

Financial Examiners Handbook (E) Technical Group Exposure Drafts

The following documents were exposed for a 30-day comment period ending August 6, 2025. These are also available on the Financial Examiners Handbook (E) Technical Group page (<https://content.naic.org/committees/e/financial-examiners-handbook-tg>).

Comments should be directed to Elise Klebba (eklebba@naic.org). Word versions of the following documents are available upon request.

- Examination Planning Procedures Updates
 - Exhibit A – Examination Planning Procedures Checklist (Pages 2-8)
 - Section 2-1, A – Part 1 – Understand the Company (Pages 9-10)
- Reference to the CAT Reinsurance Interrogatory (Pages 11-14)
- Exhibit Q – Review and Approval Summary (RAS) Updates (Pages (15-16))

EXAMINATION PLANNING PROCEDURES CHECKLIST

PERIOD OF EXAMINATION

Pre-Planning Procedures

- ### Phase 1 – Understand the Company and Identify Key Functional Activities to be Reviewed

Step 1. Gather Necessary Planning Information

Meet with the Financial Analyst and Other Department Personnel

1. Meet (in person or via conference call) with the assigned financial analyst (and/or analyst supervisor) to gain an understanding of company information available to the department. In addition, discuss risks and concerns highlighted in the Insurer Profile

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- d. CPA financial statement audit report.
- e. Actuarial opinion.
- f. Independent loss reserve analysis report, if done.
- g. Management's discussion and analysis letter.
- h. Risk-based capital (RBC) report.
- i. Holding company registration statements.
- j. U.S. Securities and Exchange Commission (SEC) registration statements, most recent 10-K and 10-Q.
- k. CPA's audit of internal control over financial reporting (SOX) report.
- l. Examination Jumpstart reports.
- m. IRIS reports.
- n. Department's correspondence file.
- o. Inter-divisional memorandum.
- p. NAIC database reports (RIRS, CDS).
- q. Credit rating agency reports.
- r. Articles of incorporation, bylaws and amendments.
- s. Recently approved agreements or contracts (e.g., expense-sharing agreements, assumption reinsurance contracts, custodial agreements, etc.).
- t. Form F – Enterprise Risk Report.
- u. Own Risk and Solvency Assessment (ORSA) summary report.
- v. Climate-Related Disclosures (e.g., Climate Risk Disclosure Survey, Task Force on Climate-Related Financial Disclosures [TCFD], or SEC-required disclosures, if applicable).

Obtain Additional Information

3-5. Use the understanding of company information already available to the department to determine what additional information is necessary to assist in examination planning. Develop customized information requests to obtain additional information from the company to assist in exam planning, as necessary.

Assess the Effects of External Environmental Conditions

4-6. Assess the effects of external environmental conditions and factors. Focus on conditions which affect the company's operations, primary lines of business and investments. Examples include recent regulatory developments, industry climate, competition in the marketplace, recent market entrants, etc. As part of this assessment, examiners should consider the NAIC Solvency Monitoring Risk Alert and/or the AICPA Audit Risk Alert.

Identify Significant Accounting and Reporting Issues

5-7. Identify significant accounting and reporting issues affecting the examination. Consider the impact of changes in the NAIC Accounting Practices and Procedures Manual, Annual Statement Instructions, statutes and department rulings. Also consider company departures from statutory accounting principles, permitted practices, significant accounting transactions (e.g., loss portfolio transfers, financial reinsurance, assumption reinsurance, loss reserve discounting) and new types of investments (e.g., derivatives, private placements, etc.).

