Financial Regulation Standards and Accreditation (F) Committee Aug. 3, 2019, Minutes

2020 Proposed Charges (Attachment One)
Referral from the National Treatment and Coordination (E) Working Group Regarding Part D of the Accreditation Standards (Attachment Two)
Revisions to the Self-Evaluation Guide/Interim Annual Review for Consistency with Revisions to Part D of the Accreditation Standards (Attachment Three)
Referral from the Financial Analysis (E) Working Group Regarding Updates to the Troubled Company Accreditation Guidelines (Attachment Four)
Referral from the Reinsurance (E) Task Force Regarding 2019 Revisions to Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786) (Attachment Five)
Financial Regulation Standards and Accreditation (F) Committee
New York, New York
August 3, 2019

The Financial Regulation Standards and Accreditation (F) Committee met in New York, NY, Aug. 3, 2019. The following Committee members participated: Todd E. Kiser, Chair (UT); Jillian Froment, Vice Chair, (OH); Jim L. Ridling (AL); Lori K. Wing-Heier represented by David Phifer (AK); Allen W. Kerr represented by Mel Anderson (AR); Andrew N. Mais (CT); Nancy G. Atkins (KY); Gary Anderson (MA); Bruce R. Ramge (NE); Mike Causey represented by Jackie Obusek (NC); Elizabeth Kelleher Dwyer (RI); Larry Deiter represented by Johanna Nickelson (SD); Michael S. Pieciak (VT); Scott A. White (VA); and Jeff Rude (WY). Also participating was: John Rehagen (MO).

1. Adopted its 2019 Spring National Meeting Minutes

Commissioner Kiser said the Committee met Aug. 2 and April 6. During its Aug. 2 meeting, the Committee met in regulator-to-regulator session, pursuant to paragraph 7 (consideration of individual state insurance department’s compliance with NAIC financial regulation standards) of the NAIC Policy Statement on Open Meetings, to: 1) discuss state-specific accreditation issues; and 2) vote to award continued accreditation to the insurance departments of Montana, Pennsylvania and Utah.

Commissioner Pieciak made a motion, seconded by Superintendent Dwyer, to adopt the Committee’s April 6 minutes (see NAIC Proceedings – Spring 2019, Financial Regulation Standards and Accreditation (F) Committee). The motion passed unanimously.

2. Adopted its 2020 Proposed Charges

Commissioner Kiser discussed a memorandum that includes the Committee’s 2020 proposed charges, noting the proposed charges are unchanged from the Committee’s 2019 charges.

Commissioner Ridling made a motion, seconded by Commissioner Atkins, to adopt the Committee’s 2020 proposed charges (Attachment One). The motion passed unanimously.

3. Adopted Revisions to the Part A Preamble Regarding Compliance of Fraternal Benefit Societies with PBR

Commissioner Kiser said that at the 2017 Spring National Meeting, the Committee adopted principle-based reserving (PBR) into the accreditation standards with an effective date of Jan. 1, 2020 (see NAIC Proceedings – Spring 2017, Financial Regulations Standards and Accreditation (F) Committee, Attachment Seven). This included the recommendation from the Life Actuarial (A) Task Force to apply the standard to fraternal benefit societies. The Committee recognized that the Preamble to the Accreditation Program Manual would also need to be updated for this change. The proposed revision to account for this update was exposed for a 30-days public comment period following the Spring National Meeting. No comments were received.

Mr. Phifer made a motion, seconded by Commissioner White, to adopt the revisions to the Part A Preamble to include fraternal benefit societies with respect to PBR. The motion passed unanimously.

4. Adopted a Referral from the National Treatment and Coordination (E) Working Group Regarding Part D of the Accreditation Standards

Commissioner Kiser stated that Part D of the accreditation program includes standards for primary licensing of new companies and Form A filings for mergers and acquisitions. At the Spring National Meeting, the Committee exposed a referral from the National Treatment and Coordination (E) Working Group recommending modifications to the standards to update the guidelines to reflect current practices, expand the scope to include redomestications, and subject Part D to a Recommendation A or B from the review teams with the result that the outcome can affect a state’s accredited status. The proposal represents a key change to the program by emphasizing the importance of the licensing process, which is often heavily relied on by other states. Enhancing standards in this area is intended to promote stronger communication between states and reduce risks associated with licensing new companies and completing redomestications, mergers and acquisitions. The proposal was exposed for a 30-day public comment period. (Attachment Two). No comments were received.
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Director Froment made a motion, seconded by Commissioner White, to adopt the referral to update the guidelines and expand the scope to include redomestications effective Jan. 1, 2020, and to subject Part D to Recommendation A or B effective Jan. 1, 2022. The motion passed unanimously.


Commissioner Kiser stated that when changes are made to the review team guidelines, the related questions in the self-evaluation guide must also be updated for consistency. The review team guidelines represent the requirements for accreditation. The self-evaluation guide is the means through which states report on compliance with those guidelines. He noted that additional changes to the Accreditation Program Manual to account for subjecting Part D to Recommendation A or B will likely be necessary in advance of the Jan. 1, 2022, effective date.

Commissioner Mais made a motion, seconded by Mr. Phifer, to expose the self-evaluation updates regarding Part D, which are effective Jan. 1, 2020, for a 30-day public comment period ending Sept. 6. (Attachment Three). The motion passed unanimously.


