NAIC Process for Developing and Maintaining the List of Qualified Jurisdictions

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I. Preamble

Purpose

In 2012, the NAIC Reinsurance (E) Task Force was charged to develop an NAIC process to evaluate the reinsurance supervisory systems of non-U.S. jurisdictions, for the purposes of developing and maintaining a list that includes any such jurisdiction that is recommended by the NAIC for recognition by the states as a Qualified Jurisdiction in accordance with the revised Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786), under which an assuming insurer licensed and domiciled in a Qualified Jurisdiction is eligible to be considered for certification by a state as a certified reinsurer for reinsurance collateral reduction purposes. The purpose of the NAIC Process for Developing and Maintaining the List of Qualified Jurisdictions is to provide a documented evaluation process for creating and maintaining this NAIC list.

Background

On November 6, 2011, the NAIC Executive (EX) Committee and Plenary adopted revisions to the *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786). These revisions serve to reduce reinsurance collateral requirements for non-U.S. licensed reinsurers that are licensed and domiciled in Qualified Jurisdictions. Under the previous version of the Credit for Reinsurance Models, in order for U.S. ceding insurers to receive reinsurance credit, the reinsurance was required to be ceded to U.S.-licensed reinsurers or secured by collateral representing 100% of U.S. liabilities for which the credit is recorded. When considering revisions to the credit for reinsurance models, the Reinsurance Task Force contemplated establishing an accreditation-like process, modeled on the current NAIC Financial Regulation Standards and Accreditation Program, to review the reinsurance supervisory systems of non-U.S. jurisdictions. Under the revised models, the approval of Qualified Jurisdictions is left to the authority of the states; however, the models provide that a list of Qualified Jurisdictions will be created through the NAIC committee process, and individual states must consider this list when approving jurisdictions.

The enactment in 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act created the Federal Insurance Office (FIO), which has the following authority: (1) coordinate Federal efforts and develop Federal policy on prudential aspects of international insurance matters; (2) assist the Secretary in negotiating covered agreements (as defined in the Dodd-Frank Act); (3) determine whether State insurance measures are preempted by covered agreements; and (4) consult with the States (including State insurance regulators) regarding insurance matters of national importance and prudential insurance matters of international importance. Further, the Dodd-Frank Act authorizes the U.S. Treasury Secretary and U.S. Trade Representative (USTR), jointly, to negotiate and enter into covered agreements on behalf of the United States. It is the NAIC’s intention to communicate and coordinate with FIO and related federal authorities as appropriate with respect to the evaluation of the reinsurance supervisory systems of non-U.S. jurisdictions.

II. Principles for the Evaluation of Non-U.S. Jurisdictions

1. The NAIC model revisions applicable to certified reinsurers are intended to facilitate cross-border reinsurance transactions and enhance competition within the U.S. market, while ensuring that U.S. insurers and policyholders are adequately protected against the risk of insolvency. To be eligible for certification, a reinsurer must be domiciled and licensed in a Qualified Jurisdiction as determined by the domestic regulator of the ceding insurer.

2. The evaluation of non-U.S. jurisdictions will be in accordance with the provisions of the NAIC Credit for Reinsurance Model Law and Regulation, and other relevant NAIC guidance.

3. The evaluation of non-U.S. jurisdictions is intended as an outcomes-based comparison to financial solvency regulation under the NAIC Accreditation Program, adherence to international supervisory standards, and relevant international guidance for recognition of reinsurance supervision. It is not intended as a prescriptive comparison to the NAIC Accreditation Standards; however, in conducting the evaluation, review teams may look to the Administrative Policies Manual of the Financial Regulation Standards and Accreditation Program for guidance.

4. States shall evaluate the appropriateness and effectiveness of the reinsurance supervisory system within the jurisdiction, both initially and on an ongoing basis, and consider the rights, benefits and the extent of reciprocal recognition afforded by the jurisdiction to reinsurers licensed and domiciled in the U.S. The determination of a Qualified Jurisdiction is based on the effectiveness of the entire reinsurance supervisory system within the jurisdiction.

