

## **EXAMINATION OVERSIGHT (E) TASK FORCE**

Examination Oversight (E) Task Force April 7, 2019, Minutes  
Financial Examiners Handbook (E) Technical Group, March 18, 2019, Minutes (Attachment One)

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## Draft Pending Adoption

Draft: 4/16/19

Examination Oversight (E) Task Force  
Orlando, Florida  
April 7, 2019

The Examination Oversight (E) Task Force met in Orlando, FL, April 7, 2019. The following Task Force members participated: Jillian Froment, Chair, represented by Dwight Radel (OH); Allen W. Kerr, Vice Chair, represented by Mel Anderson (AR); Lori K. Wing-Heier represented by David Phifer (AK); Jim L. Ridling represented by Richard Ford (AL); Ricardo Lara represented by Susan Bernard and Kim Hudson (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by William Arfanis (CT); Stephen C. Taylor represented by N. Kevin Brown (DC); Trinidad Navarro represented by Rylynn Brown (DE); Colin M. Hayashida represented by Cindy Neeley (HI); Doug Ommen represented by Carrie Mears (IA); Dean L. Cameron represented by Nathan Faragher (ID); Stephen W. Robertson represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Nancy G. Atkins represented by Sandy Batts (KY); James J. Donelon represented by Caroline Fletcher (LA); Gary D. Anderson represented by John Turchi (MA); Anita G. Fox represented by Judy Weaver (MI); Steve Kelley represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Debbie Doggett (MO); Jon Godfread represented by Matt Fischer (ND); Bruce R. Ramge represented by Justin Schrader and Lindsay Crawford (NE); John Elias represented by Doug Bartlett and Patricia Gosselin (NH); Marlene Caride represented by John Sirovetz (NJ); John G. Franchini represented by Viara Ianakieva (NM); Glen Mulready represented by Eli Snowbarger (OK); Larry Deiter represented by Johanna Nickelson (SD); Kent Sullivan represented by Ignatius Wheeler (TX); Todd E. Kiser represented by Jake Garn (UT); Scott A. White represented by Doug Stolte (VA); Kreidler represented by Patrick McNaughton (WA); Mark Afaible represented by Amy Malm (WI); and Tom Glause represented by Linda Johnson (WY).

### 1. Adopted its 2018 Fall National Meeting Minutes

Ms. Bernard made a motion, seconded by Mr. Ford, to adopt the Task Force's Nov. 16, 2018, minutes (*see NAIC Proceedings – Fall 2018, Examination Oversight (E) Task Force*). The motion passed.

### 2. Adopted the Reports of its Working Groups and Technical Group

#### a. Electronic Workpaper (E) Working Group

The Electronic Workpaper (E) Working Group met March 25 in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) of the NAIC Policy Statement on Open Meetings.

#### b. Financial Analysis Solvency Tools (E) Working Group

The Financial Analysis Solvency Tools (E) Working Group met jointly with the Group Solvency Issues (E) Working Group March 19 in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings.

The Working Group also met Feb. 28 in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meeting.

#### c. Financial Examiners Coordination (E) Working Group

The Financial Examiners Coordination (E) Working Group met Nov. 17, 2018, in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings.

#### d. Financial Examiners Handbook (E) Technical Group

Ms. Bernard said the Financial Examiners Handbook (E) Technical Group met March 18 and took the following action: 1) exposed salary range guidelines for financial examiners; 2) exposed guidance on C-level interviews; 3) exposed updates to the format of Exhibit V – Prospective Risk Assessment; 4) formed a drafting group to address a referral from the Chief Financial Regulator Forum on issues regarding the management letters issued at the conclusion of examinations; 5) received a referral from the Financial Analysis (E) Working Group on troubled insurance companies and directed NAIC staff to develop guidance revisions to address the issues raised within the referral; and 6) formed a drafting group to begin developing suggested revisions for the reserves/claims handling repositories.

## **Draft Pending Adoption**

Ms. Bernard made a motion, seconded by Ms. Malm, to adopt the following reports: Electronic Workpaper (E) Working Group; Financial Analysis Solvency Tools (E) Working Group; Financial Examiners Coordination (E) Working Group; and Financial Examiners Handbook (E) Technical Group, including its March 18 minutes (Attachment One). The motion passed.