Commissioner Kiser said that earlier this year, updates were made to the Troubled Insurance Company Handbook (Handbook) to clarify expectations about timely and effective communication between domiciliary and non-domiciliary state insurance departments. He stated that in situations when a company becomes troubled, communication between impacted states is important. Therefore, these concepts are incorporated into the accreditation guidelines. The proposed changes to the accreditation guidelines (Attachment Four) reflect the revisions in the Handbook.

Commissioner White made a motion, seconded by Commissioner Atkins, to expose the referral for a 30-day public comment period ending Sept. 6. The motion passed unanimously.

7. Discussed 2019 Revisions to the Model #785 and Model #786

Mr. Rehagen summarized a referral from the Reinsurance (E) Task Force (Attachment Five) and stated that on June 25, the NAIC unanimously adopted revisions to the Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786). These revisions were intended to incorporate the relevant provisions of the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (Covered Agreement) entered into with the European Union (EU) and the United Kingdom (UK). In addition, it provides similar treatment to reinsurers domiciled in qualified jurisdictions and in accredited states. The Covered Agreement requires the states to take action with respect to the reinsurance collateral provisions within 60 months (five years) of signing (Oct. 1, 2022) or face potential federal preemption by the Federal Insurance Office (FIO). The FIO will begin its federal preemption analysis the first day of the month 42 months after the date of signature of the Covered Agreement (April 1, 2021).

Mr. Rehagen said the current Reinsurance Ceded accreditation standard under the NAIC Financial Regulation Standards and Accreditation Program should be revised. Otherwise, states adopting the revisions to Model #785 and/or Model #786 will technically be out of compliance with the Reinsurance Ceded to Certified Reinsurers portion of the standard. States are encouraged to begin immediate uniform adoption of the model revisions. The normal process to update an accreditation standard can take several years and is normally started with a recommendation to the Financial Regulation Standards and Accreditation (F) Committee at the following Spring National Meeting by the group making the change to the NAIC model. The Accreditation Program does permit an immediate change to the accreditation standard if it is determined that it is necessary to expeditiously modify or alter the accreditation standard.

Mr. Rehagen said that it is important that the Committee take the time to adequately study the proposed accreditation standard, because each word and phrase of the model revisions were thoroughly reviewed and negotiated with the European Commission, and any changes to the language could cause a federal preemption review by the FIO. Therefore, the Reinsurance (E) Task Force makes the following recommendations to the Committee: 1) the Committee should immediately recognize that states may begin the legislative process and complete adoption of provisions that are substantially similar to the 2019 revisions to Model #785 and Model #786 and remain in compliance with the Reinsurance Ceded accreditation standard; 2) the accreditation standard should be modified in accordance with the processes and procedures outlined in the Accreditation Program Manual, and that the Reinsurance (E) Task Force and Financial Condition (E) Committee prepare a formal recommendation to the Committee for consideration at the 2020 Spring National Meeting; and 3) in the interim, states
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are encouraged to adopt the 2019 revisions in the form adopted by Plenary within the 60-month time frame set forth in the Covered Agreement to best avoid potential federal preemption.

Director Ramge clarified that the five-year period for states to take action began when the Covered Agreement was signed on Sept. 22, 2017.

Commissioner Kiser asked if there were any objections to the approach proposed in the referral from the Reinsurance (E) Task Force, and none were noted.

Having no further business, the Financial Regulation Standards and Accreditation (F) Committee adjourned.
MEMORANDUM

TO: Members of the Financial Regulation Standards and Accreditation (F) Committee  
FROM: Becky Meyer, Senior Accreditation Manager  
DATE: July 11, 2019  
RE: 2020 Proposed Charges

Below are the Financial Regulation Standards and Accreditation (F) Committee’s 2020 proposed charges. There have been no substantive changes from the Committee’s 2019 charges.

The mission of the Financial Regulation Standards and Accreditation (F) Committee shall be both administrative and substantive, as it relates to the administration and enforcement of the NAIC Financial Regulation Standards and Accreditation Program. This includes, without limitation: 1) the consideration of standards and revisions of standards for accreditation; 2) the interpretation of standards; 3) the evaluation and interpretation of the states’ laws and regulations, as well as departments’ practices, procedures and organizations as they relate to compliance with standards; 4) the examination of members for compliance with standards; 5) the development and oversight of procedures for the examination of members for compliance with standards; 6) the selection of qualified individuals to examine members for compliance with standards; and 7) the determination of whether to accredit members.

Ongoing Support of NAIC Programs, Products or Services

1. The Financial Regulation Standards and Accreditation (F) Committee will:
   A. Maintain and strengthen the NAIC Financial Regulation Standards and Accreditation Program.
   B. Assist the states, as requested and as appropriate, in implementing laws, practices and procedures, and obtaining personnel required for compliance with the standards.
   C. Conduct a yearly review of accredited jurisdictions.
   D. Consider new model laws; new practices and procedures; and amendments to existing model laws, practices and procedures required for accreditation. Determine the timing and appropriateness of the addition of new model laws, new practices and procedures, and amendments.
   E. Render advisory opinions and interpretations of model laws required for accreditation and on substantial similarity of state laws.
   F. Review existing standards for effectiveness and relevancy, and make recommendations for change, if appropriate.
   G. Produce, maintain and update the NAIC Accreditation Program Manual to provide guidance to state insurance regulators regarding the official standards, policies and procedures of the program.
   H. Maintain and update the “Financial Regulation Standards and Accreditation Program” pamphlet.
   I. Perform enhanced pre-accreditation review services, including, but not limited to, additional staff support, increased participation, enhanced report recommendations, and informal feedback.
To:       Commissioner Todd E. Kiser (UT), Chair of Financial Regulation Standards and Accreditation (F) Committee

