern</th>
<th>Significant Concern</th>
<th>Trend</th>
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</thead>
<tbody>
<tr>
<td>Claim lawsuits</td>
<td></td>
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</tbody>
</table>

**Overall Legal Assessment: No/Minimal Concern**

**Liquidity:*** As previously discussed, although the insurance assets are fairly conservative, and despite finding any insurer profile summaries of legal entities that identified liquidity as an issue, this may be an area requiring greater focus at the group level moving forward. The Federal Reserve indicated that the banking operations were subject to liquidity strain under certain conditions, but did not provide specifics regarding those conditions or the results. In addition, although the ORSA Summary Report provides some information on the insurance operations liquidity management program, a greater understanding is needed given in part the group’s exposure to certain types of catastrophic risks as well as certain risks with its banking operations. We suggest this as an area of focus during the next coordinated on-site examination to better understand the entire group’s liquidity management.

<table>
<thead>
<tr>
<th>No/Minimal Concern</th>
<th>Moderate Concern</th>
<th>Significant Concern</th>
<th>Trend</th>
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</thead>
<tbody>
<tr>
<td>Banking operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity in a cat scenario</td>
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</tbody>
</table>

**Overall Liquidity Assessment: Moderate Concern**

**Market:** Similar to credit risk, through discussions with the Federal Reserve, market risks related to the loan portfolio were identified, as these loans can be subject to market swings during certain economic conditions. Although general concerns were communicated in this area, specific concerns related to the Company’s stress test results for various scenarios were not communicated. Despite the relatively conservative investment portfolio, the Company identified in its ORSA that market risk was an area where a moderate risk, or at least a moderate amount of capital may be needed to absorb certain specific economic conditions. However, based upon discussions with management, despite the use of various types of derivatives to reduce such risks, they indicate that their cost benefit analysis suggests that further hedging is not used to manage this very extreme tail risk that has a somewhat low probability. Further review of such need not be performed until the next 5 year examination.

<table>
<thead>
<tr>
<th>No/Minimal Concern</th>
<th>Moderate Concern</th>
<th>Significant Concern</th>
<th>Trend</th>
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</thead>
<tbody>
<tr>
<td>Loan Portfolio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Portfolio</td>
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</table>

**Overall Market Assessment: Moderate Concern**

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Operational: Consolidated GROUP reported net income of $2,128 million in CY compared to $2,637 million in the prior year. In the CY, GROUP property and casualty companies experienced significant cat events, which included tornadoes, floods, hail, wildfires, earthquakes and hurricanes. However, even with the heightened number of catastrophes faced by the group, the overall financial results were favorable and group capital per the ORSA Summary Report appears to be well above target even under adverse conditions. The group is not structured like most companies and its overall approach is geared towards its policyholders. The group’s interest coverage ratio (provided below) shows that the group is not overly reliant on cashflow from the insurance entities to cover holding company debt. However, although the last examination revealed that although governance risk was low, certain internal control processes were not clearly documented. The group indicated that it was in the process of working with its internal audit department to enhance its documentation. Through discussions with the Federal Reserve Board, it appears that the group has recently developed additional documentation around internal controls. These activities will be verified during the next onsite examination.

<table>
<thead>
<tr>
<th>Interest Coverage</th>
<th>CY</th>
<th>PY</th>
<th>PY1</th>
<th>PY2</th>
<th>PY3</th>
</tr>
</thead>
<tbody>
<tr>
<td>No/Minimal Concern</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings &amp; Group Capital</td>
<td>4.5X</td>
<td>4.4X</td>
<td>4.4X</td>
<td>2.2X</td>
<td>5.2X</td>
</tr>
<tr>
<td>Holding Company Debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Internal control documentation</td>
<td></td>
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<tr>
<td>Overall Operational Assessment: No/Minimal Concern</td>
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</table>