~~Meet with Other Department Personnel~~

6. ~~Meet with the in-house actuary to discuss the company's historical reserving issues and extent of data validation required.~~

7. ~~Meet with the chief examiner or designee to discuss:~~

a. Planning materiality and the preliminary examination approach:

b. The possible use of a specialist (e.g., actuary, information systems, investment, appraiser, IT examiner, reinsurance expert). If applicable, prepare “request for bid” letters, or similar documents, for the use of a specialist.

c. Significant events (e.g., pending merger/acquisition) and department concerns:

d. ~~Impact of conditions present in the industry and economy relative to the examination plan.~~

~~e. Staff experience requirements.~~

~~f. Relationship with the internal and external auditors.~~

Contact Other Regulators

8. When conducting an exam of an insurer that is part of a holding company group that includes a company (or companies) that are at least in part regulated by regulators outside of the state insurance regulatory structure, contact the appropriate state, federal and international regulators to determine areas of concern for the group that should be addressed during the exam.

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9. Meet with company personnel to discuss relevant examination issues such as the following:
 - a. Significant changes in the company's operations, major lines of business and corporate governance.
 - b. Personnel or systems changes that would significantly affect the areas of accounting controls, procedures, systems or approval authorities. The same inquiries should be made of the electronic data processing (EDP) department and the internal audit department's procedures and scope.
 - c. Scheduling a meeting with the external auditor to review the financial statement audit workpapers and any Sarbanes-Oxley workpapers.
 - d. Plans for scheduling interviews with key members of management.
 - e. Whether the company outsources critical business functions to third parties. **Note:** If the examiner determines that the insurer outsources critical functions to third parties, additional consideration and test procedures may need to be performed during the IT review and during control and substantive testing phases of the examination.
10. Follow-up on requests for additional required reports and records (if necessary).
11. Obtain relevant internal audit reports for review and consideration.
12. Request trial balance and other accounting records used to prepare annual financial statements.
13. If required based on anticipated risk-assessment, request pertinent information to confirm investment and bank accounts.
14. Discuss relationship with the internal and external auditors.

15. Arrange a meeting with the appointed actuary to review the objectives and scope of the actuary's work and to obtain an understanding of the methods and assumptions used in establishing the actuarially determined asset or liability. Consider:
 - a. The materiality and risks (e.g., nature and type of business, loss development, reinsurance, etc.) associated with the accounts.

- b. The actuaries' professional qualifications, reputation and relationship with the insurer.
- c. Any changes in methodology or assumptions from the prior examination.
- d. The actuaries' interaction with the internal and external auditors.
- e. Any changes to the reserving platform (i.e. computer program) since the prior examination.

Consideration of Fraud

16. Complete planning procedures for the consideration of fraud utilizing Exhibit G – Consideration of Fraud, Part 1 (or similar document).

Consideration of Related Parties

17. Obtain relevant information to assist in identifying related party relationships and transactions (e.g., identify parent, affiliates, subsidiaries and ultimate controlling person, principal owners, large shareholders, board of directors, officers, etc.). **Note:** Review of this information may have already been performed by the department analyst.

Step 2. Review of Gathered Information

18. Utilizing the gathered information, obtain an understanding of the company's business and corresponding risk exposures. Exhibit CC – Issue/Risk Tracking Template (or similar document) should be used to accumulate significant risks or issues identified through the review of information gathered.

19. Prepare a time budget and allocate work assignments for the examination and obtain the chief examiner or designee's approval.

Step 3. Analytical and Operational Reviews

20. Perform high-level analytical and operational reviews directed toward overall financial condition and profitability of the company. The examiner should leverage the NAIC Financial Profile Report and rely on work previously performed by the analyst when possible.

Set Planning Materiality Levels

21. Based on the preliminary analytical review and understanding of the company's business, determine planning materiality and tolerable error.

Step 4. Consideration of Information Technology Risks

22. Complete the review and assessment of IT General Controls
Utilizing Exhibit C, Part Two – Evaluation of Controls in Information

Technology (IT) Work Program (or a similar document) and determine the impact of any IT findings to assist in conducting the review and assessment of IT General Controls.