From:   Jeff Hunt (TX) and Joel Sander (OK), Co-Chairs of National Treatment and Coordination (E) Working Group

Date: February 15, 2019

Re: Company Licensing Accreditation Standards

Executive Summary

The National Treatment and Coordination (E) Working Group (Working Group) is charged with monitoring usage of the Form A database and implementation of company licensing best practices. As a result of this monitoring, updates and enhancements are made that must also be considered for their impact on the accreditation program and, specifically, Part D: Organization, Licensing and Change of Control of Domestic Insurers (Part D).

On February 14, 2019 the Working Group adopted a recommendation regarding the Part D Accreditation Standards to a) update the guidelines to reflect current practices, b) expand the scope to include redomestications, and c) include Part D in the review team’s recommendation with the result that the outcome can affect a state’s accredited status.

A baseline set of standards for the completion of primary applications for the licensing of new companies and redomestications, and Form A filings promotes reliance on other states in these important functions. Each application requires consideration of financial solvency of the insurers to both strengthen financial regulation and prevent unlicensed or fraudulent activities. The significant reliance on other states combined with the potential solvency impact of non-compliance with the Part D standards result in the recommendation to the Financial Regulation Standards and Accreditation (F) Committee outlined in this referral.

The Working Group recommends that the revisions to the guidelines be adopted with an effective date of January 1, 2020. However, the Working Group also recommends that the effective date for subjecting Part D to Recommendation A or B and thus impacting a state’s accredited status, be effective January 1, 2022. This timeline allows states to adjust to the revised guidelines before elevating the status of the Part D standards. The recommendations are intended to be prospective and applicable to filings received on or after the effective date.

Summary of Changes

Updates to Reflect Current Practices
Following is a summary of the Working Group’s recommended revisions to the Part D accreditation guidelines:

1) update the scope to include primary applications for redomestications,
2) update timing guidelines to rely on department policies along with state statute or regulation or the Company Licensing Best Practices Handbook,
3) add a new standard for the scope and performance of procedures for redomestications which includes elements of a quality review in addition to communication expectations,
4) update the process-oriented guidelines for Form A filings to include documenting an assessment of business plans and the quality and expertise of key persons, and
5) require updates to the Form A database at a minimum every six months for open filings.
6) update the title of Part D to “Primary Licensing, Redomestications and Change of Control”

Expand Scope to Redomestications
Insurance companies redomicile for a variety of reasons. When a redomestication occurs, state regulators take on the responsibility to review the request. The Working Group believes it is key for regulators in both states to communicate, review the information provided, and understand the reasons for the redomestication. In addition, the Working Group received a referral from the Financial Analysis (E) Working Group (FAWG) supporting inclusion of redomestications in the Part D Standards based on their work monitoring troubled and potentially troubled companies. As an example, FAWG has identified situations where companies have sought to take advantage of the redomestication process to achieve regulatory arbitrage. The recommended accreditation guidelines include elements for a quality review of these transactions as well as communication requirements with other regulators.

Subject to Recommendation A or B
In 2016, The Working Group together with the Group Solvency Issues (E) Working Group redesigned the Form A Database to enhance regulatory reviews and provide a more dynamic regulatory tool. The database now captures more information regarding mergers, acquisitions, consolidated hearings and/or coordinated reviews of Form A filings. The Form A is reviewed and analyzed by the state in which the Form A is filed, and the appropriate action is taken by the state to either approve or disapprove the transaction within a specified time frame. Making this information available to regulators in each state via the Form A Database provides awareness of other similar transactions such as a large insurer initiating acquisitions in numerous states or denials/issues with filings from the same ultimate controlling party. The database can also lead to efficiencies in analyzing similar transactions using the Lead State concept incorporated into the database.

To fully realize the regulatory value the Form A Database can provide, all states must effectively use the database for each applicable transaction. The Working Group recommends subjecting the Part D accreditation guidelines to a Recommendation A or B as defined in the accreditation manual to ensure a complete database of information.

In the primary application process for new companies, other states may not immediately rely on the work done by the domiciliary state, but as soon as the insurer begins requesting licenses in other states, heavy reliance is placed on the initial application process done by the domiciliary state. In the primary application process for redomestications, other states rely on the new domestic regulator as discussed above.

Therefore, primary applications for new companies and redomestications, in addition to Form A filings, are equally important and should be encompassed in the Recommendation A or B for the entirety of Part D.