5. Each state may evaluate a non-U.S. jurisdiction to determine if it is a "Qualified Jurisdiction." A list of Qualified Jurisdictions will be published through the NAIC Committee Process. A state must consider this list in its determination of Qualified Jurisdictions, and if the state approves a jurisdiction not on this list, the state must thoroughly document the justification for approving this jurisdiction in accordance with the standards for approving Qualified Jurisdictions contained in the model regulation. The creation of this list does not constitute a delegation of regulatory authority to the NAIC. The regulatory authority to recognize a Qualified Jurisdiction resides solely in each state and the NAIC List of Qualified Jurisdictions is not binding on the states.

6. A Qualified Jurisdiction must agree to share information and cooperate with the state with respect to all certified reinsurers domiciled within that jurisdiction. Critical factors in the evaluation process include but are not limited to the history of performance by assuming insurers in the domiciliary jurisdiction and any documented evidence of substantial problems with the enforcement of final U.S. judgments in the domiciliary jurisdiction. A jurisdiction will not be a Qualified Jurisdiction if the commissioner has determined that it does not adequately and promptly enforce final U.S. judgments or arbitration awards.

7. The determination of a Qualified Jurisdiction can only be made with respect to the supervisory regime in existence and applied by a non-U.S. jurisdiction at the time of the evaluation.

8. The NAIC and the states will communicate and coordinate with FIO, USTR and other relevant federal authorities as appropriate with respect to the evaluation of the reinsurance supervisory systems of non-U.S. jurisdictions.

III. Procedure for Evaluation of Non-U.S. Jurisdictions

1. Initiation of Evaluation of the Reinsurance Supervisory System of an Individual Jurisdiction.

a. The NAIC will initially evaluate and expedite the review of those jurisdictions which were approved by the states of Florida and New York prior to the adoption of the revised credit for reinsurance models: Bermuda, Germany, Switzerland and the United Kingdom. Subsequent priority will be on the basis of objective factors including but not limited to ceded premium volume and reinsurance capacity issues raised by the states. Priority will also be given to requests from states and from those jurisdictions specifically requesting an evaluation by the NAIC.

b. Formal notification of initiation of the evaluation process will be sent by the NAIC to the reinsurance supervisory authority in the jurisdiction selected. The NAIC will issue public notice on the NAIC website upon receipt of confirmation that the jurisdiction is willing to participate in the evaluation process.

c. Relevant U.S. state and federal authorities will be notified of the NAIC's decision to evaluate a jurisdiction.

[Drafting Note: Input is requested with respect to the confidentiality requirements pertaining to this provision.]

2. Information Request to Supervisory Authority

a. The NAIC will provide an information request (Self-Evaluation Report) to the supervisory authority with respect to the laws, regulations, practices and procedures applicable to the reinsurance supervisory system. This will be a self-evaluation process in which the supervisory authority provides the NAIC with a detailed description and explanation of how its laws, regulations, administrative practices and procedures, and any other regulatory authority regulate the financial solvency of its domestic reinsurers in comparison to key principles underlying the U.S. financial solvency framework and other factors set forth in the Evaluation Methodology section.

[Drafting Note: The U.S. financial solvency framework is understood to refer to the key elements provided in the NAIC Financial Regulation Standards and Accreditation Program.]

b. The NAIC will request that all responses from the jurisdiction being evaluated be provided in English. Any responses submitted with respect to a jurisdiction's laws and regulations will be supported by an independent opinion of counsel from the jurisdiction that they provide an accurate description.

c. The NAIC will request that the information be submitted within 60 days of receipt. Extensions for submitting the information will be considered as deemed appropriate.

3. NAIC Review of Self-Evaluation Report

a. The NAIC will first perform an internal review of a jurisdiction's Self-Evaluation Report. This review will be performed by NAIC staff and/or outside consultants with the appropriate knowledge, experience and expertise.

b. [Drafting Note: Input is requested with respect to how costs associated with the evaluation process should be assessed.]

c. Standard for review. The evaluation is intended as an outcomes-based comparison to financial solvency regulation under the NAIC Accreditation Program, adherence to international supervisory standards, and relevant international guidance for recognition of reinsurance supervision. The standard for qualification of a jurisdiction is that the NAIC must reasonably conclude that the jurisdiction's reinsurance supervisory system achieves a level of effectiveness in financial solvency regulation that is deemed acceptable for purposes of reinsurance collateral reduction.

d. Timeline for review. [Drafting Note: A project management approach will be developed with respect to the overall timeline applicable to this process.]

e. Upon completing its review of the Self Evaluation Report, the internal reviewer(s) will report its initial findings to the on-site review team, including any significant issues or concerns identified. This report will be included as part of the official documentation of the evaluation.