Pricing/Underwriting: Our review of pricing/underwriting risk focused on the insurers within the organization, as similar risks in the banking segment were evaluated as an element of credit risk. Per review of the legal entity insurer profile summaries, Company 6 was identified as having a concentration of CAT risk in one state, which was identified as a significant concern by state Y. However, after review of the ORSA summary report, and after significant discussions with management, we determined that CAT risk for the entire group as a whole was moderate. Additionally, the Company has taken steps in the current year to minimize this risk further by creating a separate legal structure to reduce this risk through the issuance of insurance linked securities, as discussed in the Group’s Form F filing. We suggest that although this is a risk mitigator, the details of the structure should be examined more closely during a targeted exam as soon as possible and that regulators monitor this activity closely as it could represent a significant concern if not structured effectively. Also the group’s workers compensation line of business appears to contain some risk for the group, where despite relatively strong historical performance, we’re noticing an industry trend of decreasing prices. As this line of business represents more than 25% of the group’s total gross written premiums, we believe a detailed review of national underwriting procedures and current pricing on workers’ compensation may be appropriate during the next onsite exam (scheduled for two years from now).

<table>
<thead>
<tr>
<th>No/Minimal Concern</th>
<th>Moderate Concern</th>
<th>Significant Concern</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto/home underwriting &amp; pricing</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>CAT risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WC underwriting and pricing</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Insurance linked securities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall Pricing/Underwriting Assessment: Moderate Concern</td>
<td></td>
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</tbody>
</table>

Reputation: No significant issues were identified. The Group appears to monitor its reputation on a regular basis as described in its ORSA Summary Report.

<table>
<thead>
<tr>
<th>No/Minimal Concern</th>
<th>Moderate Concern</th>
<th>Significant Concern</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall reputation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall Reputation Assessment: No/Minimal Concern</td>
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</tbody>
</table>

Reserving: The group continues to maintain a relatively conservative ratio of reserves to equity of 78% although it has been trending slightly negative. This is offset by a slight shift in the insurer’s exposure from less casualty business to more property business and is the primary driver for the change. However, as shown in the insurer’s ORSA Summary Report, the insurance group sets aside economic capital to cover a one in 500 year event in addition to other amounts set aside for other risks.

<table>
<thead>
<tr>
<th>Two Year Develop</th>
<th>CY</th>
<th>PY</th>
<th>PY1</th>
<th>PY2</th>
<th>PY3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss &amp; LAE/C&amp;S</td>
<td>8.0%</td>
<td>-10.0%</td>
<td>-10.4%</td>
<td>-5.6%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Leverage</td>
<td>77.8%</td>
<td>76.2%</td>
<td>76.8%</td>
<td>73.7%</td>
<td>71.9%</td>
</tr>
<tr>
<td>Loss development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall Reserving Assessment: No/Minimal Concern</td>
<td></td>
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</tbody>
</table>

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Strategic: The primary risks for the Group are divided into insurance and banking segments. The Group has proven risk mitigation strategies in the insurance companies and has managed those risks well. However, the group is facing new competition in a number of its primary insurance markets as competitors seek to duplicate the Group’s strong financial performance. While the Group appears to be aware of the increased competition and responding to the emerging threats in this area, these threats bear monitoring as a moderate concern. In addition, as discussed above, the one area of risk that is not easy to get a handle on at the group level is its liquidity risk. The ORSA Summary report discusses some aspects (insurance focused) of ERM but it is not sufficiently detailed to assess. See above suggestion regarding liquidity.

<table>
<thead>
<tr>
<th>No/Minimal Concern</th>
<th>Moderate Concern</th>
<th>Significant Concern</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall strategic planning</td>
<td></td>
<td></td>
<td>⇓</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td></td>
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<td>Liquidity strategy</td>
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Overall Strategic Assessment: Moderate Concern  
Overall Trend: ⇓

Other: The most recent Form F report provided by COMPANY 1 indicated that the group is exposed to geopolitical risk and uncertainty related to its investment in COMPANY 9, which is an alien reinsurer operating in Country XX. As the stability of Country XX’s government has been weakened due to recent protests related to government corruption, the group’s investment in COMPANY 9 is of some concern. However, as the group’s total investment in COMPANY 9 ($547 million at 12/31/XX) represents less than 3% of overall capital and surplus, the situation warrants only a moderate concern at this time.

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<tr>
<th>No/Minimal Concern</th>
<th>Moderate Concern</th>
<th>Significant Concern</th>
<th>Trend</th>
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Overall Strategic Assessment: Moderate Concern  
Overall Trend: ↑

OVERALL CONCLUSION
This section should include the analyst’s overall conclusion as to the Group’s financial condition, discuss key strengths that potentially mitigate the risks assessed above, and highlight any key weaknesses or material concerns the analyst may have with the Group’s operations going forward. Include any actions that may have been taken (e.g. significant holding company transactions, prior or planned meetings with management, and referrals to/from other divisions, etc.). Recommend the priority that should be assigned to the Group and explain the reasoning behind the recommendation.