A statement and explanation of how the potential standard is directly related to solvency surveillance and why the proposal should be included in the standards:

The purpose of subjecting primary licensing, redomestications and mergers/acquisitions to Recommendation A or B is to ensure that states have effective processes in place that other states may rely on when these functions are performed. A quality review of each filing includes assessing the financial solvency of the company to ensure the interests of the policyholders are met. These filings promote interstate communication and coordination, which are key elements of effective solvency regulation and an area of increased focused as holding company assessments, supervisory colleges and other coordinated efforts increase the effectiveness of regulation.
In addition, the Form A Database provides a system to communicate whether any similar or related Form A has been approved, denied or withdrawn from another state. The purpose of this database is to: 1) facilitate the communication of actions taken by the states on all Form A filings; and 2) facilitate the coordination of Form A reviews in an attempt to avoid the duplication of regulatory processes via a Web-based application. This database will assist insurance regulators by producing a streamlined regulatory process that maintains the integrity of state holding company laws, while being responsive to a dynamic and evolving industry.

**A statement as to why ultimate adoption by every jurisdiction may be desirable:**

States place significant reliance on the work of another state’s review and approval/denial of a primary application for a new company or redomestication or a Form A filing. Elements within the standard such as review of items submitted by the company along with communication between states enhance the system of state-based regulation. Reliance is most effective when states have comfort that other states are in compliance with the minimum uniform standards.

In addition to increasing the uniformity of review, the updated guidelines are designed to enhance the value of the Form A Database. As of December 2018, a substantial number of Form A filings had not been updated in over a year, likely due to delays outside the state’s control. The revised guidelines will require a status update in the Form A Database at least once every six months. With more current information available, states have more tools to avoid fraudulent or questionable acquisitions that could lead to insolvency of an insurer.

**A statement as to the number of jurisdictions that have adopted and implemented the proposal or a similar proposal and their experience to date:**

Part D initially became effective for accreditation in 2012 as an “unscored” section of the accreditation program. This meant that a state could not fail accreditation based solely on the lack of compliance with these standards. If deficiencies were noted, the review team would provide management comments to the state insurance department, requesting the state to consider improvements as needed, but Part D would not factor into a state’s accredited status. Because state’s have been subject to this section since 2012, there is already a base level of compliance. Including the standards in the review team’s recommendation appropriately elevates the importance of the reliance placed on these processes.

*Note: The accreditation program moved from a scoring system to a recommendation system effective January 1, 2017.*

**A statement as to the provisions needed to meet the minimum requirements of the standard:**

Revised standards and guidelines for Part D are attached.
PART D: ORGANIZATION, LICENSING AND CHANGE OF CONTROL OF DOMESTIC INSURERS
PRIMARY LICENSING, REDOMESTICATIONS AND CHANGE OF CONTROL

Preamble for Part D

The focus of the Part D standards is on strengthening financial regulation and the prevention of unlicensed or fraudulent activities. The scope of this section only includes primary applications for the licensing of new companies and redomestications, and Form A filings. The section applies to only traditional life/health and property/casualty companies, and this scope is narrower than that of Part B in that it does not include entities such as health maintenance organizations, health service plans, and captive insurers (including captive risk retention groups). These standards only deal with the department’s analysis of domestic companies or those applying for redomestication, and do not include foreign or alien insurers. The initial company licensing process does not consider the “multi-state” concept since the company is in its initial licensing phase. The standards regarding primary applications for redomestications, and Form A filings deal with only those filings submitted that are related to multi-state insurers, as that term is defined in the Part B Preamble.

Part D: Organization, Licensing and Change of Control of Domestic Insurers
Primary Licensing, Redomestications and Change of Control

a. Sufficient Qualified Staff and Resources

Standard: The department should have the appropriate staff and resources to effectively and timely review applications for primary licensure of new companies and redomestications, and Form A filings for all domestic insurers.

Results-Oriented Guidelines:

1. The department should have qualified staff with appropriate skill sets, abilities, knowledge and experience levels to satisfactorily and effectively perform a thorough review of applications for primary licensure of new companies and redomestications, and Form A filings. When assessing whether a department has qualified staff and resources, consideration should be given to the quality of work performed by department staff as documented in the files.

2. The review of applications for primary licensure of new companies and redomestications, and Form A filings should be completed timely, as described by department procedures as discussed in the Compliance Guidelines process-oriented guidelines. If the review was not completed timely, the department should document the reasons for such, and the review team may take extenuating circumstances into consideration.

Process-Oriented Guidelines:

1. The department staff responsible for reviewing the applications for primary licensure of new companies and redomestications, and Form A filings should have an accounting, insurance, financial analysis and/or actuarial background. College degrees should focus on accounting, insurance, finance or actuarial science. Professional designations and credentials may also demonstrate expertise in insurance and/or financial analysis.
2. **The department should have a policy that establishes timing requirements for the review of applications for primary licensure of new companies and redomestications, and Form A filings.** The policy should include timing expectations for initial review from date of receipt, notification to the insurer, and completion of the review. The policy should account for any requirements mandated by the state’s statute or regulation. The use of the Company Licensing Best Practices Handbook is considered acceptable.

The department should review applications for primary licensure of new companies and redomestications, and Form A filings within 30 days of receipt. If additional or supplementary information is needed from the insurer based on the initial review for completeness, the insurer should be notified of such within 45 days of receipt of the application.

3. **For primary applications of new companies and redomestications,** the review should be completed in accordance with timing requirements mandated by the state’s statute or regulation, unless if the state’s statutes or regulations do not specify timing requirements, in which case, the review should be completed within 90 calendar days of receipt. A review of an application is complete once the insurer is notified of approval or denial. If additional information not originally requested in the application is needed to finalize the review of the application, the review may take longer to complete. Once a request for information is made, the timing requirement is suspended until the information is received from the applicant.