4. Review of Supervisory Authority's Practices and Procedures

a. The NAIC will next perform an on-site review of the supervisory authority's internal practices and procedures. This review will be coordinated through the NAIC, utilizing personnel with appropriate knowledge, experience and expertise. Individual states may also request that representatives from their state be added to the review team.

b. The review team will communicate with the supervisory authority in advance of the on-site visit to clearly identify the objectives, expectations and procedures with respect to the review, as well as any significant issues or concerns identified within the Self-Evaluation Report. Information to be considered during the on-site review includes, but is not limited to the following:

   i. Review of examination reports and supporting workpapers and analytical reviews.

   ii. Review of financial analysis and examination files for selected companies.

   iii. Interviews with department personnel.

   iv. Review of organizational and personnel practices.

   v. Review of documentation regarding primary licensure applications for selected companies.

   vi. Gain an understanding of document and communication flows.

c. [Drafting Note: Input is requested with respect to how costs associated with the evaluation process should be assessed.]

d. Standard for review. The evaluation is intended as an outcomes-based comparison to financial solvency regulation under the NAIC Accreditation Program, adherence to international supervisory standards, and relevant international guidance for recognition of reinsurance supervision. The standard for qualification of a jurisdiction is that the NAIC must reasonably conclude that the jurisdiction's demonstrated practices and procedures with respect to reinsurance supervision (1) are consistent with its reinsurance supervisory system, and (2) achieve a level of effectiveness in financial solvency regulation that is deemed acceptable for purposes of reinsurance collateral reduction.

e. Timeline for review. [Drafting Note: A project management approach will be developed with respect to the overall timeline applicable to this process.]

f. Upon completing the on-site review of the supervisory authority's practices and procedures, the reviewer(s) will report its initial findings to the NAIC ____ Committee, including any significant issues or concerns identified. This report will be included as part of the official documentation of the evaluation. [Drafting Note: the NAIC body charged with overseeing this process has yet to be determined and will require direction from NAIC leadership.]

5. Additional Information to be Considered as Part of Evaluation

The NAIC will also consider other information from sources other than the jurisdiction under review. This information includes:

a. Appropriate international, U.S. federal and state authorities.

b. Financial Sector Assessment Program (FSAP).

c. Public comments from interested parties.

d. Rating agency information.

e. Any other relevant information.

6. Preliminary Evaluation Report

a. NAIC staff and/or outside consultants will prepare a Preliminary Evaluation Report for review by the ____ Committee. This preliminary report will be confidential (i.e., may only be reviewed by ___ Committee members, designated NAIC staff, consultants and states that specifically request to be kept apprised of this information.)

b. The report will be prepared in a consistent style and format to be developed by NAIC staff. It will contain detailed advisory information and recommendations with respect to the evaluation of the jurisdiction's reinsurance supervisory system and the documented practices and procedures thereunder. The report will contain a recommendation as to whether the NAIC should recognize the jurisdiction as a Qualified Jurisdiction.

c. All workpapers and reports produced as part of the evaluation process are the confidential property of the NAIC and shall be maintained at the NAIC Central Office.

d. Timeline for review. [Drafting Note: A project management approach will be developed with respect to the overall timeline applicable to this process.]