### 3. Discussed Other Matters

Miguel Romero (NAIC) provided an update on the work to update Jumpstart reports being performed under the supervision of the Task Force. He also provided an update on the work of the drafting group of the IT Examination (E) Working Group, which is working to add guidance on: 1) information technology (IT) review conclusions; 2) the use of third-party work; and 3) the incorporation of self-assessments into the IT review process.

Having no further business, the Examination Oversight (E) Task Force adjourned.

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Draft: 3/29/19

Financial Examiners Handbook (E) Technical Group  
Conference Call  
March 18, 2019

The Financial Examiners Handbook (E) Technical Group of the Examination Oversight (E) Task Force met via conference call March 18, 2019. The following Technical Group members participated: Susan Bernard, Chair (CA); Richard Ford (AL); William Arfanis (CT); N. Kevin Brown (DC); Cindy Andersen (IL); Shannon Schmoeger (MO); Justin Schrader (NE); Colin Wilkins (NH); Steve Kerner (NJ); Tim Biler (OH); Jamille Jaffurs (OK); Melissa Greiner (PA); Patrick McNaughton (WA); and John Litweiler (WI). Also participating was: Ignatius Wheeler (TX).

1. Exposed Handbook Guidance

a. Salary Range Guidelines

Ms. Bernard said the Risk-Focused Surveillance (E) Working Group referred proposed revisions regarding salary range guidelines for the Technical Group to consider. The proposed salary range guidelines were developed based on a survey of the states, as well as research to understand compensation practices in similar job roles, such as public accounting, private industry and other areas of financial regulation.

To avoid causing undue burden to the states using the existing salary and per diem guidance within the *Financial Condition Examiners Handbook* (Handbook), the Working Group recommends that the existing guidance be retained, with explanatory language describing its purpose and expectations. The Working Group also recommends that each set of salary guidelines be maintained, with annual updates to the existing salary and per diem guidelines and biennial updates to the proposed salary range guidelines.

The Technical Group agreed to expose the proposed revisions regarding salary range guidelines for a 30-day public comment period ending April 17.

b. Interviews

Ms. Bernard said NAIC staff developed proposed revisions to address a referral received in 2018 from the Risk-Focused Surveillance (E) Working Group regarding takeaways from the 2018 Exam Peer Review sessions. These revisions attempt to emphasize the importance of customizing questions that are asked during C-level interviews in examination planning. The proposed revisions also suggest that the chief risk officer be among the first C-level individuals to be interviewed, when possible, as the information obtained through that interview can help inform subsequent interviews. NAIC staff also developed a new template for interviewing a chief marketing officer. This template provides possible questions that the exam team may consider when conducting this interview.

The Technical Group agreed to expose the proposed revisions regarding interviews for a 30-day public comment period ending April 17.

c. Exhibit V – Prospective Risk Assessment

Ms. Bernard said the referral regarding 2018 Exam Peer Review takeaways also suggested that the Technical Group consider the format of Exhibit V – Prospective Risk Assessment. The referral indicated that peer review attendees felt the format of the exhibit created confusion and did not appropriately emphasize the importance of the risks that should be addressed using the exhibit. NAIC staff developed preliminary revisions to the exhibit. The proposed revisions include revising the columns and column headers to more clearly indicate the expected documentation and align the exhibit more closely with the Summary Review Memorandum (SRM) and the Insurer Profile Summary (IPS).

NAIC staff recommended the latter changes in order to facilitate communication with the department analyst regarding significant solvency risks. NAIC staff also ask that state insurance regulators consider whether part two of the exhibit, regarding common solvency risks, should be maintained. NAIC staff noted that all the risk areas listed in Part Two are contained elsewhere in examination planning.

Ms. Bernard suggested an initial exposure of the revisions in order to obtain feedback that can be used to further develop enhancements to the exhibit. Comments from the initial comment period will be used to develop more robust changes to the exhibit, which will then be exposed a second time.

The Technical Group agreed to expose the proposed revisions regarding Exhibit V – Prospective Risk Assessment for a 30-day public comment period ending April 17.

## 2. Received Referrals

### a. Chief Financial Regulator Forum – Management Letters

Ms. Bernard said the Chief Financial Regulator Forum requested that the Technical Group consider whether the management letter issued as part of a financial examination should be proactively shared among the states. Currently, the management letter is shared with other state insurance regulators upon request. The referral proposed using the Financial Exam Electronic Tracking System (FEETS) for housing this document.