For Form A filings, the review of the primary application or Form A should be completed in accordance with timing requirements mandated by the state’s statute or regulation.

**b. Scope and Performance of Procedures for Primary Applications**

**Standard:** The department should have documented licensing procedures to provide for consistency in the review process and to ensure that appropriate procedures are performed on all primary applications. The use of the Company Licensing Best Practices Handbook is considered acceptable.

**Results-Oriented Guidelines:**

1. The review process should adequately assess primary applications and allow the department to reach appropriate conclusions regarding whether the primary applications are approved or denied.

**Process-Oriented Guidelines:**

1. The department should review and document its assessment of each of the following:
   - Business and strategic plans.
   - Pro forma financial projections.
   - Adequacy of proposed reinsurance program.
   - Adequacy of investment policy.
   - Adequacy of short-term and long-term financing arrangements:
     - Initial financing of proposed operations or transactions.
     - Maintenance of adequate capital and surplus levels.
   - Biographical affidavits
   - **Assessment of the quality and expertise** of the following:
     - Ultimate controlling person.
Proposed officers and directors.
Appointed actuary.
Appointed accountant.
Related party agreements’ compliance with Statement of Statutory Accounting Principles (SSAP) No. 25—Affiliates and Other Related Parties.

2. The department should review the NAIC Form A and Special Activities Database (SAD) Market Action Tracking System (MATS) databases for related information about the primary applicant and other key persons.

c. Scope and Performance of Procedures for Redomestications

Standard: The department should have documented procedures for the review of redomestication applications to provide for consistency in the review process and to ensure that appropriate procedures are performed for all redomestications. The use of the Company Licensing Best Practices Handbook and/or Financial Analysis Handbook are considered acceptable.

Results-Oriented Guidelines:
1. The review process should adequately assess the redomestication application and accompanying information to effectively allow the department to reach appropriate conclusions regarding whether a redomestication application is approved or denied.

2. The department should effectively communicate with the domestic state to gain an understanding of the reasons for redomestication and any concerns of the domestic state. Any concerns raised should be assessed and documented with rationale to support the conclusion.

Process-Oriented Guidelines:
1. The department should review the application and accompanying information and document, at a minimum, its assessment of each of the following:
   - Business and strategic plans of the insurer.
   - Actuarial Opinion
   - Annual and Quarterly statements
   - Risk-based capital (RBC) report
   - Independent CPA audit report
   - Insurance Holding Company System Annual Registration Statement and Exhibits (Form B)
   - Assessment of senior management, board of directors and corporate governance

2. The department should meet with the domestic regulator to obtain, discuss, and conclude on, at a minimum, the items listed below. The meeting should be held via conference call; an email exchange alone is not considered sufficient.
   - Most recent Insurer Profile Summary (IPS) and supervisory plan, including supporting analysis detail for significant risks
   - Reason for redomestication
   - Concerns identified with the insurer/group
   - History of communication with the insurer/group
3. The department should notify the lead state of the insurance holding company group of receipt of a primary application for redomestication and obtain a copy of the most recent Group Profile Summary (GPS), if applicable.

de. Scope and Performance of Procedures for Form A Filings

**Standard:** The department should have documented procedures for the review of Form A filings to provide for consistency in the review process and to ensure that appropriate procedures are performed on all Form A filing reviews. The use of the Company Licensing Best Practices Handbook and/or Financial Analysis Handbook is considered acceptable.

**Results-Oriented Guidelines:**
1. The review process should be designed to adequately assess the Form A filings and accompanying information and to effectively allow the department to reach appropriate conclusions regarding whether the Form A filings are approved or denied.

**Process-Oriented Guidelines:**
1. The department should review and document its assessment of each of its Form A filings should include the following:
   - Business and strategic plans of the insurer.
   - Identity and background of the applicant and individuals associated with the applicant including use of biographical affidavits to assess the quality and expertise of the following:
     - Ultimate controlling person
     - Proposed officers and directors (as listed on Jurat Page of most recent or upcoming financial statement)
     - Other owners of 10% or more of voting securities
   - The source, nature and amount of the consideration used or to be used in effecting the merger or other acquisition of control.
   - Fully audited financial information regarding the earnings and financial condition of the acquiring parties for the preceding five years. If fully audited financial information is not available, substantially similar information such as compiled financial statements or tax returns, as deemed acceptable to the commissioner, may be reviewed in lieu of fully audited financial information.
   - Unaudited financial information regarding the earnings and financial condition of the acquiring parties as of a date not earlier than 90 days prior to the filing of each statement the Form A.

2. The department should utilize and update the Form A Database for prior filings made by the Form A applicant and the ultimate outcome of such filing(s).
3. Pertinent and relevant information from the Form A filing should be manually entered into the Form A Database within 10 business days of receipt of the Form A.

4. Any changes to the status of the filing or other data elements should be entered into the Form A Database within 10 business days.

4.5. If the progress of a filing stalls, the Form A database should be updated at a minimum every six months to confirm the status of the filing and document the reason the filing has stalled.
At the Spring National Meeting, the Financial Regulation Standards and Accreditation (F) Committee exposed revisions to the Part D: Organization, Licensing and Change of Control of Domestic Insurers standards and Review Team Guidelines. The National Treatment and Coordination (E) Working Group’s recommended revisions include: 1) updating the Guidelines to reflect current practices; 2) expanding the scope to include redomestications; and 3) including Part D in the review team’s recommendation with the result that the outcome can affect a state’s accredited status. The Working Group recommended that the revisions be adopted with an effective date of Jan. 1, 2020; however, the recommended effective date for subjecting Part D to Recommendation A or B, and thus impacting a state’s accredited status, is Jan. 1, 2022.