Based on the branded risk assessments provided above as well as the company’s financial results reported in recent periods, the group appears to be financially stable with no major sources of potential contagion risk to the insurance entities identified. However, some of the key weaknesses and material concerns facing the group include increased competition, geopolitical risk to operations in Country XX, overall liquidity planning and the Group’s pricing/underwriting of WC business. These concerns are somewhat offset by company strengths including a conservative investment portfolio, strong reputation and history of strong financial performance. The department meets annually with group leadership with the next meeting scheduled for 1st Quarter to discuss annual results. During the meeting, the department plans to ask about the impact of increased competition on the group as well as liquidity planning.

SUPERVISORY PLAN
List any specifically identified items that require further action and/or monitoring by the analyst or specific testing by the examiner. In addition, indicate if the group is or should be subject to any enhanced monitoring, such as monthly reporting, meetings with the department, a targeted examination, or a more frequent exam cycle.

Analysis Follow Up
- Discuss the group’s strategy to address increased competition in several of its primary markets as part of the next annual meeting, supervisory college and/or holding company analysis.
- Monitor the situation in Country XX to consider its impact on the group’s investment in COMPANY 9. Discuss any significant negative developments with the group’s executives.

Examination Follow-Up
- Perform a targeted examination on the group’s newly developed insurance linked securities in order to understand all aspects of the program including its interaction with other forms of projection, limits, the monitoring used by the company, etc.
- Increase the focus on national underwriting procedures and current pricing on workers’ compensation during the next coordinated examination.
- Increase the focus on the entire group’s (including banking) liquidity management program during the next coordinated examination.
The below text is currently contained within the first section (Framework) of the Group-wide supervision section of the Financial Analysis Handbook, as adopted by the Group Solvency Issues (E) WG. The following proposes to keep the language above the Group Profile Summary in that Framework section, but to move the language within the Group Profile Summary section to the Responsibilities of the Lead State Section. The purpose of such a change is to make it clear that this is expected of the lead state.

FRAMEWORK SECTION
At the conclusion of the basic holding company analysis performed on all groups, the Lead State is required to document an overall summary and conclusion regarding the financial condition of the group, including its strengths and weaknesses and any risks identified. This requirement for this summary and conclusion can be met by including such information in the Group Profile Summary. See Roles and Responsibilities of Group-wide Supervisor/Lead State for discussion of the Group Profile Summary.

ROLES AND RESPONSIBILITIES OF GROUP-WIDE SUPERVISOR/LEAD STATE SECTION
Holding Company Analysis
The NAIC model #440 adopted by all the states established the platform for holding company analysis. One of the most important aspects of the holding company analysis is the requirement for the Lead State to understand the entire holding company system. As previously noted, the holding company system includes the ultimate controlling person or entity, and all of its direct and indirectly controlled subsidiaries. There are various things that must be considered in gaining this understanding, including documenting the nature and function of all non-insurance legal entities within the holding company system. The primary purpose of gaining such an understanding is determining the risks and risk concentrations that each entity may pose to the insurer and the group as a whole.

Another important aspect of the holding company analysis is the analysis of the financial condition of the holding company system. This specifically includes evaluating and assessing 1) profitability; 2) leverage; 3) liquidity; and 4) overall financial condition. Although much of this analysis can be driven by information from the group’s financial statements submitted as part of the registration statement, in most cases the analysis requires further discussion with management of the group. See Section V.F. for further guidance regarding periodic meeting with group.

Completing the holding company analysis procedures as detailed in Section V.C is one of the roles of the Lead State. These procedures are intended to be completed by the lead state only. However, as discussed elsewhere in this handbook, all domestic states are responsible for documenting the impact that the group could have on the domestic insurer, which requires a basic level of understanding of the group’s risks. The Lead State should determine the extent to which the development of a group profile summary (See section V.A for example) and a supervisory plan that is appropriate for the nature, scale and complexity of the group is necessary. For many groups, the creation of the group profile summary may not be necessary and therefore, the conclusion/summary would be more appropriately documented in the holding company analysis procedures or the holding company section of the Insurer Profile Summary.