Tom Finnell (America’s Health Insurance Plans—AHIP) asked if the intent of sharing the management letter is to provide regulators with a repository of management letter comments that can be used in developing management letter comments for other examinations.

Mr. McNaughton indicated that state insurance regulators already share this and other documents with each other; the referral simply suggests formalizing this process.

Mr. Finnell said, under the current process, whereby a state must request the management letter from the domiciliary state insurance regulator, there is presumably some discussion regarding the purpose for the request and how the management letter will be used. He said there is concern that if any state insurance regulator can access any management letter, confidential information might be used inappropriately.

Ms. Bernard said the purpose is to make the management letter more readily available, rather than to accumulate and make available possible management letter comments. She and Ms. Andersen noted that state insurance regulators may be interested in reviewing the management letter for a company that is interested in expanding into new states and seeking certificate of authority.

Ms. Greiner said Pennsylvania does not issue a management letter for every examination. She also said, in some cases, the examination is completed and finalized in FEETS before the management letter is considered complete, so timing should be something to be aware of when adding functionality to FEETS. Ms. Andersen said the company’s response to the management letter should also be considered.

Jeff Martin (UnitedHealth Group) asked if members of the industry would be allowed access to the information maintained in FEETS regarding management letters. He noted that the referral says management letters should be shared with the states in which a company is licensed and/or transacting business, but maintaining the document in FEETS would effectively result in a larger audience. Ms. Bernard noted that FEETS is a regulator-only tool.

Bailey Henning (NAIC) said the manner in which the management letter is maintained in FEETS, including descriptive language, could be customized by the Technical Group. Bruce Jenson (NAIC) suggested that a drafting group be established to discuss these matters, given the number of issues and customization that may be needed to implement the recommendations from the referral. Mr. Arfanis, Mr. Schrader, Ms. Bernard, Mr. McNaughton and Mr. Wheeler volunteered to assist in this drafting group.

The referral also asked the Technical Group to consider additional guidance regarding the type of information included in the management letter, as well as to whom the management letter should be given; i.e., the board of directors and/or management. Mr. Arfanis said providing a management letter to an individual that is independent from company management should be considered. Mr. Schrader said the guidance should include high-level guidelines in order to maintain flexibility among states. Ms. Henning suggested that this issue be discussed with the volunteer drafting group.

b. Financial Analysis Working Group – Troubled Insurance Companies

Ms. Bernard said the Financial Analysis (E) Working Group recently updated the *Troubled Insurance Company Handbook* and asked the Technical Group to consider whether those updates would impact existing guidance in the Financial Condition Examiners Handbook. The referral recommends the consideration of guidance regarding specific key elements from the *Troubled Insurance Company Handbook*, including priority rating guidance, communication expectations for companies that are troubled or potentially troubled, and pre-receivership considerations.

Ms. Bernard directed NAIC staff to draft proposed revisions for the Technical Group to consider on a future conference call.

3. Discussed 2019 Projects

Ms. Bernard said the Technical Group will continue its ongoing repository maintenance project in 2019. This year, the Technical Group will be reviewing the reserves/claims handling repositories. NAIC actuarial working groups will be asked to provide input, as well, given the technical nature of the exam repositories. Ms. Bernard said Technical Group members are encouraged to volunteer to assist in this project. Contract examiners can also participate at this stage of the project.

4. Discussed Other Matters

Miguel Romero (NAIC) informed the Technical Group that the IT Examination (E) Working Group is discussing potential additions to the Handbook guidance regarding an industry-developed cybersecurity self-assessment tool. A drafting group has been established to review the self-assessment tool and compare it to the existing Information Technology (IT) Work Program in the Handbook. The Working Group will then determine whether any revisions may be necessary. Mr. Romero said the Working Group is also reviewing the guidance regarding the language that should be utilized when concluding on the effectiveness of the IT general control environment, as well as the guidance for using third-party reports. He noted that NAIC staff will communicate as revisions are proposed so the Technical Group can also be aware of them.

Mr. Romero said a drafting group has been established to review the compliance-focused medical loss ratio (MLR) work program and possibly make enhancements. The drafting group will consider whether controls can be added to the work program in an attempt to make it more risk-focused. Mr. Romero said that while these changes would not directly affect the Handbook, it is often the financial examiners within the states that conduct the MLR procedures.

Having no further business, the Financial Examiners Handbook (E) Technical Group adjourned.

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