The proposed revisions to the Part D standards and Guidelines will require the Self-Evaluation Guide (SEG) to be updated. The SEG facilitates the state’s reporting of compliance with the Guidelines; therefore, any change to the Guidelines must be accounted for in the SEG.

In addition, as a result of these revisions, the Accreditation Program Manual’s references to Part D will need to be updated. NAIC staff will ensure that these non-substantive changes will be made accordingly.

The proposed SEG revisions for Part D to ensure consistency with the Guidelines are attached.
PART D: ORGANIZATION, PRIMARY LICENSING, REDOMESTICATION AND CHANGE OF CONTROL OF DOMESTIC INSURERS

a) Sufficient Qualified Staff and Resources

The department should have the appropriate staff and resources to effectively and timely review applications for primary licensure of new companies and redomestications and Form A filings for all domestic insurers.

1. Does the department staff have the capacity to effectively review applications for primary licensure of new companies, redomestications, and Form A filings in a timely manner?

   YES  NO

2. Does the department have established minimum educational and experience requirements for staff positions in the company licensing area which are commensurate with the duties and responsibilities of the position?

3. As a separate attachment, provide a current year list of staff responsible for analyzing company applications. With that list, please include the following:
   - Name,
   - Title,
   - Years employed by the department (include functional area),
   - Type of college degree, including major areas of concentration,
   - Prior regulatory or insurance experience, and
   - Indicate whether the individual is a department employee (full/part time) or a contractual employee (exclusive to the department/not exclusive to the department).

4. As a separate attachment, provide a listing of any L/H and P/C primary licensure applications and any multi-state L/H and P/C Form A filings (whether approved or denied) received since the department’s last full review. Also include any multi-state L/H and P/C primary redomestication applications received Jan. 1, 2020 and after. With that list, please include the following:
   - Name of person responsible for reviewing the filing,
   - Type of filing,
   - Date the filing was received,
   - Date the filing was reviewed for completeness,
   - Date(s) the department contacted the company for additional or supplementary information (if applicable), and
   - Date the company was informed of licensure, approval/denial of the filing.
   - Whether the filing review was completed timely per department procedures, and
   - If the review was not completed timely, provide the reason.
Primary Licensing, Redomestications and Change of Control – continued

5. If the department has developed timing requirements that differ from the NAIC Company Licensing Best Practices Handbook, please attach a copy of the timing requirements policy. Be sure to include timing expectations for initial review from date of receipt, notification to the insurer, and completion of the review.

6. If there are extenuating circumstances and the required timing guidelines cannot be met for a particular application, are such circumstances clearly documented in the application file?

7. Do the department’s statutes or regulations specify timing requirements for the completion of primary licensure applications?

8. If the answer to #7 above is yes, please attach a copy of the department’s authority discussing such requirement.
   *If this is an interim annual review, only provide the department's timing requirements if there has been a change from the previous submission of this information, otherwise indicate “no changes”.

9. If the answer to #7 above is no, does the department follow the timing requirements set forth in the Review Team Guidelines, which state the review should be completed within 90 calendar days of receipt (barring exceptions for when information is requested).
Primary Licensing, Redomestications and Change of Control – continued

b) Scope and Performance of Procedures for Primary Applications

The department should have documented licensing procedures to provide for consistency in the review process and to ensure that appropriate procedures are being performed on all primary applications. The use of the NAIC Company Licensing Best Practices Handbook is considered acceptable.

1. Does the department have documented licensing procedures that require a review and/or analysis of the following:

   A review and analysis of:
   - Identification and evaluation of the business and strategic plans of the applicant, including pro forma financial projections?
   - Pro forma financial projections?
   - Biographical Affidavits?
   - Adequacy of proposed reinsurance program?
   - Adequacy of investment policy?
   - Adequacy of short-term and long-term financing agreements:
     - Initial financing of proposed operations or transaction?
     - Maintenance of adequate capital and surplus levels?
   - An assessment of the quality and expertise of:
     - The ultimate controlling person?, proposed officers and directors, appointed actuary and appointed accountant, including use of the NAIC Form A and SAD Market Action Tracking System (MATS) databases for related information about the primary applicant and other key persons?
     - Proposed officers and directors?
     - Appointed actuary?
     - Appointed accountant?
     - Related party agreements’ compliance with SSAP No. 25?

2. Do department procedures require a review of the Form A and Market Action Tracking System (MATS) databases for related information about the primary applicant and other key persons?

23. In a separate attachment, provide such licensing procedures and discuss any additional processes developed to review/analyze a primary licensure application.

   *If this is an interim annual review, only provide the department’s procedures for reviewing primary applications if there has been a substantial change from the previous submission of this information, otherwise indicate “no changes”.*
34. Do the department’s files contain evidence, including whether the applicant meets licensure requirements (i.e. approve or deny), and adequately demonstrate licensing procedures for primary applications were followed?

