NAIC FINANCIAL REGULATION STANDARDS
AND ACCREDITATION PROGRAM

REVIEW TEAM GUIDELINES

Introduction

The following standards have been developed by the Financial Regulation Standards and Accreditation (F) Committee (the Committee) to provide detailed guidance to the review teams regarding how compliance with the Part B: Regulatory Practices and Procedures standards, Part C: Organizational standards and Personnel Practices standards and Part D: Organization, Licensing and Change of Control of Domestic Insurers standards should be assessed. These guidelines within each of the standards can also assist state departments in preparing for an accreditation review.

Understanding the Standards
Every standard contains a general, high level description of what is being assessed. Accompanying each of the standards are guidelines that provide more detailed information that review teams should consider when assessing a state’s compliance. This additional guidance has been bifurcated into two sets of guidelines: Results-Oriented and Process-Oriented.

Results-Oriented Guidelines
The results-oriented guidelines are designed to direct the review team’s focus to the substance and quality of the work performed by the state. As a result, the Part B guidelines provide a framework for assessing the ability of other states to rely on that state’s work for solvency monitoring purposes. For Parts C and D, the results-oriented guidelines provide information related to personnel practices and to a department’s policies related to new companies and mergers/acquisitions that help to support the financial monitoring process. Because each guideline targets the substance and quality of a state’s work, there is an inherent amount of subjectivity in this assessment. In making these assessments, the review team is expected to be prudent and unbiased. If an issue or area of concern arises within a guideline, the review team should first ensure all applicable information on the issue is obtained. The review team should also ensure there was clear and explicit dialogue on the issue with the state to gain a full understanding of the circumstances. Once all aspects of the issue have been reviewed, the review team shall determine if the issue is likely to impact the accredited status of the state, or if a response or further action from the state will be required. In either instance, an explanation of the issue will be discussed in the review team’s report to the Committee. In areas where the review team believes the department has excelled, this too will be discussed in the review team’s report.

Process-Oriented Guidelines
The process-oriented guidelines are objective in nature and play an important role in the accreditation assessment. However, due to the relative ease of assessing the process-oriented guidelines, the review team will perform their assessment and identify any issues that should be brought to the attention of the Committee, but their primary focus will be on the results-oriented guidelines. In instances where significant issues are identified in the process-oriented guidelines that could impact the accreditation status of a state under review or that may require a response or action from the state, such issues will be discussed in the review team’s report to the Committee.
Review Team Considerations

The review team shall consider each of the factors listed within the guidelines prior to reaching a conclusion regarding the state’s compliance with the standards. In reporting to the Committee, the review team shall discuss positive attributes, key areas for improvement and a general, overall discussion of how the department is performing with regard to the standards. The review team’s report to the Committee should be succinct and to the point, ensuring inclusion of only relevant information that adds value to the Committee to make an informed decision on the status of the state’s accreditation.

In its assessment of most standards, the review team is to focus the accreditation review on the most recent 12-month period for financial analysis and on the financial examinations in process or most recently completed. In addition to this primary review, the review team is instructed to perform a limited review of analyses and examinations from other 12-month periods not previously reviewed during an on-site accreditation review. This limited review is to provide assurance to the Committee that the state is competently performing throughout the review period. If the review team determines that a state’s performance has been uneven during the period under review, the team may reflect its concerns in the review team’s report and make recommendations for improvements. Although, as indicated above, the review team is to focus on the most recent analyses and examinations in the assessment of most standards, in assessing compliance with the Reporting and Action on Material Adverse Findings standard, the review team should consider material adverse findings from the most recent 12-month period and, if necessary, in all other periods not previously reviewed during an on-site accreditation review. The review team is also instructed to evaluate whether a state has generally implemented the provisions included in the laws and regulations listed in Part A.

The factors enumerated below are in no particular order and are presented as such for ease of identification. The numbering does not indicate that one factor is necessarily more important than another.

### Part B1: Financial Analysis

#### a. Sufficient Qualified Staff and Resources

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

**Results-Oriented Guidelines:**

1. The department should have qualified analysts or contractual resources with appropriate skill sets, abilities, knowledge and experience levels to satisfactorily and effectively perform analysis tasks and procedures. Such experience should match the sophistication and complexity of the domestic industry. When assessing whether a department has qualified staff and resources, consideration should be given to the following:
   - The quality of the work performed by the financial analysis staff as documented in the financial analysis files
   - The financial analysis staff’s knowledge and comprehension of the insurance industry and its domestic insurers, as demonstrated during interviews with the staff

2. The analysis of various financial filings should be completed timely, as discussed in the Compliance Guidelines. If the analysis tasks and procedures were not completed timely, consideration should be given to the size and complexity of the department’s multi-state insurers and the insurance holding
company systems for which the department acts as the lead state. If the analysis tasks and procedures were not completed timely, the department should document the reasons for such and the review team may take extenuating circumstances into consideration.