23. Review the IT examiner's assessment of the effectiveness of the company's IT general control (ITGC) environment and the impact of IT findings (if any). Consider whether IT risks have been sufficiently mitigated to allow for testing of application controls in Phase 3. If the ITGC environment is not effective, the examiner would be required to perform additional testing in later phases of the exam before relying on system generated reports or controls in place at the insurer.

Step 5: Update the Insurer Profile Summary

24. Provide updates to the analyst regarding any significant initial findings for incorporation into the Insurer Profile Summary. Updates to the Insurer Profile Summary can be suggested throughout the examination process.

Part 2: Understand the Corporate Governance Structure

1. Conduct interviews with key members of management, members of the board of directors and/or audit committee of the insurer, as well as any other employees deemed necessary.
2. Document an understanding and assessment of the insurer's corporate governance framework by considering the information included in Exhibit M – Understanding the Corporate Governance Structure to address each of the following significant categories:
 - a. Board of directors
 - b. Organizational structure
 - c. Assignment of authority and responsibility
 - d. Management
 - e. Risk-management function (for ORSA companies, complete the ORSA Documentation Template found in Section 1, Part XI).

Part 3: Assessing the Adequacy of the Audit Function

Meet with Internal and External Auditors

1. Conduct a meeting with the external auditors to review both the financial statement audit workpapers and any Sarbanes-Oxley workpapers to discuss the scope of the audits (e.g., materiality, risk assessment and significant accounts/processes).
 - a. Review relevant prior year audit workpapers if current year audit is in progress.

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PHASE 1 – UNDERSTAND THE COMPANY AND IDENTIFY KEY FUNCTIONAL ACTIVITIES TO BE REVIEWED

In Phase 1 of a risk-focused examination, key activities will be confirmed or identified using background information gathered on the company from various sources. Some of this information will already have been available in the department prior to the initial planning meeting, or can be obtained from the company's internal audit department or external auditors. A Phase 1 goal is to gather any additional or current information necessary to begin a risk-focused examination. Sources of information may include organizational charts, filings required by sections 302 and 404 of the Sarbanes-Oxley Act of 2002 (where applicable), interviews with senior management, or other publicly available information.

To ensure the appropriate risk-focused examination scope, it is important to identify the key functional activities (i.e., business activities) of the company. Information gathered by understanding the company, the company's corporate governance structure, and assessing the company's audit function will form the basis for determining key activities.

Essential to executing the risk-focused surveillance process is interviewing executive management and possibly board members of the company to identify key activities and risks. Risks identified through these interviews and each part of Phase 1 should be documented on Exhibit CC – Issue/Risk Tracking Template or a similar document to ensure they are carried through the remaining phases of the examination. Examiners and company officials should attempt to maintain an ongoing dialogue to assist the examiners in understanding the company and identifying key functional activities. It is also critical for the examination team to understand and leverage the company's risk management program; that is, how the company identifies, controls, monitors, evaluates and responds to its risks. For companies required to submit an Own Risk and Solvency Assessment (ORSA) summary report to the lead or domestic state, the report provided by the company may be a useful tool in this evaluation. The discipline and structure of risk management programs vary dramatically from company to company. "Best practices" are emerging for risk management programs and more companies are appointing chief risk managers whose responsibilities go well beyond the traditional risk management function (the buying of insurance). The Committee of Sponsoring Organizations (COSO) has published internal control standards that are widely-held, although not required, in many industries and has released an Enterprise Risk Management Integrated Framework, which is anticipated to be incorporated by several entities, as well as guidance to apply the integrated framework and internal control standards to small public companies. The examination team should evaluate the strength of the company's risk management process, which can include a "hind-sight" evaluation of why a particular negative surprise or event occurred (i.e., why was it not identified in the current risk management program of the company).

One crucial aspect to a successful planning process is the tailoring of planning procedures to the company under review. As the exam team learns about risks, subsequent planning procedures should be tailored to ensure that they provide further information on the risks already identified. For instance, if after meeting with the Department's analyst, the examination identifies a risk related to the company's planned expansion of business into new jurisdictions, subsequent procedures performed in planning—i.e., "C"-Level Interviews, review of company ERM, etc.—should be tailored to include consideration on the risk.