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Primary Licensing, Redomestications and Change of Control – continued

c) **Scope and Performance of Procedures for Redomestication**

The department should have documented procedures for the review of redomestication applications to provide for consistency in the review process and to ensure that appropriate procedures are performed for all redomestications. The use of the NAIC Company Licensing Best Practices Handbook is considered acceptable.

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1. Does the department have documented procedures for the review of redomestication applications that require the following:

   A review and analysis of:
   - Business and strategic plans?
   - Actuarial opinion?
   - Annual and quarterly statements?
   - Risk-based capital (RBC) report?
   - Independent CPA audit report?
   - Insurance Holding Company System Annual Registration Statement and Exhibits (Form B)?

   An assessment of:
   - Senior management?
   - Board of directors?
   - Corporate governance?

2. Do department procedures require, at a minimum, a conference call with the domestic regulator to obtain, discuss and conclude on the following:

   - Most recent IPS and supervisory plan, including supporting analysis detail for significant risks?
   - Reason for redomestication?
   - Concerns identified with the insurer/group?
   - History of communication with the insurer/group?
   - History of regulatory actions?
   - Results of recent examinations (financial and market conduct), including findings and resolutions?
   - Status of and responsibilities for annual financial analysis and group analysis, if applicable?
   - Status of and responsibilities for the financial examinations?

3. Do department procedures require upon receipt of a primary application for redomestication that notification be sent to the lead state of the insurance holding company group and a copy of the most recent GPS be obtained, if applicable?
4. In a separate attachment, provide procedures and discuss any additional processes developed to review/analyze a redomestication application.
Primary Licensing, Redomestications and Change of Control – continued

**d) Scope and Performance of Procedures for Form A Filings**

The department should have documented procedures for the review of Form A filings to provide for consistency in the review process and to ensure that appropriate procedures are being performed on all Form A filing reviews. The use of the NAIC Company Licensing Best Practices Handbook is considered acceptable.

1. Does the department have documented procedures for the review of Form A filings that include at least the following:
   - Business and strategic plans of the insurer?
   - Identity and background of the applicant and individuals associated with the applicant, including use of biographical affidavits to assess the quality and expertise of the following:
     - Ultimate controlling person?
     - Proposed officers and directors (as listed on the Jurat page of the most recent or upcoming financial statement)?
     - Other owners of 10% or more of voting securities?
   - The source, nature and amount of the consideration used or to be used in effecting the merger or other acquisition of control?
   - Fully audited financial information regarding the earnings and financial condition of the ultimate controlling person(s) for the preceding five years? (If fully audited financial information is not available, substantially similar information such as compiled financial statements or tax returns, as deemed acceptable to the commissioner, may be reviewed in lieu of fully audited financial information.)
   - Unaudited financial information regarding the earnings and financial condition of the ultimate controlling person(s) as of a date not earlier than 90 days prior to the filing of each statement the Form A?

2. In a separate attachment, provide such procedures and discuss any additional processes developed for the review of Form A filings.
   *If this is an interim annual review, only provide the department’s procedures for reviewing Form A filings if there has been a substantial change from the previous submission of this information, otherwise indicate “no changes”.

3. Is it the department’s policy to utilize the Form A database to obtain information on prior filings made by an applicant and the ultimate outcome of such to inform other states of the receipt and status of Form A filings?
4. If the answer to #3 above is yes, do the department’s procedures for utilization of the Form A database include the following:

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<td>Review the Form A database for any prior filings made by the Form A applicant and the ultimate outcome of such filing(s)?</td>
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Primary Licensing, Redomestications and Change of Control – continued

- Pertinent and relevant information from the Form A filing should be manually entered into the Form A database within 10 business days of receipt of the Form A?

- Any changes to the status of a filing or other data elements should be entered into the Form A database within 10 business days?

- Updating the Form A database when a filing stalls, at a minimum of once every six months to confirm the status of the filing and document the reason the filing has stalled?

5. If the answer to #3 above is no, please provide the department’s policy and procedures on utilizing the Form A Database or any other independently developed procedures followed to obtain information on an applicant’s filings and to inform other states of the receipt and status of Form A filings in a timely manner.

*If this is an interim annual review, only provide the department’s policy and/or procedures if there has been a substantial change from the previous submission of this information, otherwise indicate “no changes”.

6. Do the department’s files contain evidence of conclusions regarding whether the Form A filing was approved or denied, and sufficient documentation that its procedures for Form A filings were adequately performed?

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To: Financial Regulation Standards and Accreditation (F) Committee
From: Financial Analysis (E) Working Group (FAWG)
Date: April 5, 2019
Re: Recommendation for Updated Part B.3 Procedures for Troubled Companies

On February 27, 2019, the Financial Analysis (E) Working Group (FAWG) adopted revisions to the Troubled Insurance Company Handbook, a regulator only publication. Specifically, the revisions included updated guidance for timely and effective communication between the domiciliary and non-domiciliary state departments of insurance of necessary information on troubled or potentially troubled insurance companies that may impact other jurisdictions. A cooperative communication system between states’ insurance departments promotes coordinated efforts in identifying troubled company situations and coordinating regulatory actions.

Part B.3 Procedures for Troubled Companies states that departments should generally follow and observe procedures set forth in the Troubled Insurance Company Handbook. To align the Part B.3 guidelines with the recently adopted revisions to the Handbook, the FAWG recommends the attached revisions which define more specifically which states should be included in the communication of troubled or potentially troubled insurance companies.

