EXAMINATION OVERSIGHT (E) TASK FORCE

Examination Oversight (E) Task Force Aug. 4, 2019, Minutes
  Financial Analysis Solvency Tools (E) Working Group July 25, 2019, Minutes (Attachment One)
  IT Examination (E) Working Group July 16, 2019, Minutes (Attachment Two)
  Revisions to the Task Force and Related Working Group 2020 Proposed Charges (Attachment Three)

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Draft: 8/8/2019

Examination Oversight (E) Task Force
New York, New York
August 4, 2019

The Examination Oversight (E) Task Force met in New York, NY, Aug. 4, 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 Eric Unger and 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 Tian Xiao (HI); Doug Ommen represented by Carrie Mears (IA); Dean L. Cameron represented by Eric Fletcher (ID); Stephen W. Robertson represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); James J. Donelon represented by Caroline Fletcher and Stewart Guerin (LA); Gary Anderson represented by James A. McCarthy (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 Godfred represented by Colton Shulz (ND); Bruce R. Ramge represented by Justin Schrader and Lindsay Crawford (NE); John Elias represented by Patricia Gosselin (NH); Marlene Caride represented by John Sirotvetz (NJ); Glen Mulready represented by Joel Sander (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); Tregenza A. Roach represented by Cheryl Charleswell (VI); Mike Kreidler represented by Patrick McNaughton (WA); Mark Afable represented by Amy Malm (WI); and Jeff Rude represented by Linda Johnson (WY). Also participating was: Michael S. Pieciak represented by Karen Ducharme (VT).

1. **Adopted its 2019 Spring National Meeting Minutes**

Mr. Xiao made a motion, seconded by Ms. Bernard, to adopt the Task Force’s April 7 minutes (*see NAIC Proceedings – Spring 2019, Examination Oversight (E) Task Force*). The motion passed.

2. **Adopted the Reports of its Working Groups**

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

The Electronic Workpaper (E) Working Group met July 18 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, to continue discussions in evaluating long-term hosting solutions for financial surveillance work and evaluate replacement options for TeamMate AM which will be reaching its end of life in 2023.

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

The Financial Analysis Solvency Tools (E) Working Group met July 25 (Attachment One) to discuss changes to the Insurance Regulatory Information System (IRIS) for 2019 annual statement filings. The proposal included element changes to several IRIS ratios, which were driven by financial blanks changes for 2019 annual. The proposed changes were exposed for a 30-day public comment period ending Aug. 26.

The Working Group also met May 28 in joint regulator-to-regulator session with the Group Solvency Issues (E) Working Group, pursuant to paragraph 3 (specific companies, entities or individuals) and paragraph 6 (consultation with NAIC staff members related to technical guidance) of the NAIC Policy Statement on Open Meetings, to consult with NAIC staff on technical guidance regarding expectations for pooled groups, insurers that are also a group’s ultimate controlling person and non-lead state holding company analysis.

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

The Financial Examiners Coordination (E) Working Group met April 8 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to receive reports on exam coordination efforts from selected States.

   d. **IT Examination (E) Working Group**

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Mr. McNaughton said the IT Examination (E) Working Group met July 16 (Attachment Two) and exposed guidance revisions for a 30-day public comment period ending Aug. 15 on the following topics: 1) information technology (IT) review conclusions – revisions are intended to clarify the scope of the IT review and the way examiners should respond to IT review findings; 2) use of third-party work – revisions are intended to clarify the ways that third-party work can be evaluated and used during an exam’s IT review; and 3) cybersecurity self-assessment tools – revisions allow state insurance regulators to incorporate the results of a company’s completed self-assessment. Additionally, a drafting group developed a mapping between IT exam guidance and the cybersecurity self-assessment tool developed by the Financial Services Sector Coordinating Council (FSSCC) to facilitate state insurance regulator use of the information contained within the tool.

Mr. McNaughton made a motion, seconded by Ms. Weaver, to adopt the following reports: Electronic Workpaper (E) Working Group; Financial Analysis Solvency Tools (E) Working Group; Financial Examiners Coordination (E) Working Group; and IT Examination (E) Working Group, reports. The motion passed.

3. Exposed Updates to the Task Force and Working Group 2020 Proposed Charges

The Task Force exposed revisions to the Task Force and related Working Group 2020 proposed charges (Attachment Three) for a 30-day public comment period ending Sept. 3. The proposed revisions would: 1) update the charges of the Electronic Workpaper (E) Working Group in recognition of the discussions it has been having in regulator-to-regulator settings; and 2) simplify the principle-based reserving (PBR)-related charges for both the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group.

