

Date: February 8, 2024
To: Users of the NAIC's *Financial Analysis Handbook*
From: NAIC Staff

This edition of the NAIC *Financial Analysis Handbook* is to be used in conjunction with the 2023 Annual and 2024 Quarterly Financial Statements. The following summarizes the most significant changes since the prior edition:

I. Introduction A. Department Organization and Communication

A reference to the optional memorandum of understanding (MOU) and guidance emphasizes the benefits of early communication in a pre-receivership situation.

III.A.4. Risk Assessment (All Statement Types) – Analyst Reference Guide

Additional guidance was drafted under Depth of Review and Level of Documentation to advise the analyst that in certain situations, it may be appropriate to reference documentation located in another area of the analysis as opposed to duplicating the documentation.

III.A.6. Template for Planning Meeting with Financial Examiner

A new agenda topic was added as guidance to assist in clarifying the role and expectations for the department analyst in participating in certain exam activities, monitoring the status of the exam, and communicating new information about the insurer arising during the examination process.

VI.I. Group-Wide Supervision – Group Capital Calculation (Lead State) – Analyst Reference Guide

Based on a recommendation from the Risk Retention Group (E) Task Force, guidance was added for exempting groups from the group capital calculation to include special considerations for Risk Retention Groups (RRGs).

VI.L. Group-Wide Supervision – Supervisory Colleges Guidance

A reference was added to the Receivership & Insolvency (E) Task Force's template for drafting a resolution plan for internationally active insurance groups within the Supervisory College chapter footnote vi.

Procedures for Addressing Climate Risk

The following revisions incorporate climate change risks in response to a referral from the Climate Risk and Resiliency (EX) Task Force.

III.B.1.a., b., and c. Credit Risk Repository – Annual

III.B.3.a., b., and c. Liquidity Risk Repository – Annual

III.B.4.a., b., and c. Market Risk Repository – Annual

Similar procedures and guidance were added for the Credit, Liquidity, and Market risk repositories for all three statement types (Property & Casualty, Life/A&H, and Health) to ensure that the impact of climate change, energy transition risk, and asset devaluation risk is appropriately considered in ongoing financial analysis on the insurer's invested asset portfolio.

III.B.6.a. Pricing/Underwriting Risk Repository – Property & Casualty Annual

Procedures were added only the Property & Casualty to determine whether concerns exist regarding the insurer's exposure to catastrophic events, including the potential for increased physical losses, due to climate change.

III.B.6.d. Pricing/Underwriting Risk Repository – Analyst Reference Guide – Property & Casualty Annual

Guidance was added to assist analysts in identifying and assessing the insurer's current and prospective exposure to catastrophic events, as well as the risk management practices of insurers writing a significant percentage of their business in products and geographic areas that are exposed to severe loss events.

III.B.9.a. Strategic Risk Repository – Property & Casualty Annual

Procedures were developed in this area similar to Pricing/Underwriting Risk to evaluate the adequacy of the insurer's catastrophic reinsurance coverage at various modeled loss levels, including the potential impact on capital and surplus and its RBC position and the insurer's reinsurance strategy.

Transactions and Service Agreements with Affiliates

In response to a referral from the Risk-Focused Surveillance (E) Working Group guidance was developed for reviewing affiliated service agreements, specifically market-based expense allocations in affiliated service agreements.

III.A.5. Risk Assessment (All Statement Types) – IPS Example

Under Analysis Follow Up, an additional follow-up procedure was added to address any potentially significant unresolved concerns with cost sharing or service agreements with affiliates or significant reliance on affiliates to provide services.

III.B.5.a., b., c., and d. Operational Risk Repository (All Statement Types) and Analyst Reference Guide

V.C. Domestic and/or Non-Lead State Analysis – Form D Procedures

V.F. Domestic and/or Non-Lead State Analysis – Analyst Reference Guide

Procedures and guidance were added to address concerns related to the economic substance of a transaction with affiliates and/or related parties.

Guidance was added to determine whether an agreement with affiliates merits review during an onsite examination.

If you have questions regarding the *Financial Analysis Handbook*, contact Ralph Villegas, Life/A&H Financial Analysis Manager at (816) 783-8411, rvillegas@naic.org, or Rodney Good, Property/Casualty Financial Analysis Manager at (816) 786-8430, rgood@naic.org, or Bill Rivers, Health Financial Analysis Program Manager at (816) 783-8142, wrivers@naic.org.