If you have any questions regarding this referral, please contact NAIC staff (Jane Koenigsman, jkoenigsman@naic.org).
b. Procedures for Troubled Companies

**Standard:** The department should generally follow and observe procedures set forth in the NAIC *Troubled Insurance Company Handbook*. Appropriate variations in application of procedures and regulatory requirements should be commensurate with the identified financial concerns and operational problems of the insurer.

**Results-Oriented Guidelines:**

1. The department should demonstrate that application of procedures and regulatory requirements are commensurate with the identified financial concerns and operational problems of the insurer. When assessing compliance with this guideline, consideration should be given to the following:
   - Whether identified concerns are adequately addressed.
   - Appropriate consideration and execution of more frequent examinations, including appropriateness of the scope of the examination.
   - Timing, quality and reasonableness of communication with other states where the insurance company is licensed, has a significant amount of written, assumed or ceded insurance business, has a significant market share, has an impacted affiliate domiciled in that state, has pooled companies, or utilizes fronting entities, or where the domestic state is aware the company is either seeking to write business or is seeking a license.

**Process-Oriented Guidelines:**

1. Once the department has identified an insurance company as troubled or potentially troubled, the department should take steps, such as those set forth in the NAIC *Troubled Insurance Company Handbook*, to address the identified concerns. This shall apply from the point the department identifies the insurance company as troubled, or potentially troubled, to the point the company has been placed into receivership.

2. The department should examine those insurance companies that the department has identified as troubled or potentially troubled more frequently than once every five years as outlined in the NAIC *Model Law on Examinations* (#390) or provide rationale for not conducting more frequent examinations. Limited scope examinations are acceptable in meeting this guideline; however, the department is still required to complete a full-scope examination in compliance with statutory requirements.

3. Once the department has identified an insurance company as troubled or potentially troubled, the department should, within an appropriate time consistent with the severity of the event, make efforts to communicate proactively with other state insurance regulators where the insurance company is licensed, has a significant amount of written, assumed or ceded insurance business, has a significant market share, has an affiliate domiciled in that state, has pooled companies, or utilizes fronting entities, or where the domestic state is aware the company is either seeking to write business or is seeking a license.
licensein which affiliates of the troubled company are domiciled or those states where the troubled company has significant market share. Department files should contain written evidence of such communication(s). To a lesser extent, oral verification may provide such evidence.
MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Director Chlora Lindley-Myers (MO)
Chair, NAIC Reinsurance (E) Task Force

DATE: July 16, 2019

RE: 2019 Revisions to Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786)

On June 25, 2019, the NAIC Executive (EX) Committee and Plenary unanimously adopted revisions to the NAIC Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786). These revisions were intended to incorporate the relevant provisions of the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (Covered Agreement), which was signed on Sept. 22, 2017. The Covered Agreement would eliminate reinsurance collateral requirements for European Union (EU) reinsurers that maintain a minimum amount of own funds equivalent to $250 million and a solvency capital requirement (SCR) of 100% under Solvency II. Conversely, U.S. reinsurers that maintain capital and surplus equivalent to 226 million euros with a risk-based capital (RBC) of 300% of authorized control level would not be required to maintain a local presence in order to do business in the EU or post collateral in any EU jurisdiction. On Dec. 18, 2018, a similar Covered Agreement was entered into with the United Kingdom (UK).

The Covered Agreement requires the states to take action with respect to the reinsurance collateral provisions within 60 months (five years) of signing or face potential federal preemption by the Federal Insurance Office (FIO) under the federal Dodd-Frank Wall Street Reform and Consumer Protection Act. FIO will begin its federal preemption analysis the first day of the month 42 months after the date of signature of the Covered Agreement; April 1, 2021.

The approach to the current Reinsurance Ceded accreditation standard under the NAIC Financial Regulation Standards and Accreditation Program must be re-considered, otherwise states adopting the revisions to Model #785 and/or Model #786 will be out of compliance with the Reinsurance Ceded to Certified Reinsurers portion of the standard, which currently permits reduction but not complete elimination of reinsurance collateral. Generally under the NAIC’s Accreditation Program, “the committee, task force or working group which initially proposed changes [to the models] shall submit to FRSAC for consideration at the next Spring National Meeting, a report and recommendation as to whether any of these changes are significant and what standards they impact…Once adopted by Plenary, the [accreditation standard] will become effective two years immediately following the next January 1.” The Accreditation Program does permit an immediate change to the accreditation standard if it is determined that it is necessary to expeditiously modify or alter the accreditation standard.
Recommendation

It is my recommendation as Chair of the Reinsurance (E) Task Force that the Committee recognize that states may begin adoption of provisions that are substantially similar to the 2019 revisions to Model #785 and Model #786 and remain in compliance with the Reinsurance Ceded accreditation standard. It is further my recommendation that the accreditation standard be modified in accordance with the normal processes and procedures outlined in the Accreditation Program Manual, and that the Task Force and Financial Condition (E) Committee prepare a formal recommendation to the Financial Regulation Standards and Accreditation (F) Committee for consideration at the 2020 Spring National Meeting. In the interim, states should be encouraged to adopt the 2019 revisions in the form adopted by Plenary within the 60-month timeframe set forth in the Covered Agreement to best avoid potential federal preemption.