Group Profile Summary
The Group Profile Summary is a “living document” maintained by the Lead State to “house” summaries of risk-focused examinations, financial analysis, internal and external changes, priority scores,
supervisory plans, and other group information. Completing the group profile summary is one of the roles of the Lead State, and is intended to be completed by the lead state only.

Analysts are involved in all phases of the risk-focused surveillance approach. There should be a continuous exchange of information between examiners and analysts to ensure that all members of the department are properly informed of solvency issues related to the group. The analyst should work with the examination staff to update the Group Profile Summary. The Group Profile Summary is intended to provide a high-level overview of the current and prospective solvency of the insurer as well as the ongoing regulatory plan to ensure effective supervision. A separate Supervisory Plan may also be utilized to outline steps to ensure effective supervision for high-priority or potentially troubled insurers. A Supervisory Plan should be developed using the most recent examinations and annual analysis results. The Supervisory Plan should include the type of surveillance planned, the resources dedicated to the oversight, and the coordination with other states. As the Lead State, the department should coordinate the ongoing surveillance of companies within the group with input from other affected states (with the understanding that the domestic state has the ultimate authority over the regulation of the domestic insurer under its jurisdiction). The documentation contained in the Group Profile Summary is considered to be part of the work papers, and represents proprietary, confidential information that is not intended to be distributed to individuals other than state regulators.

The following provides an example of the template for use in developing a Group Profile Summary.

[Insert here once complete]

Name of Holding Company System

Understand the Holding Company System

1. Evaluate and document below an understanding of the holding company system. Consider using the following if available and/or applicable: statutory Schedule Y, Form B Registration Statement, Own Risk and Solvency Assessment, and financial filings of the holding company system and/or person. Document an understanding of the following:
   a. Ultimate controlling entity(ies) or person(s)
   b. Nature and level of complexity of structure (e.g. public, non-public, mutual, complex, simple, etc.)
   c. Business segments and percent of overall revenue per segment (Use segments as defined in the most current 10K)
   d. Number of insurers and respective jurisdictions
   e. Level of international insurance activities (including branches)
   f. The existence of Captive Insurance vehicles within the holding company system as well as their specific purpose and domicile. What type of financial reporting is available/provided to the state of domicile for the entities? What risks do these captives pose to the holding company system?
g. Nature and function of material non-insurance legal entities that pose a material risk to the holding company system. Are there material risks presented by these non-insurance entities? (Note: It is recommended that the insurer supply information via the non-insurance company grid provided [Excel] to assist with this determination.)

h. Recent news and press releases that identify changes in the holding company or financial results

i. Potential risks as a result of the aforementioned considerations

**Evaluate the Overall Financial Condition of the Holding Company System**

For the following financial assessment procedures consider utilizing the following, if available and/or applicable: Form B, shareholders’ report, combined financial statements, quarterly and annual SEC filings, IFRS filings, personal net worth statements, audited financial statements, management assessment on internal controls, auditor’s assessment on management’s assessment on internal controls, media releases, confidential information from other regulatory/supervisory bodies, and any other available sources. If the domestic insurers in a holding company system consist of only run-off companies, the domestic regulator, at their discretion, should determine the value, if any of performing a holding company system analysis. If it is determined that a holding company system analysis would be of no added value, this determination should be documented.

2. If publicly traded, review the holding company's stock price history. Has the value of common stock declined significantly over the past year? If "yes," explain the reasons for the negative trend.

3. Assess the holding company’s sources of capital.

4. **Profitability:** Evaluate the holding company system’s operating and net income over the past three years and document any trends as well as the primary drivers of those trends.

5. **Financial Position:** Evaluate the holding company system’s shareholder’s equity (or equivalent) and document any negative deterioration.

6. **Leverage:** Review the holding company system’s leverage positions and document any negative trends and/or deteriorating ranges.

7. **Liquidity:** Evaluate the holding company’s liquidity and document any negative trends and overall strength.

8. **Derivatives:** Evaluate the use of derivatives and their purpose. Are the derivatives being used for the hedging of business or to enhance investment yield? Does the level of collateral held for the derivatives contracts seem reasonable? Evaluate the trend of derivatives balances over the last two/three years and discuss any concerns.