7. NAIC ___ Committee Review of Evaluation Report

a. [Drafting Note: The NAIC body charged with overseeing this process has yet to be determined and will require direction from NAIC leadership.]

b. The Committee's review of the Preliminary Evaluation Report will be held in regulator-to-regulator session in accordance with the NAIC Policy Statement on Open Meetings.

c. Timeline for review. [Drafting Note: A project management approach will be developed with respect to the overall timeline applicable to this process.]

d. Membership of the Committee. [Drafting Note: details to be developed based on direction by NAIC leadership.]

e. The NAIC __ Committee will make a preliminary determination as to whether the supervisory authority achieves a level of effectiveness in financial solvency regulation that is deemed acceptable to be included on the NAIC List of Qualified Jurisdictions. If the preliminary determination is that the jurisdiction should not be included on the NAIC List of Qualified Jurisdictions, the NAIC __ Committee will set forth its specific findings and identify those areas of concern with respect to this determination.

f. The results of the Preliminary Evaluation Report will be immediately communicated in written form to the supervisory authority of the jurisdiction under review.

8. Opportunity to Respond to Preliminary Evaluation Report

a. Upon receipt of the Preliminary Evaluation Report, the supervisory authority will have an opportunity to respond to the initial findings and determination. [Drafting Note: This is not intended to be a formal appeals process that would initiate U.S. state administrative due process requirements.]

b. Timeline for response. [Drafting Note: A project management approach will be developed with respect to the overall timeline applicable to this process.]

c. The ___ Committee will consider any response, and will proceed to prepare its Final Evaluation Report. The ___ Committee will consider the Final Evaluation Report for approval in regulator-to-regulator session. This report will be approved upon an affirmative vote of a majority of the members in attendance at this meeting.

d. Upon approval of the Final Evaluation Report, the ___ Committee will issue a public statement and a summary of its findings with respect to its determination. [Drafting Note: Input requested with respect to whether the Final Evaluation Report should be a public or confidential document.]

9. NAIC Determination regarding List of Qualified Jurisdictions

a. Once the ___ Committee has adopted its Final Evaluation Report, it will submit the summary of its findings and its recommendation to the NAIC Executive Committee and Plenary. Upon approval as a Qualified Jurisdiction by the Executive Committee and Plenary, the jurisdiction will be added to the NAIC List of Qualified Jurisdictions. The NAIC will maintain the List of Qualified Jurisdictions on its public website and other appropriate NAIC publications.

b. In the event that a jurisdiction is not approved as a Qualified Jurisdiction, the supervisory authority will be eligible for reapplication at the discretion of the ___ Committee.

c. Upon final adoption of the ___ Committee's determination with respect to a jurisdiction, the Final Evaluation Report will be made available to individual U.S. state insurance regulators upon request and confirmation that the information contained therein will remain confidential.

10. Memorandum of Understanding (MOU)

a. A Qualified Jurisdiction must agree to share information and cooperate with the commissioner with respect to all certified reinsurers domiciled within that jurisdiction.

b. NAIC staff will create a template MOU to be used with each Qualified Jurisdiction. The MOU will be negotiated by the NAIC with the Qualified Jurisdiction, and any state recognizing the jurisdiction as a Qualified Jurisdiction may be a signatory to the MOU.

c. The MOU will also provide for appropriate confidentiality safeguards with respect to the information shared between the jurisdictions.

d. The NAIC and the states will communicate and coordinate with FIO, USTR and other relevant federal authorities as appropriate with respect to the MOU process.

11. Process for Periodic Evaluation

a. The process for determining whether a non-U.S. jurisdiction is a Qualified Jurisdiction is ongoing and subject to periodic review.

b. Qualified Jurisdictions must provide the ___ Committee with notice of any material change in the applicable reinsurance supervisory system that may affect the status of the Qualified Jurisdiction. Upon any such material change, the ___ Committee will consider whether it is necessary to re-evaluate the status of the Qualified Jurisdiction. [Drafting Note: Certified Reinsurers are required to provide this type of notice to certifying states. It is intended that the Reinsurance-FAWG will also be involved in this process.]

c. Once approved, a Qualified Jurisdiction is subject to a full evaluation review every five (5) years. The Periodic Evaluation will follow a similar process as that set forth above.

d. If the ___ Committee finds the jurisdiction to be out of compliance with the requirements to be a Qualified Jurisdiction, the specific reasons will be documented in a report to the supervisory authority, and the status as a Qualified Jurisdiction will be placed on probation, suspended or revoked.

e. The ___ Committee will monitor those jurisdictions that have been approved as Qualified Jurisdictions by individual states, but are not included on the NAIC List of Qualified Jurisdictions.