4. Discussed Other Matters

The Task Force heard an update from Ms. Bernard on the work of the Financial Examiners Handbook (E) Technical Group, which addressed revisions the Working Group will be considering later this year. Topics that will be discussed include: 1) Exhibit V – Prospective Risk Assessment; 2) management letters; 3) examinations of troubled or potentially troubled companies; and 4) the reserves/claims handling repositories.

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

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The Financial Analysis Solvency Tools (E) Working Group of the Examination Oversight (E) Task Force met via conference call July 25, 2019. The following Working Group members participated: Judy Weaver, Chair (MI); Patricia Gosselin, Vice Chair (NH); Sheila Travis (AL); Scott Persten and Kurt Regner (AZ); Emma Hirschhorn (CA); N. Kevin Brown (DC); Eric Moser (IL); Roy Eft (IN); Debbie Doggett (MO); John Sirovetz (NJ); Dwight Radel (OH); Kimberly Rankin (PA); and Amy Garcia (TX).

1. Exposed Proposed Revisions to Life IRIS Ratios

Ms. Weaver said a proposal was received to expose revisions to the life Insurance Regulatory Information System (IRIS) ratios no. 4 (Adequacy of Investment Income), no. 10 (Change in Product Mix), and no. 12 (Change in Reserving) due to blank changes.

Kelly Hill (NAIC) summarized the proposal, which included new elements for each ratio due to blank changes.

Hearing no objections, Ms. Weaver said the proposal would be exposed for a 30-day public comment period ending Aug. 26.

Having no further business, the Financial Analysis Solvency Tools (E) Working Group adjourned.
IT Examination (E) Working Group
Conference Call
July 16, 2019

The IT Examination (E) Working Group of the Examination Oversight (E) Task Force met via conference call July 16, 2019. The following Working Group members participated: Patrick McNaughton, Chair (WA); Jerry Ehlers, Vice Chair (IN); Charles Turner (AL); Mel Anderson (AR); Ber Vang (CA); William Arfanis and Ken Roulier (CT); Ginny Godek (IL); Shane Mead (KS); Dmitriy Valekha (MD); Kim Dobbs and Cynthia Amann (MO); Justin Schrader (NE); Eileen Fox (NY); Eli Snowbarger (OK); Melissa Greiner (PA); and David Jensen (WI).

1. Exposed Revisions to Handbook Guidance

Mr. Ehlers provided an overview of the work of the Drafting Group for the call. He said a drafting group had been created late in 2018 to address three projects assigned to the Working Group. Miguel Romero (NAIC) provided an overview of the work performed by the drafting group and a summary of changes recommended to the Working Group. The first project related to looking at the conclusions reached on IT General Controls at the end of an IT examination. The second project regarded language and procedures to utilize when using IT work performed by a third party. The final project was to perform a mapping between a cybersecurity self-assessment tool developed by the Financial Services Sector Coordinating Council (FSSCC) and Exhibit C in the Financial Condition Examiners Handbook (Handbook). The final project also resulted in guidance that allows state insurance regulators to incorporate the results of the self-assessment.

At the end of the summary of changes, Michael Morrissey (Morrissey Consultants) asked for more information on the FSSCC tool, specifically about the FSSCC, their day-to-day activities, and why the Working Group chose to map this tool to the Handbook’s Exhibit C guidance. Mr. Romero said the FSSCC is an industry group that coordinated this project with several companies and other industry groups. Its mission is to streamline regulation across the financial services sector. Currently it works closely with banks and other financial institutions. Many of these institutions have indicated that they will be using a version of the FSSCC cybersecurity self-assessment tool; therefore, incorporating the process into the state insurance regulators’ review, may provide value to state insurance regulators without introducing a new requirement for companies.

Tom Finnell (America’s Health Insurance Plans—AHIP) inquired as to whether the FSSCC tool could be used to replace Exhibit C procedures. Mr. McNaughton said Exhibit C has been customized over the years, and it contains information that is not available in the FSSCC tool. For this reason, the FSSCC tool cannot be used as a whole-sale replacement for Exhibit C. Mr. McNaughton continued that there are individual areas, controls and procedures that overlap between the Exhibit C and the FSSCC tool. In these cases, the IT examiner should use professional judgment to determine if the same testing procedures can be used in both areas. The goal of this mapping was to provide efficiencies and avoid IT examiners having to perform duplicative work. To the point that it meets those criteria and does not leave parts of the IT risk unaddressed, the same work can be utilized to satisfy Exhibit C and the FSSCC tool requirements.

Mr. Mead asked to see the full FSSCC tool in its native Microsoft Excel format to look at the parts of the tool that were not viewable in the call materials PDF. Mr. Romero said the Excel version of the FSSCC tool from which the call materials were crafted is available on the Working Group’s NAIC webpage.

Mr. McNaughton asked for any additional discussion on the matters presented. Hearing nothing further, the edits proposed by the drafting group were exposed for a 30-day public comment period ending Aug. 15.