Process-Oriented Guidelines:

1. The financial analysts and supervisors should have an accounting, insurance, financial analysis and/or actuarial background, and insurance backgrounds should be financial in nature. College degrees should focus on accounting, insurance, business or actuarial science Professional designations and credentials may also demonstrate expertise in insurance and/or financial analysis.

2. The analysis of priority insurers’ financial statements actuarial-related filings (Actuarial Opinion, Actuarial Opinion Summary, and Regulatory Asset Adequacy Issues Summary, as applicable) should be completed by the analyst and reviewed by the supervisor by:
   - Annual Statements and actuarial-related filings: End of April
   - Quarterly Statements: Within 60 days from receipt of filing
   - Supplemental Filings (excluding Holding Company filings): Within 60 days from receipt of filing
   - Holding Company Filings: by Oct. 31st for analysis conducted by Lead State; by Dec. 31st for analysis conducted by the domestic state

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

4. The analysis of priority insurers’ supplemental filings (MD&A, Annual Audited Financial Report, applicable Holding Company Filings, etc.) should be completed by the analyst and reviewed by the supervisor within 60 days from receipt of the filing.

5. The analysis of non-priority insurers’ supplemental filings (MD&A, Annual Audited Financial Report, applicable Holding Company Filings, etc.) should be completed by the analyst and reviewed by the supervisor within 120 days from receipt of the filing.

b. Communication of Relevant Information to/from Financial Analysis Staff

Standard: The department should ensure that all relevant information and data obtained that may assist in the financial analysis process is provided to the financial analysis staff. The department should ensure that findings of the financial analysis staff are communicated to the appropriate person(s) within the department.
Results-Oriented Guidelines:

1. Analysts should effectively communicate and coordinate with various areas within the department, including management, the financial examination staff and other non-financial areas, as applicable. Evidence of this communication should be clearly documented in the analysis files. When assessing compliance with this guideline, consideration should be given to the following:
   - The analyst’s utilization of pertinent information that is obtained from management and/or other areas of the department
   - Sharing by the analyst of any pertinent information obtained as a result of the financial analysis with management and/or other areas of the department
   - The analyst’s communication and collaboration with the financial examination staff before, during and at the conclusion of a financial examination
   - The analyst’s utilization and incorporation of pertinent information from the financial examination in conducting ongoing analysis procedures.

Process-Oriented Guidelines:

1. The analysis process should include a formal periodic method that allows for pertinent information from other areas (e.g. legal, rates and forms, actuarial, etc.) that could impact the financial analysis process to be shared with the financial analysis staff. Although no one method is required, the following are examples that may demonstrate compliance: quarterly department heads meetings, department managers’ meetings, information requests to other areas, etc.

2. Financial solvency information identified as a result of the financial analysis, particularly adverse findings or significant unresolved issues, should be communicated to management and other department staff, as necessary.

3. Results of ongoing analysis procedures should be shared with the financial examiners to assist in examination planning. At the beginning of each examination, the analyst should communicate areas of concern and specific issues to address during the examination. To assist in communication, the analyst should provide a current copy of the Insurer Profile Summary as well as any other supporting documentation necessary to communicate concerns and suggested procedures.

4. The financial analyst should participate in a collaborative follow-up meeting or conference call at the end of the examination to discuss the following:
   - Examination results and/or findings
   - Insurer’s prioritization level
   - Ongoing supervisory plan and the completed Summary Review Memorandum
   - Re-assessment of branded risks as contained in the Insurer Profile Summary
5. The analyst should follow-up with the insurer to address concerns/issues identified as a result of examination activities, which may include examination report findings, management letter comments or prospective risks.

c. **Appropriate Supervisory Review**

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

**Results-Oriented Guidelines:**

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

**Process-Oriented Guidelines:**

1. There should be evidence of at least one level of supervisory review on the financial analysis, although this does not include scenarios when the company “passed” an automated review such as the Level 1 for Quarterly Assessment of Non-Troubled Insurers. The supervisory review should be evidenced by sign-off and dating.

2. If the department utilizes an automated process review such as the Level 1 for Quarterly Assessment of Non-Troubled Insurers, and the company did not “pass” the automated review, but the analyst documented the rationale that no further documented analysis was necessary, a supervisor should approve the conclusion.

3. The supervisory review should include a review of all significant worksheets and documents, the level of which should be based on the experience of the analyst.

4. The supervisory review should be performed within two to three weeks of completion of the original analysis.

5. The supervisory review should include a review of any written responses from the company received by the primary analyst that contain significant information.

6. The supervisory review should include a review of any change in an insurer’s priority rating.
d. Priority-Based Analysis

**Standard:** The department’s financial analysis procedures should be priority-based to ensure that potential problem companies are reviewed promptly. Such a prioritization scheme should follow the guidelines and classifications outlined in the *Financial Analysis Handbook* and utilize appropriate factors as guidelines to assist in the consistent determination of priority designations.

