



National Association of Insurance Commissioners

**To:** Commissioner Todd Kiser, Chair of the Financial Regulation Standards and Accreditation (F) Committee  
**From:** Leslie Nehring and Justin Schrader, Co-Chairs of the Risk-Focused Surveillance (E) Working Group  
**Date:** May 10, 2018  
**Re:** Use of Contractors in Financial Analysis

The Risk-Focused Surveillance (E) Working Group is charged with continually reviewing the effectiveness of risk-focused surveillance and developing enhancements to processes as necessary. In accordance with this charge, the Working Group has developed recommendations for the Committee to consider as Accreditation Part B guidelines for the use of independent contractors in financial analysis of insurers beginning January 1, 2019.

As states face resource challenges, the use of independent contractors in conducting financial analysis procedures is becoming more common. As such, the Working Group discussed expectations and best practices for utilizing independent contractors in this area. As contractors working as staff analysts are already subject to department review and oversight through the existing B1(c) Appropriate Supervisory Review standard and guidelines, the Working Group focused its discussions on contractors working in a supervisory capacity for financial analysis. These discussions led to a recommendation to include the following language as an additional guideline under the B1(c) Appropriate Supervisory Review standard for financial analysis:

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

In addition, the Working Group discussed various issues that could come up during the implementation of this guideline and developed the following supporting guidance for the Committee’s consideration:

When a contractor completes the primary supervisory review of financial analysis, the additional review of the Insurer Profile Summary (IPS) and/or Group Profile Summary (GPS) by a department employee must conform to the overall timeliness guidelines for review as described in standard B1(a) for both priority and non-priority insurers. For example, the additional department review of a priority insurer’s IPS must be completed by April 30 for the annual statement filing or within 60 days of a quarterly filing. The review may be completed at any point between the primary supervisory review and the overall timeliness guideline, and is not subject to a separate deadline of three weeks from completion of the original analysis or initial supervisory review. If the Quarterly Assessment of Non-Troubled Insurers is utilized and no quarterly analysis is performed, and therefore no IPS is completed, no additional department review is required for that quarter.

For purposes of this standard, individual contractors performing the primary supervisory review who work exclusively for the state insurance department are not subject to an additional level of review by a department employee.

If there are any questions regarding these recommendations, please feel free to contact us or NAIC support staff (Bruce Jenson) for clarification. Thank you for your consideration of this important referral.

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