Having no further business, the IT Examination (E) Working Group adjourned.

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2020 Charges

The mission of the Examination Oversight (E) Task Force is to monitor, develop and implement tools for the risk-focused surveillance process. The Task Force accomplishes its mission using the following groups:

I. The Electronic Workpaper Working Group will:
   A. Monitor and support the state insurance departments in using electronic workpaper software tools to conduct and document solvency monitoring activities.
   B. Provide ongoing oversight to the NAIC's Electronic Workpaper Hosting Project.
   C. Develop a framework to meet the long-term hosting and software needs of regulators in using electronic workpapers to conduct and document solvency monitoring activities. Ensure solutions developed consider various regulator uses, as appropriate.

II. The Financial Analysis Solvency Tools (E) Working Group will:
   A. Provide ongoing maintenance and enhancements to the Financial Analysis Handbook and related applications for changes to the NAIC annual/quarterly financial statement blanks, as well as enhancements developed to assist in the risk-focused analysis and monitoring of the financial condition of insurance companies and groups. Monitor the coordination of analysis activities of holding company groups, and coordinate and analyze input received from other state regulators.
   B. Provide ongoing development maintenance and enhancements to the automated financial solvency tools developed to assist in conducting risk-focused analysis and monitoring the financial condition of insurance companies and groups. Prioritize and perform analysis to ensure that the tools remain reliable and accurate.
   C. Coordinate with the Financial Examiners Handbook (E) Technical Group and the Risk-Focused Surveillance (E) Working Group, as appropriate, to develop and maintain guidance in order to provide effective solvency monitoring.
   D. In compliance with the framework developed by the PBR Review (EX) Working Group:
      1. Continue to provide advice to regulators, identifying and judging risk, establishing appropriate procedures, identifying frequency of model reviews, and documenting best practices. Address all risks, financial and non-financial; e.g., enterprise risk management (ERM), board, corporate governance and the Own Risk and Solvency Assessment (ORSA).
      2.1. Continue to Adjust the Financial Analysis Handbook and current financial analysis solvency tools for life insurance companies based on any recommendations as requested from the Life Actuarial (A) Task Force to incorporate principle-based reserving (PBR) changes.
III. The Financial Examiners Coordination Working Group will:

A. Develop enhancements that encourage the coordination of examination activities with regard to holding company groups.

B. Promote coordination by assisting and advising domiciliary regulators and exam coordinating states as to what might be the most appropriate regulatory strategies, methods and actions regarding financial examinations of holding company groups.

C. Facilitate communication among regulators regarding common practices and issues arising from coordinating examination efforts.

D. Provide ongoing maintenance and enhancements to the Financial Examination Electronic Tracking System (FEETS).

IV. The Financial Examiners Handbook Technical Group will:

A. Continually review the *Financial Condition Examiners Handbook* and revise, as appropriate.

B. Coordinate with the Risk-Focused Surveillance (E) Working Group to monitor the implementation of the risk-assessment process by developing additional guidance and exhibits within the *Financial Condition Examiners Handbook*, including consideration of potential redundancies affected by the examination process, corporate governance and other guidance as needed to assist examiners in completing financial condition examinations.

C. Coordinate with the Financial Analysis Handbook (E) Working Group and the Risk-Focused Surveillance (E) Working Group, as appropriate, to develop and maintain guidance in order to provide effective solvency monitoring.

D. Coordinate with the IT Examination (E) Working Group and the Financial Examiners Coordination (E) Working Group to maintain specialized areas of guidance within the *Financial Condition Examiners Handbook* related to the charges of these specific working groups.

D. In compliance with the framework developed by the former PBR Review (EX) Working Group:

2.1. Continue to adjust the *Financial Condition Examiners Handbook* based upon any recommendations as requested from the Life Actuarial (A) Task Force to incorporate principle-based reserving (PBR) changes.

3.2. Continue to provide advice to regulators, identifying and judging risk, building repositories, evaluating controls, determining the extent of data quality testing (by actuaries and examiners), identifying frequency of model reviews and documenting best practices. Address all risks, financial and non-financial; e.g., enterprise risk management (ERM), board, corporate governance and the Own Risk and Solvency Assessment (ORSA), and examiners, identifying frequency of model reviews and documenting best practices. Address all risks, financial and non-financial; e.g., enterprise risk management (ERM), board,
The IT Examination (E) Working Group will:

A. Continually review and revise, as needed, the "General Information Technology Review" and "Exhibit C- Evaluation of Controls in Information Systems" sections of the *Financial Condition Examiners Handbook*.

B. Coordinate with the Market Conduct Examination Standards (D) Working Group to assist in the development of regulatory oversight policy with respect to cybersecurity examination issues, as requested by the Innovation and Technology (EX) Task Force.