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Learning Objectives

At the end of this presentation, you will be able to:
• Apply 2016 Handbook Updates to financial examinations
• Summarize the Financial Examiners Handbook (E) Technical Group’s current projects

Overview

• Handbook Updates Approved During 2015
  – Included in 2016 Handbook
  – Applicable for all examinations with 12/31/15 as-of date and beyond
• Current Projects
NAIC Exam Resources

The various tools/resources referenced throughout this presentation are located on the Financial Examinations page of the NAIC Website and can be accessed using the following links:

**Regulators with I-Site Access**

https://i-site.naic.org/cgi-bin/statenet/financial_exam.htm

**Contractors/Industry/Others (requires purchase of FCEH)**

https://secure.naic.org/secure/feh_updates/index.htm

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New Guidance for 2016

- Revisions to Reduce Redundancy
- Multi-Entity Reporting Format
- Contractor Oversight
- Interim Work
- Cybersecurity

**Other Changes**

- *XXX/AXXX Reinsurance
- *Related Party Considerations
- *Investment Advisors
- *Corporate Governance
- *Updates to Exhibits V & DD
Revisions to Reduce Redundancy

• Purpose:
  – Reduce redundant activities between FA & FE
  – Enhance coordination and communication with the department analyst throughout the exam
  – Customize information requests

The Financial Analyst is a primary source of information to be considered during the planning phases of an examination

Revisions to Reduce Redundancy

• Exhibit B – Examination Planning Questionnaire
  – Customization is encouraged.
    • Consult with analyst
    • Focus on most recent exam period
  – Asterisks highlight information that may already be provided to the department
Revisions to Reduce Redundancy

First Step
Meet with the Financial Analyst

New TeamStore Process Order

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Understand the Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1</td>
<td>Gather Necessary Planning Information</td>
</tr>
<tr>
<td>Step 2</td>
<td>Meet with the Financial Analyst</td>
</tr>
<tr>
<td>Step 3</td>
<td>Obtain Existing Documentation</td>
</tr>
<tr>
<td>Step 4</td>
<td>Obtain Additional Information</td>
</tr>
<tr>
<td>Step 5</td>
<td>Meet with Chief Examiner</td>
</tr>
<tr>
<td>Step 6</td>
<td>Contact Other Regulators</td>
</tr>
<tr>
<td>Step 7</td>
<td>Meet with Company</td>
</tr>
<tr>
<td>Step 8</td>
<td>Obtain Other Proposed Revisions</td>
</tr>
<tr>
<td>Step 9</td>
<td>Obtain Internal Audit Reports</td>
</tr>
<tr>
<td>Step 10</td>
<td>Obtain Trial Balance</td>
</tr>
<tr>
<td>Step 11</td>
<td>Obtain Information for Controlling Accounts</td>
</tr>
<tr>
<td>Step 12</td>
<td>Discuss Relationship With Auditors</td>
</tr>
<tr>
<td>Step 13</td>
<td>Meet with Appointed Actuaries</td>
</tr>
<tr>
<td>Step 14</td>
<td>Consideration of Financial Information</td>
</tr>
<tr>
<td>Step 15</td>
<td>Consideration of Weighted Information</td>
</tr>
<tr>
<td>Step 16</td>
<td>Knowledge of the Company’s Business</td>
</tr>
<tr>
<td>Step 17</td>
<td>Propose a Test Budget</td>
</tr>
<tr>
<td>Step 18</td>
<td>Analytical and Operational Reviews</td>
</tr>
<tr>
<td>Step 19</td>
<td>Review the External Environment</td>
</tr>
<tr>
<td>Step 20</td>
<td>Set Planning Parameters Levels</td>
</tr>
<tr>
<td>Step 21</td>
<td>Identify Significant Issues</td>
</tr>
<tr>
<td>Step 22</td>
<td>Consider IT Risks</td>
</tr>
<tr>
<td>Step 23</td>
<td>Consider the Complete (TPTQ)</td>
</tr>
<tr>
<td>Step 24</td>
<td>Update the Insurer Profile Summary</td>
</tr>
</tbody>
</table>

Revisions to Reduce Redundancy

• Important Recent Change:
  – Exhibit AA – Summary Review Memorandum
  – Revised in 2014 (first appeared in 2015 Handbook) to align more closely with Insurer Profile Summary (IPS)
  – Intended to enhance communication between FA and FE
  – Organized by Branded Risk Classifications, aka “Common Language”
Multi-Entity Reporting

• Purpose:
  – Allows for a single exam report covering multiple entities to be issued when:
    • Entities are part of the same holding company group
    • Entities are domiciled in the same state
  – Indicate plans to issue multi-entity report in the FEETS exam call

The creation of a multi-entity report is optional.

Multi-Entity Reporting

- Required information applies to multiple entities:
  • Can be shown once
  • Indicate to which entities the information applies

- Required information differs by entity:
  • Must be presented separately
  • Financial Statements ALWAYS presented separately

Requirements of Examination Report Body found in Phase 7 of FCEH
Multi-Entity Reporting

• Benefits:
  – Efficiencies in report preparation and adoption
  – Clearer presentation of issues when a group of domestic companies is pooled and/or highly integrated.

Contractor Oversight

• The oversight of independent contractors is the responsibility of the insurance department designee.

