



2016 Financial Condition Examiners Handbook Update

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Learning Objectives

At the end of this presentation, you will be able to:

- Apply 2016 Handbook Updates to financial examinations
- Summarize the Financial Examiners Handbook (E) Technical Group's current projects



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Overview

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



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NAIC Exam Resources

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

Regulators with I-Site Access

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

Contractors/Industry/Others (requires purchase of FCEH)

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



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New Guidance for 2016

Revisions to
Reduce
Redundancy

Multi-Entity
Reporting
Format

Contractor
Oversight

Interim Work

Cybersecurity

Other Changes

*XXX/AXXX Reinsurance

*Investment Advisors

*Related Party Considerations

*Corporate Governance

*Updates to Exhibits V & DD



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Revisions to Reduce Redundancy

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

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



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Revisions to Reduce Redundancy

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



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Revisions to Reduce Redundancy

First Step Meet with the Financial Analyst

New TeamStore Process Order

Phase 1
Part 1 - Understand the Company
Gather Necessary Planning Information
Step 1 - Meet with the Financial Analyst
Step 2 - Obtain Existing Documentation
Step 3 - Obtain Additional Information
Step 4 - Meet with In-House Actuary
Step 5 - Meet with Chief Examiner
Step 6 - Contact Other Regulators
Step 7 - Meet with Company
Step 8 - Obtain Other Required Reports
Step 9 - Obtain Internal Audit Reports
Step 10 - Obtain Trial Balance
Step 11 - Obtain Information to Confirm Accounts
Step 12 - Discuss Relationship With Auditors
Step 13 - Meet with Appointed Actuaries
Step 14 - Consideration of Fraud
Review of Gathered Information
Step 15 - Knowledge of the Company's Business
Step 16 - Prepare a Time Budget
Analytical & Operational Reviews
Step 17 - Perform a High Level Analytical Review
Step 18 - Assess External Environment
Step 19 - Set Planning Materiality Levels
Step 20 - Identify Significant Issues
Consider IT Risks
Step 21 - Review IT Environment
Step 22 - Consider the Completed ITPQ
Step 23 - Update the Insurer Profile Summary



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Revisions to Reduce Redundancy

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



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Multi-Entity Reporting

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

The creation of a multi-entity report is **optional**.



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Multi-Entity Reporting

Required information applies to multiple entities

- Can be shown once
- Indicate to which entities the information applies

Required information differs by entity

- Must be presented separately
- Financial Statements **ALWAYS** presented separately

Requirements of Examination Report Body found in **Phase 7** of FCEH



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Multi-Entity Reporting

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



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Contractor Oversight

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

The Department Designee

Must sign the report

Responsible for contractor oversight

Qualified

Employed by the State

Perform work solely on behalf of the state



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Contractor Oversight

Planning & Fieldwork

Planning Memo

Key Activity Matrices

Exhibits V, CC, and DD

Exam Status

Budget Modifications

Phase 3 and Phase 5 sign-offs

Wrap-up & Reporting

Summary Review Memorandum

Interdepartmental communication

Reasonableness & sufficiency of exam results

Adequacy of documentation

Review & Approval Summary

Sign Examination Report



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Interim Work

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



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Interim Work

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



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Interim Work

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



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Interim Work

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



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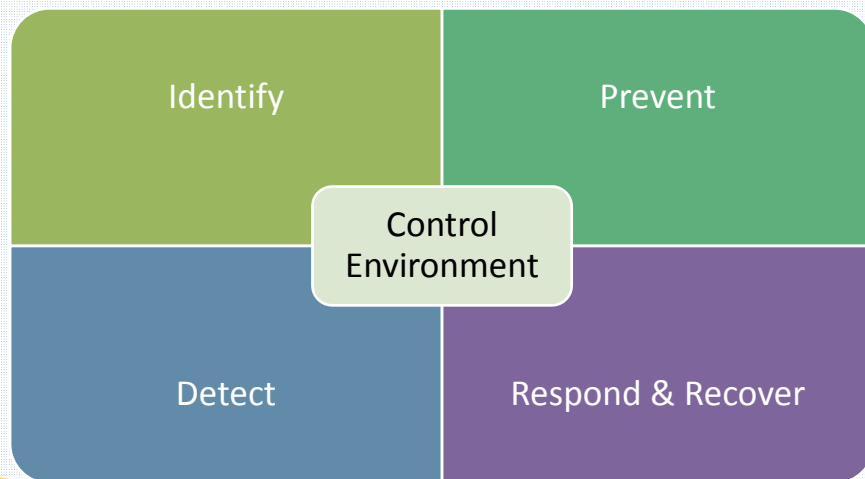
Cybersecurity

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



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Cybersecurity



Cybersecurity

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

Other Changes

- **XXX/AXXX Reinsurance**
 - Incorporates possible risks to consider when reviewing companies with XXX/AXXX reinsurance ceding transactions
- **Related Party Considerations**
 - Clarifies required elements in reviewing related parties
- **Updates to Exhibits**
 - Minor updates to Exhibit V and Exhibit DD to clarify intent



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Other Changes

- **Investment Advisers**
 - Provides guidance for evaluating investment adviser agreements
 - Additional risk to consider BOD oversight of investment advisers
- **Corporate Governance**
 - Encourages reliance on Corporate Governance Annual Disclosure (CGAD) when available



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Current Projects

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



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Principles-Based Reserving

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



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Examination Sampling

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



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Other Current Projects

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



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Other Current Projects

- Management Representation Letter
 - Revise template format to be more clear
 - Align with risk-focused exam approach
- Section 1 Exam Repositories
 - Minor update to move repositories online
 - Narrative guidance and related Teamstore content will remain as is



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Ongoing Maintenance

- Repository Refresh
 - Annually review 1-3 exam repositories
 - Currently considering Capital & Surplus
- Proposal Form
 - Accepting suggestions for the Technical Group to consider
 - Deadline is June 1

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



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