

ACCREDITATION REVIEW PROCESS AND PROCEDURES

Preparation for an Accreditation Review

- 1) A state requests an accreditation review by contacting the applicable NAIC staff.
- 2) The NAIC requests that the state submit a self-evaluation guide. This guide provides the state with the detailed requirements of the accreditation standards, including laws and regulations that must be adopted, financial analysis and examination procedures that must be in place, organizational and personnel practices that must be established, and organization, licensing and change of control of domestic insurers' practices that must be established.
- 3) The NAIC assembles proposed review teams consisting of qualified candidates that are considered experts in the insurance industry, to participate on a state's accreditation review. These proposed review teams are reviewed and approved by the chief operating officer.
- 4) The NAIC notifies the chair and vice-chair of the Financial Regulation Standards and Accreditation (F) Committee (the Committee) that the state has requested an accreditation review and provides the chair and vice-chair with the proposed review team, as approved by the chief operating officer.
- 5) The chair and vice-chair of the Committee approve the review team and the review team leader and appoint at least one NAIC observer. Review teams generally consist of three to eight individuals depending upon the size of the state as noted in the "Workplan for the Full On-Site Accreditation Review;" however, the chair of the Committee may determine that a lesser number is sufficient when the size of the state's insurance industry and scope of the department's responsibilities are notably limited. The review team should include at least one disinterested former executive level regulator.
- 6) The NAIC notifies the state of the selection of the review team. The state is given the opportunity to object to any of the review team members.
- 7) The NAIC notifies the review team members. The review team members are paid by the NAIC at a set hourly rate for time spent on the accreditation review plus reasonable actual expenses incurred.
- 8) The NAIC works with the state to schedule the site visit and notifies the review team of the dates. Generally, a site visit requires three to five days depending upon the size of the state.
- 8) The NAIC sends copies of the state's completed self-evaluation guide with any applicable supporting documentation to the review team.
- 9) The NAIC notifies the state of the data, documentation, staff interviews, and other needs of the review team for its on-site review.

- 10) The NAIC Legal Division reviews the Part A responses and other pertinent information received from the state, and to the extent necessary, may analyze the state's laws, to determine whether the state is in compliance with the Part A standards and to confirm whether the citations provided by the state accurately identify the extent to which the state's laws and regulation evidence compliance with the Part A standards. Questions or concerns are forwarded to the NAIC accreditation staff and, if not resolved, are discussed with the state and, in addition, may be brought to the attention of an accreditation review team leader.
- 11) The report of the NAIC Legal Division on the Part A standards (Part A Report) reports the findings of the NAIC Legal Division and includes the NAIC Legal Division's conclusion on the state's compliance with the Part A: Laws and Regulations Standards. An exceptions portion of the report will highlight concerns, if any are noted during the review, together with recommendations for the state to consider enhancements to its laws and regulations providing for sound insurance regulation. The department is required to provide a formal response to any exceptions noted by the date indicated by NAIC staff. This response will be included in the accreditation report package provided to the Committee for discussion during the National Meeting.
- 12) The Part A Report is made part of the documentation for the accreditation review. It is typically delivered to the department and the review team by the commencement of the on-site review, and included in the materials submitted to each member of the Committee at the conclusion of the on-site review.

On-Site Accreditation Reviews

- 1) The review team conducts the on-site review following a general outline of procedures to be performed to allow for uniformity in the evaluation process among the states. In addition, an NAIC staff representative is an observer on each site visit to help ensure uniformity and consistency in the on-site reviews. Before the on-site review, there is an initial meeting of the team members to discuss comments and concerns from review of the self-evaluation guide and supporting documentation.
- 2) The on-site review consists of the following:
 - Discussion with financial solvency senior management and the commissioner regarding its role in financial solvency oversight.
 - Review of examination reports and supporting work papers and analytical reviews.
 - Inspection of financial analysis and examination files for selected companies.
 - Interviews with department personnel.
 - Review of organizational and personnel practices.
 - Inspection of documentation regarding primarily licensure applications and Form A filings for selected companies.
 - Walk-through of the department to gain an understating of document and communication flows.

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- Meetings of the review team to discuss comments and findings from the review.
 - Private meeting of the team members to develop the review team's recommendation regarding the state's accreditation and to draft the review team's report.
 - Closing conference with the state to discuss findings.
 - Draft copies of the Part A Report and the review team's report discussing Parts B, C and D, which includes any key areas for improvement, are provided to the state.
- 3) The review team's report includes an executive summary identifying the review team's recommendation, supporting rationale for the recommendation, positive attributes and key areas for improvement. The report template also includes a section for the review team's discussion which allows the team flexibility to include additional context and any information that would be valuable or meaningful to the Committee. The review team's report may include items that require a response from the department. In those instances, the department is required to provide a formal response by the date indicated by NAIC staff. This response will be included in the accreditation report package provided to the Committee for discussion during the next National Meeting.

