Financial Regulation Standards and Accreditation Program

August 2022

THE NAIC FINANCIAL REGULATION STANDARDS AND ACCREDITATION PROGRAM

(Note: The official standards, policies and procedures of the NAIC Financial Regulation Standards and Accreditation Program are contained in the Proceedings of the NAIC and should be consulted for complete, accurate and up-to-date information on the Program.

This pamphlet contains only general information about the NAIC Financial Regulation Standards and Accreditation Program and is not a comprehensive statemen a6a-

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.
9. The NAIC sends copies of the state's completed self-evaluation guide with any applicable supporting documentation to the review team.
10. The NAIC notifies the state of the data, documentation, staff interviews, and other needs of the review team for its on-site review.
11. 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 regulations 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.
12. 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.
13. The Part A Report is made part of the documentation for the accreditation review, typically delivered to the department and the review team by the commencement of the on-site review, and is included in the materials submitted to each member of FRSAC at the conclusion of the evi

- Walk-through of the department to gain an understating of document and communication flows.
- 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,

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 a 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 are 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 Procedures 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 the 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 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 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.

A Closer Look at the Standards

The Standards have been divided into four

Captive Reinsurers

The following Part A standards apply to the regulation of a state's domestic insurers licensed and/or organized under its captive or special purpose vehicle statutes or any other similar statutory construct (captive insurer) that reinsure business covering risks residing in at least two states, but only with respect to the following lines of business:

1. Policies that are required to be valued under Sections 6 or 7 of the *Valuation of Life Insurance Policies Model Regulation* (Model #830) (commonly referred to as XXX/AXXX policies). The application of this provision is intended to have a prospective effect, so that regulation of captive insurers, special purpose vehicles and any other entities that reinsure these types of policies will not be subject to the Part A standards if the policies assumed were both (1) issued prior to Jan. 1, 2015, and (2) ceded so that they were part of a reinsurance arrangement as of Dec. 31, 2014. [Drafting Note: This paragraph of the Preamble became effective Jan. 1, 2016]

2. Variable annuities valued under Actuarial Guideline XLIII—CARVM for Variable Annuities (AG 43). [Drafting Note: This paragraph of the Preamble is not yet effective. Effective date for compliance to be determined.]

3. Long term care insurance valued under the *Health Insurance Reserves Model Regulation* (Model #10). [Drafting Note: This paragraph of the Preamble is not yet effective. Effective date for compliance to be determined.]

With regard to a captive insurer, special purpose vehicle, or any other entity assuming XXX/AXXX business, regulation of the entity is deemed to

2. Capital and Surplus Requirement

10. Reinsurance Ceded
    State law should contain the NAIC *Credit for Reinsurance Model Law*, the NAIC's *Credit for Reinsurance Model Regulation* and the NAIC

The department should require that RRGs reporting to the department file the appropriate NAIC Annual Statement Blank which should be prepared in accordance with the NAIC's Instructions Handbook, as applicable. The RRGs should follow those accounting procedures and practices prescribed by the NAIC *Accounting Practices and Procedures Manual* or another basis of accounting as permitted or prescribed by state law or regulation.

4. Corrective Action
   State law should contain the NAIC's *Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition* or a substantially similar provision which authorizes the deemt (e)-1.6tdl n5eMCID 3 >>B sGttiggm(t)-2.8Gs sidepre(i)-4.6 (ggm 4.

Part B: Regulatory Practices and Procedures

Preamble

Purpose of the Part B Standards

The purpose of Part B is to identify baseline regulatory practices and procedures required to supplement and support enforcement of the states' financial solvency laws for the states to attain substantial compliance with the core standards established in Part A. Part B identifies standards that are to be applied in the regulation of all forms of multi-state insurers as discussed below. The term "state" as used herein is intended to include any NAIC member jurisdiction, including U.S. territories.

Part B sets out standards required to ensure adequate solvency regulation of multi-state insurers. Each state must make an appropriate allocation of its available resources to effectively address its regulatory priorities. In addition to a domestic state's examination and analysis activities, other checks and balances exist in the regulatory environment. These include other states' regulation of licensed foreign companies, the appropriate application of FAST and IRIS ratios, the analyses by NAIC's staff, the NAIC Financial Analysis Working Group, the NAIC Analyst Team System, the

versa. Reliable results may be obtained using alternative yet effective financial solvency oversight methodologies. The accreditation program should not emphasize form over substance in its evaluation of the states' solvency regulation.

(NOTE: FRSAC has adopted Review Team Guidelines that provide detailed guidance to the review teams regarding how compliance with the Part B, Regulatory Practices and Procedures Standards should be assessed. These guidelines can also assist states in preparing for the accreditation review of their department.)

1. Financial Analysis

   a. Sufficient Qualified Staff and Resources
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2. Financial Examinations

   a. Sufficient Qualified Staff and Resources
   The department should have the resources to effectively examine all domestic insurers on a periodic basis in a manner commensurate with the financial strength and position of each insurer.

   b. Communication of Relevant Information to/from Examination Staff
   The department should ensure that relevant information and data obtained that may assist in the financial examination process is provided to the financial examination staff. The department should ensure that findings of the financial examination staff are communicated to the appropriate person(s).

   c. Use of Specialists
   The department's examination staff should include specialists with appropriate training and/or experience or otherwise have available qualified specialists which will permit the department to effectively examine any insurer. These specialists should be utilized where appropriate given the complexity of the examination or identified financial concerns.

   d. Appropriate Supervisory Review
   The department's procedures for examinations should provide for supervisory review of examination workpapers and reports to ensure that the examination procedures and findings are appropriate and complete and that the examination was conducted in an efficient and timely manner.

   e. General Examination Procedures
   The department's policies and procedures for the conduct of examinations should generally follow those set forth in the NAIC *Financial Condition Examiners Handbook*. Appropriate variations in methods and scope should be commensurate with the financial strength and position of the insurer.

   f. Risk Assessment and Testing
   The department's performance and documentation of risk-focused examinations should generally follow the guidance set forth in the NAIC *Financial Condition Examiners Handbook*. Appropriate variations in method and scope should be commensurate with the financial strength and position of the insurer.

   g. Scheduling of E2 then tge6(Sc)-3.7 (he)-3i6 (e)(nt)6.2 (a)-1P <</MCID 59.2 (a)-1.6 (t).9 (r)(i)-4nnd Tes

3. Department Procedures and Oversight

   a. Information Sharing
      States should

Changes to the Program

Effective September 1, 2022 (enforcement to begin for accreditation January 1, 2023)

- The 2019 revisions to the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786) outline the requirements for companies to take credit for reinsurance when ceded to a Reciprocal Jurisdiction. The revisions were adopted on a "substantially similar" basis. However, it should be noted that the Dodd-Frank Wall Street Reform and Consumer Protection Act requires that a state insurance measure be "consistent" with the Covered Agreement in order to avoid federal preemption, which may be interpreted as a higher standard than "substantially similar." Therefore, states are encouraged to adopt the 2019 revisions in close to identical form to the models.