The Department Designee

- Must sign the report
- Responsible for contractor oversight
- Qualified
- Employed by the State
- Perform work solely on behalf of the state
Interim Work

- Financial Sector Assessment Program (FSAP) Review
  - Recommendation that U.S. insurance regulators go on-site more frequently for large multinational insurers
  - Revisions create an option for examiners to conduct exam work in the period between full-scope exams
    - Driven by Lead State
    - Work can be accumulated to support full-scope exam
Interim Work

• Benefits:
  – Increases flexibility in timing of exam procedures
    • Ability to respond quickly following a Supervisory College
    • Ability to distribute workload and resources more evenly between exam years
  – Allows for more frequent on-site visits
    • Stay current with emerging company issues

<table>
<thead>
<tr>
<th>Topic</th>
<th>Limited Scope</th>
<th>Interim Work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition</td>
<td>Limited to review of a potential area of concern or where an issue has been identified as determined on a basis other than the implementation and documentation of the risk assessment procedures within the Handbook.</td>
<td>Focused on areas that do not present an immediate concern, but are considered inherently risky. Considered more routine in nature and performed on a planned or scheduled basis to reduce time spent during the full-scope exam.</td>
</tr>
<tr>
<td>Communication</td>
<td>Exam report required</td>
<td>Informal communication only (SRM, IPS, other), no report required</td>
</tr>
<tr>
<td>Focus of procedures</td>
<td>Addresses areas perceived to be problem areas</td>
<td>Addresses areas typically considered as inherently higher risk.</td>
</tr>
<tr>
<td>Urgency</td>
<td>Require immediate attention, cannot wait until full-scope exam</td>
<td>Allow for more frequent onsite visits, coverage areas could wait until full-scope exam</td>
</tr>
<tr>
<td>7-Phase process</td>
<td>Steps performed may not comply with the 7-phase process</td>
<td>Steps performed must be performed in a manner consistent with their completion within the 7-phase process</td>
</tr>
<tr>
<td>Key activities</td>
<td>If work is related to key activity – no matrix required</td>
<td>If work is related to key activity – matrix required</td>
</tr>
<tr>
<td>Support of full-scope examination</td>
<td>Can be leveraged if work fits into 7-phase process</td>
<td>Performs with the intention to utilize in the full-scope examination</td>
</tr>
</tbody>
</table>
Interim Work

• States are encouraged to consider if interim work would be appropriate for any of their domestic companies
• FEETS will be updated once needs are fully understood
  – Contact the NAIC in the meantime to assist in calling an interim work exam

Cybersecurity

• Narrative guidance provides:
  – Overview of cybersecurity risks
  – Considerations for addressing cybersecurity risks
• Exhibit C, Part 2 – IT Work Program
  – New controls and procedures for responding to existing Cybersecurity related risks
• Exhibit Y – Interviews
  – New questions related to Cybersecurity
Cybersecurity

Considerations when assessing an insurer’s cybersecurity
- Level of exposure:
  - Volume of business, type of sensitive information maintained, laws/regulations, size/complexity of insurer operations, etc.
  - Recent changes including acquisitions and integration of systems
  - Understanding of control structure, threats/breaches, and response plan
  - Availability of third-party work
  - Need for an IT specialist
Other Changes

• XXX/AXXX Reinsurance
  – Incorporates possible risks to consider when reviewing companies with XXX/AXXX reinsurance ceding transactions

• Related Party Considerations
  – Clarifies required elements in reviewing related parties

• Updates to Exhibits
  – Minor updates to Exhibit V and Exhibit DD to clarify intent

Other Changes

• Investment Advisers
  – Provides guidance for evaluating investment adviser agreements
  – Additional risk to consider BOD oversight of investment advisers

• Corporate Governance
  – Encourages reliance on Corporate Governance Annual Disclosure (CGAD) when available
Current Projects

- Principles-Based Reserving
- Examination Sampling
- Other Current Projects
  - Management Representation Letter
  - Section 1 Repositories
  - FSAP Recommendations
    - Suitability of Key Individuals

Principles-Based Reserving

- Working with PBR Review Procedures
  - Subgroup to develop guidance
  - Narrative guidance
    - “Life Insurance Reserve Review”
  - Encouraging use of actuarial specialists
  - Planning procedures
    - Planning meetings
    - Interviews
    - Information requests
  - Additional repository risks
Examination Sampling

• Overall goal of simplification
• Align sampling guidance with risk-focused methodology
  – Increased focus on control testing
• Enhanced guidance for attribute sampling and dual-purpose testing

Other Current Projects

• Financial Sector Assessment Program (FSAP) Review: Suitability of Key Individuals
  – Short-Term Recommendations:
    • Conclude on the suitability of key individuals when conducting interviews
  – Long-Term Recommendations:
    • Potential tool to encourage uniformity and consistency in reviewing corporate governance practices across regulatory functions
    – On hold pending more complete adoption of Corporate Governance Annual Disclosure Model Act (#305)
Other Current Projects

• Management Representation Letter
  – Revise template format to be more clear
  – Align with risk-focused exam approach

• Section 1 Exam Repositories
  – Minor update to move repositories online
  – Narrative guidance and related Teamstore content will remain as is

Ongoing Maintenance

• Repository Refresh
  – Annually review 1-3 exam repositories
  – Currently considering Capital & Surplus

• Proposal Form
  – Accepting suggestions for the Technical Group to consider
  – Deadline is June 1

http://www.naic.org/committees_e_examover_fehtg.htm