IV. Evaluation Methodology

The Evaluation Methodology was developed to be consistent with the provisions of the NAIC Credit for Reinsurance Model Law and Regulation. It is intended to provide an outcomes-based comparison to financial solvency regulation under the NAIC Accreditation Program, adherence to international supervisory standards, and relevant international guidance for recognition of reinsurance supervision. Although the methodology includes a description of the jurisdiction's supervisory system in comparison to a number of key elements from the NAIC Accreditation Program, it is not intended as a prescriptive assessment under the NAIC Accreditation Standards. The NAIC will evaluate the appropriateness and effectiveness of the reinsurance supervisory system within the jurisdiction and consider the rights, benefits and the extent of reciprocal recognition afforded by the jurisdiction to reinsurers licensed and domiciled in the U.S. The determination of a Qualified Jurisdiction is based on the effectiveness of the entire reinsurance supervisory system within the jurisdiction.

The Procedure for Evaluation of Non-U.S. Jurisdictions provides that the NAIC will review a Self-Evaluation Report prepared by the jurisdiction under evaluation. This Self-Evaluation Report will include information provided by the jurisdiction with respect to the following key areas:

- Section A: Laws and Regulations
- Section B: Regulatory Practices and Procedures
- Section C: Jurisdiction's Requirements Applicable to U.S.-Domiciled Reinsurers
- Section D: Regulatory Cooperation and Information Sharing
- Section E: History of Performance of Domestic Reinsurers
- Section F: Enforcement of Final U.S. Judgments
- Section G: Financial Sector Assessment Program (FSAP) Report
- Section H: Solvent Schemes of Arrangement

Following completion of the Self-Evaluation Report, the NAIC will perform an on-site review of the supervisory authority's internal practices and procedures, and will review any other information relevant to the evaluation. This information will be the basis for the Final Evaluation Report and the determination of whether the jurisdiction will be included on the NAIC List of Qualified Jurisdictions.

Section A: Laws and Regulations

Section A is intended to facilitate an evaluation of whether a jurisdiction has sufficient authority to regulate the solvency of its reinsurers in an effective manner. The Section A elements include those that are believed to be basic building blocks for sound insurance/reinsurance regulation. Considerations under this Section include, but are not limited to: the framework under which the assuming insurer is regulated; the structure and authority of the domiciliary regulator with regard to solvency regulation requirements and financial surveillance; the substance of financial and operating standards for reinsurers in the domiciliary jurisdiction; and, the form and substance of financial reports required to be filed or made publicly available by reinsurers in the domiciliary jurisdiction and the accounting principles used.

A jurisdiction's effectiveness under Section A may be demonstrated through law, regulation, or established practice, which implements the general authority granted to the jurisdiction, or any combination of laws, regulations or practices, which meet the objective. The jurisdiction will provide a description and explanation of the laws and regulations under which it supervises its domestic reinsurers with respect to the items included under this Section.

<u>1. Examination Authority</u>

A jurisdiction shall provide a description of its authority to examine its domestic reinsurers. This description should include, but not be limited to, a discussion of the following key elements:

a. Frequency and timing of examinations and reports.

b. Guidelines for examination.

c. Authority to examine reinsurers whenever it is deemed necessary.

d. Authority to have complete access to the company's books and records and, if necessary, the records of any affiliated company, agent, and/or managing general agent.

e. Authority to examine officers, employees and agents of the company under oath when necessary with respect to transactions directly or indirectly related to the company under examination.

f. Ability to share confidential information with U.S. state insurance regulatory authorities, provided that the recipients are required, under their law, to maintain its confidentiality.

g. Authority to use and, if appropriate, make public any examination report.