Committee Evaluation

- 1) The Committee typically meets at the national meetings to discuss the review team's report. The Committee also has copies of the state's self-evaluation guide and supporting documentation available. In addition, the team leader and the NAIC observer are present at the meeting as needed. Representatives of the state are in attendance to respond to questions from the Committee or to comment upon the review team's report and recommendation.
- 2) The Committee has the option to convene into a "private" session during its Regulator-to-Regulator session meeting at the discretion of the chair of the Committee. The individuals in the private session would typically include only members of the Committee and their representatives, applicable NAIC staff, and the team leader. This should only occur in rare and infrequent situations when the Committee must discuss or inquire regarding sensitive issues. Examples of this could include the following:
 - Concern regarding the quality or competence of personnel employed by a state insurance department; or
 - To confer with NAIC staff on the process and results of a contentious issue that the Committee has deliberated previously.
- 3) Representatives of the state are excused once the Committee has no further questions for these individuals. Based on the recommendation of the review team and as a result of this meeting, the Committee makes a decision as to whether or not the state should be accredited. If the state is already accredited, the Committee makes a decision whether the state should retain its accreditation, or whether its accreditation should be placed on probation, suspended or revoked.

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- 4) The Committee informs the state of its decision:
 - a) If the decision is to retain the state's accreditation (which includes those states granted continued accreditation although they were also placed on probation), the state receives recognition at the national meeting via inclusion in the daily newsletter.
 - b) For those states not currently accredited: If the decision is unfavorable, the state has three options: withdraw its request for accreditation; ask the Committee to hold its decision in abeyance pending legislative or other corrective action to bring the state into compliance with the standards; or appeal the decision of the Committee.
 - c) For those states currently accredited:
 - If the decision is to place a state's accredited status on probation, a letter setting forth the conditions of the probation should be sent to the state as soon as possible after the Committee meeting. The state does not have the option to appeal the decision of the Committee.
 - If the decision is to suspend a state's accreditation, a letter setting forth the conditions of the suspension should be sent to the state as soon as possible after the Committee meeting. The state may either accept the decision or choose to appeal the decision of the Committee. In the case of an appeal, the state retains its full accredited status during the appeals process. Public acknowledgement that a state's accreditation has been suspended should only occur after the opportunity to appeal has lapsed and the state has not chosen to do so, or if the decision by the Committee to suspend accreditation is upheld by the appeal hearing panel.
 - If the decision is to revoke the state's accreditation, the state may either accept the decision or choose to appeal the decision of the Committee. In the case of an appeal, the state retains its full accredited status during the appeals process. Public acknowledgement that a state's accreditation has been revoked should only occur after the opportunity to appeal has lapsed and the state has not chosen to do so, or if the decision by the Committee to revoke accreditation is upheld by the appeal hearing panel.
- 5) Accreditation is for a five-year period, subject to annual reviews of the state's self-evaluation guide. Once accredited, a state is subject to a full accreditation review every five years. If information comes to the attention of the Committee that suggests that a state may no longer meet the standards, a special review may be conducted. If the Committee concludes that the state's accreditation should be placed on probation, suspended or revoked, the specific reasons would be documented in a report to the state. The state would have the right to appeal a suspension or revocation decision of the Committee utilizing the procedures outlined in the section entitled, "Appeal Procedure for the NAIC Financial Regulation Standards and Accreditation Program."

Interim Annual Reviews

- 1) Annually, on the anniversary of the state's accreditation, the state shall submit an updated self-evaluation guide (interim annual reviews) to the NAIC Central Office.
- 2) The state's report in the first year after an on-site accreditation review shall also provide an updated response to all recommendations made in the review team's report, including its progress on addressing each of the recommendations. Additional updates may also be required in subsequent years to address any outstanding concerns.
- 3) NAIC staff will review the interim annual review report and supporting documentation submitted by the state and summarize the information for presentation to the Committee.
- 4) After hearing the report from the NAIC staff, the Committee will determine whether the state remains in compliance with the accreditation standards. (The Committee may request that a representative of the state be present to answer questions, if desired.)
- 5) If the Committee finds the state to be out of compliance with the accreditation standards, the specific reasons will be documented in a letter to the state and the state's accreditation will be placed on probation, suspended or revoked. The state would have the right to appeal a suspension or revocation decision of the Committee utilizing the procedures outlined in the following section entitled, "Appeal Procedure for the NAIC Financial Regulation Standards and Accreditation Program." A state cannot appeal a decision by the Committee to place its accreditation on probation.