**Results-Oriented Guidelines:**

1. The factors developed by the department to assess priority ratings should include both quantitative and qualitative factors that are appropriate given the size and complexity of the department’s domestic industry. Complexity of the department’s prioritization designation system should be appropriate given the size of the department’s domestic industry and should include general factors (both quantitative and qualitative) to be used by the analyst when assigning priority ratings.

2. The insurer’s priority rating and the analyst’s rationale for the rating should be reasonable based on the department’s priority designation framework policies. When assessing compliance with this guideline, consideration should be given to the following:
   - Discussion of the insurer’s financial condition in relation to quantitative factors included in the department’s priority designation framework
   - Discussion regarding any qualitative information and reasonable judgment that was factored into the priority rating
   - Whether the general factors included in the department’s priority designation framework outlined by the department for use in assigning priority ratings were consistently applied.

**Process-Oriented Guidelines:**

1. The department should have utilize a prioritization scheme that is used by the analyst consistent with *Financial Analysis Handbook* guidance in assigning company priorities.

2. The companies with the highest priority should be reviewed first by the assigned analyst.

3. Justification for priority ranking ratings and any change to the priority ranking ratings should be included in the analysis file.

e. Documented Analysis Procedures

**Standard:** The department should generally have documented follow the risk-focused financial analysis procedures and/or guidelines to provide for consistency and continuity in the process and process outlined in the *Financial Analysis Handbook* to ensure that appropriate analysis procedures are performed on each domestic insurer and insurance holding company system, as applicable to either the domestic regulator or lead state depending on the filing.

**Results-Oriented Guidelines:**

1. The analysis process should generally follow guidance outlined in the *Financial Analysis Handbook* to adequately assess the insurer’s exposure to the branded risk categories classifications and to effectively allow the analyst to reach appropriate conclusions regarding the company’s financial condition and risks impacting the insurer both currently and prospectively. The use of the *NAIC Financial Analysis Handbook* or sections thereof is considered acceptable. The documentation
must be prepared in sufficient detail to provide a clear understanding of the work performed and conclusions reached.

Process-Oriented Guidelines:

1. The analyst should review and document their analysis of consider information from each of the following documents in conducting a risk-focused analysis. The review should be evidenced by sign-off and dating of the information source, a procedure step or a simplified checklist:
   - Annual Statement
   - Actuarial Opinion
   - Actuarial Opinion Summary (P/C) or Regulatory Asset Adequacy Issues Summary (L/H and Fraternal)
   - Management’s Discussion and Analysis
   - Annual Audited Financial Statements
   - Holding company filings (i.e., Forms A,B,C,D,E,F and external filings: SEC, IFRS) as applicable to either the domestic regulator or lead state depending on the filing.
   - Quarterly statements or automated quarterly review process such as the Level 1 for Quarterly Assessment of Non-Troubled Insurers
   - Financial ratios and NAIC financial analysis solvency tools (i.e. scoring system, IRIS ratios)
   - Corporate Governance Annual Disclosure (if available), as applicable to either the domestic regulator or lead state depending on the filing.

2. On an annual basis, a risk-based analysis of each domestic insurer should incorporate each of the following elements:
   - Background Analysis
   - Current Period Analysis
   - Risk Assessment
   - Insurer Profile Summary (IPS)

3. On a quarterly basis a risk-based analysis of troubled insurers should incorporate the elements listed above in guideline #2. For non-troubled insurers the analysis should incorporate those elements deemed necessary based on the results of the quarterly assessment.

4. The analyses performed by the analyst should include initials of the preparer and the dates of completion. (This is not required for companies that pass an automated quarterly review process, such as the Level 1 for Quarterly Assessment of Non-Troubled Insurers).

5. If the company is part of a holding company group, and the state is the lead in the group, a group profile summary (GPS) should be completed and shared with applicable domestic states by October 31.

6. If the company is part of a holding company group, and the state is the only state in the group, a GPS should be completed by December 31.

7. If the company is part of a holding company group, and the state is not the lead state in the group, the non-lead state checklist analysis (or something similar) should be completed by December 31.
68. If the company is a RRG, the following procedures should be performed and documented within the analysis file (if applicable). Refer to *Financial Analysis Handbook Captives and/or Insurers Filing on a U.S. GAAP Basis Worksheet*.

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

79. If the company cedes XXX/AXXX business to affiliated or unaffiliated captives or special purposes vehicles, the analyst should complete the process contained within the NAIC *Financial Analysis Handbook* that pertain to XXX/AXXX transactions, specifically [Supplemental Procedures-Holding Company Analysis Form D Procedures](https://www.naic.org/) and Reinsurance XXX/AXXX Captive Transactions ProceduresLevel 2-Reinsurance.