<u>2. Capital and Surplus Requirement</u>

A jurisdiction shall provide a description of its ability to require that domestic reinsurers have and maintain a minimum level of capital and surplus to transact business. This description should include, but not be limited to, a discussion of the following key elements:

a. Authority to require reinsurers to maintain minimum capital and surplus, including a description of such minimum amounts. For example, U.S. states maintain fixed minimum capital requirements (statutes) relating to incorporation and licensing within the particular state that must be met.

b. Authority to require additional capital and surplus based upon the type, volume and nature of reinsurance business transacted.

c. Capital requirements for reinsurers, including reports and a description of any specific levels of regulatory intervention.

3. Accounting Practices and Procedures

A jurisdiction shall provide a description of its authority to require domestic reinsurers to file appropriate financial statements and other financial information. This description should include, but not be limited to, a discussion of the following key elements:

a. Description of the accounting and reporting practices and procedures.

b. Description of any standard financial statement blank/reporting template, including description of content/disclosure requirements and corresponding instructions.

4. Corrective Action

A jurisdiction shall provide a description of its authority to order a reinsurer to take corrective action or cease and desist certain practices that, if not corrected or terminated, could place the reinsurer in a hazardous financial condition. This description should include, but not be limited to, a discussion of the following key elements:

a. Identification of specific standards which may be considered to determine whether the continued operation of the reinsurer might be hazardous to the general public.

b. Authority to issue an order requiring the reinsurer to take corrective action when it has been determined to be in hazardous financial condition.

5. Valuation of Investments

A jurisdiction shall provide a description of its authority to establish acceptable practices and procedures under which investments owned by reinsurers must be valued. This description should include, but not be limited to, a discussion of standards under which reinsurers are required to value securities/investments.

6. Holding Company Systems

A jurisdiction shall provide a description of its laws or regulations with respect to supervision of the group holding company systems of reinsurers. This description should include, but not be limited to, a discussion of the following key elements:

a. Access to information via the parent or other regulated group entities about activities or transactions within the group involving other regulated or non-regulated entities.

b. Consolidated financial information of the ultimate controlling person.

c. Corporate governance requirements.

d. Integrity and competency of management.

e. Rights of inspection (examination).

f. Approval and intervention powers for certain transactions and events involving reinsurers.

g. Change in control of domestic reinsurers.

h. Dividends and other distributions to shareholders.

i. Transactions with affiliates/material transactions.

j. Enterprise risk, including any activity, circumstance, event or series of events involving one or more affiliates of a reinsurer that, if not remedied promptly, is likely to have a material adverse effect upon the financial condition or liquidity of the reinsurer or its insurance holding company system as a whole.

k. Investments in non-insurance subsidiaries.

7. Risk Management

A jurisdiction shall provide a description of its authority to require its domestic reinsurers to maintain an effective risk management function and practices. This description should include, but not be limited to:

a. Own Risk and Solvency Assessment (ORSA) requirements and reporting.

b. Any requirements regarding the maximum net amount of risk to be retained by a reinsurer for an individual risk based upon the reinsurer's capital and surplus.

8. Investment Regulations

A jurisdiction shall provide a description of its authority to require a diversified investment portfolio for all domestic reinsurers both as to type, issue and liquidity. This description should include, but not be limited to, a discussion of the following key elements:

a. "External" limits (e.g., limiting the aggregate investment that may be made in a category of investments) for all types of investments.

b. "Internal" limits (e.g., limiting the amount that may be invested in any one business, issuer or risk) for all types of investments.

c. Authority to require reinsurers to limit or withdraw from certain investments or discontinue certain investment practices.

9. Liabilities and Reserves

A jurisdiction shall provide a description of its minimum standards for the establishment of liabilities and reserves (technical provisions) resulting from reinsurance contracts. This description should include, but not be limited to, a discussion of the following key elements with respect to both life and non-life contracts:

a. Liabilities incurred under reinsurance contracts for policy reserves, unearned premium, claims and losses unpaid, and incurred but not reported claims (including whether discounting is allowed for reserve calculation/reporting)

b. Liabilities related to catastrophic occurrences

c. A jurisdiction shall provide a description of its requirements for an opinion on reserves and loss and loss adjustment expense reserves by a qualified actuary or specialist for all domestic reinsurers, including frequency of such reports.

