

MEMORANDUM

TO: The Financial Regulation Standards and Accreditation (F) Committee

FROM: Susan Bernard, Chair, Financial Examiners Handbook (E) Technical Group

DATE: January 31, 2018

SUBJECT: Consideration for Financial Accreditation Standards
2018 *Financial Condition Examiners Handbook*

The Accreditation Program Manual includes Review Team Guidelines to be used for financial examinations performed using the risk-focused surveillance approach that is found in the NAIC *Financial Condition Examiners Handbook* (Handbook). This memorandum is to update the Financial Regulation Standards and Accreditation (F) Committee on changes that the Financial Examiners Handbook (E) Technical Group has made to the Handbook during 2017.

Modifications are made to the Handbook each year, and a new edition is printed annually. This process allows for an efficient way to update the Handbook and ensures that users have the latest version. The Technical Group made several changes to the Handbook in 2017. It is the Technical Group's opinion that just one of these changes should be considered "significant" for accreditation purposes. The Technical Group defined "significant" as a change that may immediately warrant a change to at least one accreditation standard or the Review Team Guideline(s) for said standard. Although the Technical Group has categorized some changes as "significant," this is not meant to suggest the modifications are synonymous with the term "significant" within the Financial Regulation Standards and Accreditation (F) Committee context.

During 2017, the Technical Group made the following changes:

Significant Changes to the Handbook Affecting Accreditation Standards and/or Review Team Guidelines:

- Revised guidance related to the use of a specialist to include the requirement that an actuarial specialist be used when the company under examination has a substantial amount of business subject to principle-based reserve (PBR) calculations or exclusion tests.

As a result of these revisions, the Technical Group would advise accreditation to consider revising the guideline pertaining to Accreditation Standard C: Use of Specialists regarding situations in which specialists are required to be used. The Technical Group would suggest the following language be used to reflect this change in the accreditation manual:

(Actuarial): Credentialed actuaries should be involved on all life/health company examinations where the company has a substantial amount of interest-sensitive business or with a substantial amount of business subject to principle-based reserve (PBR) calculations or exclusion tests and on all property/casualty (P/C) examinations where the company has a substantial amount of long-tail lines of business.

Other Changes to the Handbook:

- Revised the definitions for the Credit and Operational Branded Risk Classifications to differentiate the two classifications and to clarify the type of risks that would apply to each classification.

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- Added a reference to the Own Risk and Solvency Assessment (ORSA) Information Sharing Best Practices document to assist examiners in evaluating whether ORSA-related information can be shared with other state insurance regulators.
- Revised Exhibit A – Examination Planning Questionnaire to ensure consistency with the related analysis and accreditation guidance that requires the examiner and analyst to meet via conference call or in person during examination planning. Email communication is not sufficient for this purpose.
- Revised Exhibit B – Examination Planning Procedures Checklist to clarify that if the company has already provided the insurance department with the requested information, the company can indicate the date the item was provided and to whom on the checklist, in lieu of resubmitting the information request.
- Added guidance to incorporate specific revisions that should be included in affiliated service agreements.
- Enhanced information technology (IT) guidance, including:
 - Revised IT review narrative guidance to include considerations related to evaluating a company’s integration of cybersecurity risk into its enterprise risk management (ERM) function, evaluating employee training and evaluating a company’s vulnerability management process.
 - Added additional requests to the IT planning questionnaire related to a company’s cybersecurity policies.
 - Added narrative guidance to Exhibit C, Part Two related to state insurance regulator use of third-party work during an IT review.
 - Added procedures related to third-party access, vulnerability management, multi-factor authentication and various other cybersecurity topics to Exhibit C, Part Two - IT Work Program.
- Revised the Reinsurance – Assuming, Reinsurance – Ceding, and Related Party exam repositories to ensure appropriate risks and procedures were included. Minor related revisions were made to the Capital and Surplus and Investments Repositories to ensure consistency.
- Added guidance related to special considerations when examining insurers in run-off situations.
- Added guidance for transferring regulatory information between states when an insurance company redomesticates.
- Clarified guidance regarding which states belonging to a holding company group are responsible for completing Exhibit Z, Part 2D – Exam Coordination.
- Revised various information requests on Exhibit E – Audi Review Procedures to clarify that the examiner should obtain documentation for the most recent year of the examination period and only seek additional years if warranted.
- Added various revisions to incorporate principle-based reserving into the Handbook, including:
 - Added a new section of guidance that provides an overview of life insurance reserves, including an explanation of the differences between formula-based and principle-based reserves;
 - Updated the Reserves/Claims Handling – Life exam repository to include consideration of PBR-related risks and possible test procedures.
 - Revised Exhibit M – Understand the Corporate Governance Structure to include consideration of management oversight of the actuarial function.
 - Revised Exhibit Y – Examination Interviews to include sample questions related to the actuarial function.

The Technical Group sincerely requests that the Committee consider the items listed above as insignificant changes to the Handbook. We will continue to notify the Committee of any changes to the Handbook and also advise if, in our opinion, those changes are “significant” by accreditation expectations.

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