There are five parts to Phase 1 that are key components of performing a risk assessment, the results of which drive the direction of the risk-focused examination: (1) Understanding the Company; (2) Understanding the Corporate Governance Structure; (3) Assessing the Adequacy of the Audit Function; (4) Identifying Key Functional Activities; and (5) Consideration of Prospective Risks for Indications of Solvency Concerns. The Risk Assessment Matrix (Exhibit K), the tool developed to serve as the central location for the documentation of risk assessment and testing conclusions, should be updated with the identified key activities of the company after the examiner is able to obtain an understanding of the company and corporate governance structure. The five parts of Phase 1 are discussed as follows:

- A. Part 1: Understanding the Company
- B. Part 2: Understanding the Corporate Governance Structure
- C. Part 3: Assessing the Adequacy of the Audit Function
- D. Part 4: Identifying Key Functional Activities
- E. Part 5: Consideration of Prospective Risks for Indications of Solvency Concerns

A. Part 1: Understanding the Company

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Step 4: Consideration of Information Technology Risks

The examiner-in-charge should also become familiar with the general controls surrounding the company's IT environment. Due to technological advancement (e.g., Internet, Intranet and e-commerce), internal control risks could be more pervasive within the IT environment than in other areas within the company. IT requires more technology insight to understand how it impacts the company's operations. Properly assessing IT risk requires appropriate IT training, experience, and technological insight. The examiner-in-charge may want to consider consulting with a specialist who has experience in reviewing IT general controls.

In conducting examinations of insurers that are part of a holding company group, it is important to note that IT general controls may occur at the holding company level. The exam team should seek to coordinate the identification and assessment of prospective risk in accordance with the exam coordination framework and lead state approach outlined in Section 1 of this Handbook. Where possible, in a coordinated examination, the lead state's work on IT general controls should be utilized to prevent duplication of effort and to leverage examination efficiencies.

Section 1, Part III, A – General Information Technology Review outlines the process in which an IT control environment should be reviewed. Exhibit C, Part Two (also located in this Handbook) is one tool the IT examiner can utilize while conducting the IT review. During the IT review, the IT examiner will identify risks that are relevant to the company based on their understanding of the company.

Once risks have been identified, the examiner will request control information from the company and test the appropriate controls within the IT environment. In the event an IT specialist is utilized, communication with the examiner-in-charge is critical throughout the review of IT general controls, especially when it comes to communicating findings of the review and the impact on the financial examination. As explained in Section 1, Part III, A – General Information Technology Review, the IT specialist should determine whether the IT general controls environment is effective or ineffective. It is important for the examiner to review and understand the conclusion reached by the IT specialist in order to determine the extent of testing that may be required in later phases of the exam. If necessary, the IT specialist may need to assist in completing the work for the financial examination, such as identifying and testing IT application controls.

Consideration and review of the IT environment may be customized based on the size and complexity of the insurer under examination. For additional detail, refer to Section 1, Part III – General Examination Considerations.

Step 5: Update the Insurer Profile Summary

~~Based upon the review and analysis performed up to this point, provide updates to the analyst regarding any significant initial findings for incorporation into the Insurer Profile Summary (IPS). Updates to the IPS can be suggested throughout the examination process.~~

EXAMINATION REPOSITORY – REINSURANCE (CEDING INSURER)

Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Amounts Recoverable from Reinsurers
Funds Held by or Deposited with Reinsured Companies
Other Amounts Receivable Under Reinsurance Contracts
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)
Funds Held by Company Under Reinsurance Treaties (P&C Companies)
Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers (Life Companies)
Provision for Reinsurance
Contract Liabilities Not Included Elsewhere – Other Amounts Payable on Reinsurance
Miscellaneous Liabilities – Reinsurance in Unauthorized Companies (Life Companies)
Funds Held Under Coinsurance (Life Companies)

Risk-Based Capital (RBC) Filing

RCAT (PR027) may be used to identify and assess the insurer's current exposure to catastrophic events at the modeled worst year in 50, 100, 250, and 500 levels on both a gross (direct and assumed) and net basis (after reinsurance).