10. Reinsurance Ceded

A jurisdiction shall provide a description of its requirements with respect to the financial statement credit allowed for reinsurance ceded by its domestic reinsurers. This description should include, but not be limited to, a discussion of the following key elements:

a. Credit for reinsurance requirements applicable to reinsurance ceded to both domestic and non-domestic reinsurers.

b. Collateral requirements applicable to reinsurance contracts.

c. Risk transfer requirements.

d. Requirements applicable to special purpose reinsurance vehicles and insurance securitizations.

e. Affiliated reinsurance transactions and concentration risk.

f. Disclosure requirements specific to reinsurance transactions, agreements and counterparties, if such information is not provided under another item.

<u>11. CPA Audits</u>

A jurisdiction shall provide a description of its requirements applicable to annual audits of domestic reinsurers by independent certified public accountants. This description should include, but not be limited to, a discussion of the following key elements:

a. Requirements for the filing of audited financial statements prepared in conformity with accounting practices prescribed or permitted by the domiciliary supervisor.

b. Contents of annual audited financial reports.

c. Requirements for selection of auditor.

d. Allowance of audited consolidated or combined financial statements.

e. Notification of material misstatements of financial condition.

f. Supervisor’s access to auditor’s work papers.

g. Audit committee requirements.

h. Requirements for reporting of internal control-related matters.

<u>12. Receivership</u>

A jurisdiction shall provide a description of the receivership scheme for the administration of reinsurers found to be insolvent. This should include a description of the liquidation priority of reinsurance obligations to domestic and non-domestic ceding insurers in the context of an insolvency proceeding of a reinsurer.

<u>13. Filings with Supervisory Authority</u>

The jurisdiction shall provide a description of the requirements applicable to filing of annual and interim statements with the supervisory authority. For example, U.S. state insurance regulators receive required financial reports from insurers on a regular basis that are the baseline for continual assessment of the insurer’s risk and financial condition. This description should include, but not be limited to, a discussion of the following key elements:

a. The use of standardized financial reporting in the financial statements to ensure comparability of results among insurers.

b. The use of supplemental data to address concerns with specific companies or issues.

c. Frequency of updates to any standardized format as necessary to incorporate significant, common insurer risks.

d. Filing format (e.g., electronic data capture).

e. The extent to which financial reports and information are public records.

14. Reinsurance Intermediaries

A jurisdiction shall provide a description of its regulatory framework for the regulation of reinsurance intermediaries.

15. Regulatory Authority

A jurisdiction shall provide a description of its regulatory framework for the organization and licensing of domestic reinsurers.

16. Other Regulatory Requirements with respect to Reinsurers

A jurisdiction shall provide a description of any other information it deems necessary to adequately describe the effectiveness of the jurisdiction's laws and regulations with respect to its reinsurance supervisory system.

Section B: Regulatory Practices and Procedures

Section B is intended to facilitate an evaluation of whether the jurisdiction effectively employs base-line regulatory practices and procedures to supplement and support enforcement of the jurisdiction's financial solvency laws and regulations described in Section A. This evaluation methodology recognizes that variation may exist in practices and procedures across jurisdictions due to the unique situations each jurisdiction faces. Jurisdictions differ with respect to staff and technology resources that are available as well as the characteristics of the domestic industry regulated. A determination of effectiveness may be achieved using various financial solvency oversight practices and procedures. This evaluation is not intended to be prescriptive in nature.

The jurisdiction will provide a description and explanation of the regulatory practices and procedures it employs in order to effectively supervise its domestic reinsurers with respect to the items included under this Section.

1. Financial Analysis

A jurisdiction shall provide a description and explanation of its practices and procedures with respect to the financial analysis of its domestic reinsurers. Such description should include, but not be limited to a discussion of the following key elements:

a. Qualified Staff and Resources
The resources employed to effectively review the financial condition of all domestic reinsurers.

b. Communication of Relevant Information to/from Financial Analysis Staff
The process under which relevant information and data received by the supervisory authority are provided to the financial analysis staff and the process under which the findings of the financial analysis staff are communicated to the appropriate person(s).

c. Supervisory Review
How the jurisdiction's internal financial analysis process provides for supervisory review and comment.