**f. Appropriate Depth and Quality of Review**

**Standard:** The department’s financial analysis should ensure that domestic insurers and insurance holding company systems for which the department serves as the lead state receive a high quality review at an appropriate depth commensurate with their financial strength and position, and risk profile.

**Results-Oriented Guidelines:**

1. The department’s financial analysis should include an in-depth and thorough review of relevant risks to the insurer and/or insurance holding company system for which the department serves as the lead state, both current and prospective, on all multi-state domestic insurers, including holding company considerations. The review should be of high quality and the substance of the review should be commensurate with the insurers’ priority ratings, risk profile, complexity and financial strength. When assessing compliance with this guideline, consideration should be given to the following:

   - Investigation and assessment of significant unusual items, fluctuations or other issues found
   - Investigation and assessment of significant prospective risks with the potential to affect the solvency of the insurer
   - Documentation of Level 2 procedures, where warranted
   - Assessments and conclusions (including branded risk assessments) within the Insurer Profile Summary
   - Overall conclusion regarding the insurer, including whether any additional action should be considered
   - Analysis and documentation of any necessary follow-up, including communications with the company
   - Appropriate use of automated quarterly procedures for non-troubled insurers
   - Assessment of the holding company group (Lead State) within the Group Profile Summary
   - Impact of the holding company on the domestic insurer(s) within the Insurer Profile Summary
   - Analysis procedures specific to RRGs
Process-Oriented Guidelines:

1. Any significant unusual items, fluctuations from established norms, **prospective risks** or other issues raised during the analysis of a company should be addressed and documented in the analysis file.

2. When utilized, the non-troubled automated review should be at a **minimum** based on a calculation similar consistent with that found in the NAIC *Financial Analysis Handbook*. If a company does not pass the automated quarterly review process such as that included in the Level 1 for **Quarterly Assessment of Non-Troubled Insurers**, but the analyst concludes that no further analysis is necessary, the analyst’s written justification for such should be included in the analysis workpapers.

3. Significant correspondence from the company should show evidence of analysis by the department, including sign-off, and concluding that the response is adequate.

3.4. The Insurer Profile Summary should include discussion/information on:
   - The company’s prospective exposure to each of the nine branded risk classifications, with adequate supporting detail
   - Financial analysis
   - Financial examination
   - Internal/external changes
   - Priority rating ranking
   - An overall conclusion regarding the insurer, including a summary of strengths and weaknesses
   - Supervisory plan

4.5. The company’s Insurer Profile Summary should be updated after each of the following:
   - Annual financial statement analysis
   - The conclusion of an on-site examination
   - Any significant information impacting the insurer was identified

6. The Group Profile Summary should include discussion/information on the following commensurate with the nature and complexity of the group, noting that analysts may customize analysis work as outlined in the *Financial Analysis Handbook*.
   - The group’s current and prospective exposure to each of the nine branded risk classifications
   - Corporate governance and enterprise risk management
   - An overall conclusion and supervisory plan
   - The completed financial analysis should include a conclusion that discusses:
     - The company’s strengths and weaknesses
     - The company’s exposure to prospective risks
   - Whether any action should be considered as a result of the analysis

**g. Reporting of and Action on Material Adverse Findings**

**Standard:** The department’s procedures should require that all material adverse findings be promptly presented to the commissioner or an appropriate designee for determination and implementation of appropriate regulatory action. Upon reporting of any material adverse findings from the financial analysis staff, the department should take timely action in response to such findings or adequately demonstrate the determination that no action was required.
A material adverse finding is defined as a finding made by a department with respect to an event, trend, transaction or series of transactions, fluctuation, agreement, arrangement, operating results or violation of law, which either has, or reasonably could have, a significant negative impact on a company’s financial position.

Results-Oriented Guidelines:
1. Financial analysis files should contain clear evidence that material adverse findings were promptly presented to the commissioner or appropriate designee and that timely and appropriate action was taken or adequately demonstrate and document that no action was required. The review team will accept the ultimate action of the regulator as appropriate as long as the logic of the decision is clearly documented and the decision is reasonable based upon what other regulators would commonly understand to be appropriate in that scenario and given the information available at that time.

Process-Oriented Guidelines:
1. The department should have a policy or procedure for handling material adverse findings that is formally communicated to the financial analysis staff.

2. The department’s material adverse finding policy or procedure should define a material adverse finding, to whom the finding should be communicated and require the finding(s) to be promptly reported to the commissioner or an appropriate designee.

2.3 The department’s material adverse finding policy or procedure should require timely action be taken or adequately demonstrate and document that no action was required.

3.4 If there was a material adverse finding, the finding should promptly be reported to individuals who were capable of taking appropriate regulatory action and documentation of such should be included in the analysis file.