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the reinsurance process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5 — Liabilities, Contingencies, and Impairments of Assets
No. 25 — Affiliates and Other Related Parties
No. 61 — Life, Deposit-Type and Accident and Health Reinsurance
No. 62 — Property and Casualty Reinsurance
No. 63 — Underwriting Pools
No. 64 — Offsetting and Netting of Assets and Liabilities
No. 65 — Property and Casualty Contracts

† Risks identified with this symbol may warrant additional procedures or consideration at the head of the internationally active insurance group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
						<p>commission is greater than the cost to write the business.</p> <ul style="list-style-type: none"> Evaluating historical performance (i.e., back testing) of reinsurance coverage provisions. <p>Consider involving a reinsurance expert to review the reinsurance contracts. The review should determine that the coverages are in accordance with the net risk limits and risk appetite. In addition, review the impact of any risk-limiting provisions (e.g., sliding commissions, loss corridors, etc.) on the effectiveness of the insurer's reinsurance strategy.</p>
<p>The insurer's catastrophic reinsurance protections are inadequate. †</p> <p>Note for P/C insurers: Examiners should use information</p>	ST OP	Other	AARP	<p>To determine the level of catastrophic reinsurance protection, the insurer uses third-party commercial vendor catastrophe models. (Refer to the NAIC's Property/Casualty RBC Forecasting and Instructions for a list of</p>	<p>Review the PMLs for catastrophe perils and compare them to the catastrophic reinsurance structure that has been selected.</p> <p>Obtain and review the insurer's reconciliation of the modeled PMLs to the</p>	<p>Verify that what is reported in the RBC RCAT is consistent with PMLs the insurer uses for own risk assessment purposes. Discuss and/or obtain an explanation for material discrepancies.</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
contained in the RCAT Attestation provided by insurers that are subject to this filing requirement.				<p>approved vendors) or internally developed catastrophe models that have been compared against vendor models. The models determine gross probable maximum losses (PMLs) for catastrophe perils.</p> <ul style="list-style-type: none"> Modeled results used for own risk assessment purposes are consistent with what is reported in the RBC RCAT filing. <p>The insurer selects the most appropriate reinsurance strategy and structure by evaluating model results, considering capital resources, conducting cost/benefit analysis, considering broker recommendations, regulatory requirements, etc. Senior management discuss and approve the strategy and structure, including the following elements:</p> <ul style="list-style-type: none"> Use of traditional and non-traditional structures (e.g., 	<p>RBC RCAT filing and reported to the NAIC and discuss and/or obtain an explanation for material discrepancies.</p> <p>Obtain evidence of the process the insurer used to evaluate and approve various reinsurance strategies and structures.</p> <p>Obtain from the insurer benchmarking information on catastrophic reinsurance coverage, compare the insurer's coverage against the benchmarking, and discuss any significant differences with the insurer.</p>	<p>Obtain information on catastrophic reinsurance coverage from the Interrogatory on Catastrophe Risk Reinsurance Program (PR027) section of the RBC filing, public information (10Ks, Climate Disclosure Survey, etc.) or Own Risk and Solvency Assessment (ORSA) report for internal consistency and independent validation by reconciling to source documents.</p> <p>Review the reasonableness of the catastrophic reinsurance coverage in place at the insurer by benchmarking against competitors and/or comparing against industry standards (e.g., reviewing premium retention percentages or net PMLs as a percentage of surplus against competitors). Consider assessing the strength and creditworthiness of reinsurers, identifying potential concentration</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				insurance-linked securities) <ul style="list-style-type: none"> Retention and reinstatement provisions, aggregate versus occurrence structures Attachment and exhaustion levels 		<p>risk where there is heavy reliance on the reinsurer, or reviewing the reinsurance treaties to identify exclusions that may leave the insurer exposed to unexpected losses.</p> <p>Consider involving an exam actuary or reinsurance specialist in assessing the adequacy of the insurer's catastrophic reinsurance coverage. The specialist should determine if there are retrospective provisions (such as loss limiting features) that would cause the insurer to retroactively pay a higher reinsurance premium. If this trigger is present, determine if the insurer has the financial resources to pay the higher premium.</p>
The insurer is over-exposed to credit and liquidity risks in its use of reinsurance counterparties. †	CR LQ	Other	AARP	The insurer has policies in place requiring utilization of multiple reinsurers to reduce concentration with any one entity.	<p>Test the operating effectiveness of the insurer's controls to track compliance with the concentration policy.</p> <p>Obtain evidence of the insurer's process to</p>	<p>Based on a review of significant contracts, determine whether the insurer is properly diversified.</p> <p>Perform procedures to evaluate the quality of significant reinsurers</p>