**Regulator/Supervisor Communication and Coordination and Supervisory College Considerations**

9. Using the Holding Company Analysis Liaison listing on StateNet, identify the primary contact of other involved domestic states. Based on the analysis of the overall holding company structure and the state’s preference, the analyst may consider whether there is a need to request the confidential insurer profile summary report(s) from the applicable U.S. domestic states for insurers within the holding company system, pursuant to the NAIC’s Insurer Profile Summary
Group-wide Supervision

Sharing Best Practices. [For example: A state may consider using the NAIC Prioritization Summary Report to assess the need to request such reports.] If the Insurer Profile Summaries are requested, identify and document any material concerns or risks that were not covered elsewhere in this analysis.

10. Identify and document any other regulated entities within the holding company system and the respective involved supervisor. (Note: Consider using General Interrogatories – Part 1, #8.1 through #8.4). Consider the following:
   a. Does the size, complexity and/or interconnectivity of the entity with the holding company system warrant communication with the respective regulator/supervisor? If “yes,” describe any communication between state, federal and international regulators that has been planned or initiated.
   b. If there is international insurance activity, document which jurisdiction(s) is considered the group-wide supervisor(s) of the insurance holding company system?
   c. Does the size, complexity and/or interconnectivity of the entity with the holding company system warrant a potential Supervisory College? If “yes,” describe any communication between state, federal and international regulators that has been planned or initiated.
   d. Does the Department and/or other domestic state(s) within the group have a MoU to share confidential information with the involved supervisor(s)?
   e. Have any federal and/or international regulatory action(s) been taken? If “yes,” describe.
   f. Determine and document whether it is necessary to develop an overall understanding of the relevant regulatory and supervisory requirements of the authority and document accordingly.

11. If applicable, identify and document contact information for federal or international involved supervisor(s).

12. Establish a plan for communicating and coordinating with the domestic state(s) and other involved supervisors if significant events, material concerns, adverse financial condition or prospective risks are identified.

13. If your state is leading or participating in a Supervisory College of the holding company system, review the most recent information obtained as part of the Supervisory College to determine if there are any areas of risk that require follow-up or additional analysis.

14. If applicable, review the holding company system’s independent public audit report. Comment on the following:
   1. Auditor’s Opinion
   2. Notes to Financial Statements
   3. Management’s Assessment on Internal Controls
   4. Auditor’s Assessment on Management’s Assessment on Internal Controls

15. Document in this analysis any concerns that arose during the lead-state’s evaluation of its domestic insurer(s) that in the opinion of the lead state, have an impact on the evaluation of the overall financial condition of the holding company system.
Summary and Conclusion

Develop and document the holding company analysis, including a summary and conclusion. This summary and conclusion, as well as the following additional items, can either be contained within the holding company checklist itself, in a separate stand alone narrative document, or within the Group Profile Summary. In addition to each of the previously identified items, the summary and conclusion should also identify the group’s:

- Significant events (may be addressed in the Holding Company System Summary section of the Group profile Summary)
- Overall financial condition (may be addressed in the Overall Conclusion section of the Group profile Summary)
- Key strengths and weaknesses (may be addressed in the Overall Conclusion section of the Group profile Summary)
- Material concerns (may be addressed in the Overall Conclusion section of the Group profile Summary)

In developing a summary and conclusion, the analyst should consider the above procedures as well as any other procedures which, in the analyst’s judgment, are relevant to evaluating a holding company system under the specific circumstances involved. These additional procedures may be outlined in the Supervisory Plan section of the Group Profile Summary.

Recommendations for further action, if any, based on the overall conclusion above:

- Obtain the holding company system’s business plan
- Obtain the holding company system’s economic capital assessment, if available
- Meet with the holding company system’s management team and/or board of directors
- Immediately communicate any concerns to the other domestic states to determine a plan of action to address concerns
- Contact the insurer seeking explanations of additional information
- Require additional interim reporting from the group
- Refer concerns to the examination section for targeted examination
- Meet with the holding company system’s management team and/or board of directors
- Other (explain)

Summary Recommendations/Conclusion

Analyst ________________ Date ________

Comments as a result of supervisory review.

Reviewer ________________ Date ________
Reviewer ________________ Date ________