EXHIBIT Q

REVIEW AND APPROVAL SUMMARY (RAS) FOR EXAMINATIONS

NAME OF COMPANY _____

EXAMINATION DATE _____

EXAMINER-IN-CHARGE _____

SUPERVISING EXAMINER _____

	Performed By	Date
Detailed Review (usually performed by the examiner-in-charge)		
1. I have read the Examination Planning Memorandum, risk matrices, and examination program insofar as they relate to the areas of the examination I reviewed.		
2. I have reviewed all workpapers and I am satisfied that the planned procedures were performed, results of work were adequately documented, and procedures performed were sufficient considering the results obtained and any changes in conditions occurring since the procedures were planned.		
3. I have verified that all known significant solvency risks have been addressed and each critical risk category has been appropriately considered.		
4. I have compared the accounts in the general ledger trial balance or examination workpapers with the summarizations, classifications, and descriptions of them in the annual financial statement.		
5. I am satisfied that the examination was conducted in accordance with appropriate professional standards, department policies and the procedures set forth in the <i>Financial Condition Examiners Handbook</i> .		
6. I have documented the results of the on-site examination and held a meeting to shared them with the assigned analyst. (Results may be documented through the use of Exhibit AA – Summary Review Memorandum (SRM). The SRM should include discussion of potential ongoing or future solvency concerns the insurer may face, the insurer's corporate governance and a summary, by branded risk classification, of examination adjustments, other examination findings, management letter comments and other residual risks or concerns the examiner may want to communicate to department personnel.)		
7. I have collaborated with the analyst in developing the prioritization level and supervisory plan.		

General Review (usually performed by the chief examiner or designee)		
1. I have reviewed the Examination Planning Memorandum, risk matrices and examination program.		
2. I have reviewed the workpapers for this examination and I am satisfied that the planned procedures were performed, results of work were adequately documented, procedures performed were sufficient, each known significant solvency risk was addressed and each critical risk category was appropriately considered.		
3. I am satisfied that the examination was conducted in accordance with appropriate professional standards, department policies and the procedures set forth in the Financial Condition Examiners Handbook.		
4. I have reviewed the documented results of the examination that were shared with the assigned analyst, and I am satisfied that the examination results were adequately communicated.		
5. I have reviewed the prioritization level and supervisory plan prepared or updated at the conclusion of the examination and concur with the results.		
6. I have reviewed the Report of Examination, and I am satisfied that it was prepared in conformity with statutory accounting principles as prescribed in the <i>Accounting Practices and Procedures Manual</i> or as permitted by the department.		

Note: Completion of procedures should be indicated by dating and initialing the space provided. Any exceptions (e.g., Not Applicable) should be explained either in this RAS or in an attached memorandum.