d. Priority-Based Analysis
How the jurisdiction's financial analysis procedures are prioritized in order to ensure that potential problem reinsurers are reviewed promptly. Indicate whether the prioritization scheme utilizes factors as guidelines to assist in the consistent determination of priority designations, and include a description of such factors.

e. Depth of Review
Include a description of how the jurisdiction's financial analysis procedures ensure that domestic reinsurers receive an appropriate level or depth of review commensurate with their financial strength and position.

f. Documented Analysis Procedures
Include a description of how the jurisdiction has documented its financial analysis procedures and/or guidelines to provide for consistency and continuity in the process and to ensure that appropriate analysis procedures are being performed on each domestic reinsurer.

g. Reporting of Material Adverse Findings
Describe the process for reporting material adverse indications, including the determination and implementation of appropriate regulatory action.

h. Action on Material Adverse Findings
Whether the jurisdiction takes timely action in response to the reporting of any material adverse findings or adequately demonstrates the determination that no action was required.

2. Financial Examinations

A jurisdiction shall provide a description and explanation of its practices and procedures with respect to the financial examinations of its domestic reinsurers. Such description should include, but not be limited to, a discussion of the following key elements:

a. Qualified Staff and Resources
The resources employed to effectively examine all domestic reinsurers, including whether the jurisdiction prioritizes commensurate with the financial strength and position of each reinsurer.

b. Communication of Relevant Information to/from Examination Staff
The process under which relevant information and data received by the supervisory authority are provided to the examination staff and the process under which the findings of the examination staff are communicated to the appropriate person(s).

c. Use of Specialists
Whether the jurisdiction's examination staff includes specialists with appropriate training and/or experience or otherwise have available qualified specialists, which will permit the supervisory authority to effectively examine any reinsurer. Are specialists utilized where appropriate given the complexity of the examination or identified financial concerns.

d. Supervisory Review
Include a description of how the jurisdiction's procedures for examinations provide for supervisory review of examination work-papers 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. Use of Appropriate Guidelines and Procedures
Description of the policies and procedures the jurisdiction employs for the conduct of examinations, including whether variations in methods and scope are commensurate with the financial strength and position of the reinsurer.

f. Performance and Documentation of Risk-Focused Examinations
Does the jurisdiction perform and document risk-focused examinations, and if so, what guidance is utilized in conducting the examinations? Are variations in method and scope should be commensurate with the financial strength and position of the reinsurer.

g. Scheduling of Examinations
Description of whether the jurisdiction's procedures provide for the periodic examination of all domestic reinsurers on a timely basis, including how the system prioritizes reinsurers that exhibit adverse financial trends or otherwise demonstrate a need for examination.

h. Examination Reports
Description of the format in which the jurisdiction's reports of examinations are prepared, and how the reports are shared with other jurisdictions under information sharing agreements.

i. Reporting of Material Adverse Findings
Describe the process for reporting material adverse findings, including the determination and implementation of appropriate regulatory action.

j. Action on Material Adverse Findings
Whether the jurisdiction takes timely action in response to the reporting of any material adverse findings or adequately demonstrates the determination that no action was required.

3. Information Sharing

The jurisdiction shall provide a description of its process for the sharing of otherwise confidential documents, materials, information, administrative or judicial orders, or other actions with U.S. state regulatory officials, provided that the recipients are required, under their law, to maintain its confidentiality. States should then be permitted to share this confidential information with the NAIC.

4. Procedures for Troubled Companies

Provide a description of the procedures the jurisdiction follows with respect to troubled reinsurers. Once the supervisory authority has identified a reinsurer as troubled or potentially troubled, does the supervisory authority take steps to address the identified concerns.

5. Organization, Licensing and Change of Control of Domestic Reinsurers

The focus of this section is on strengthening financial regulation and the prevention of unlicensed or fraudulent activities. The description should include, but not be limited to, a discussion of the following key elements:

a. Licensing Procedure.
A jurisdiction should have documented licensing procedures that include a review and/or analysis of key pieces of information included in a primary licensure application.

b. Staff and Resources.
Provide a description of the minimum educational and experience requirements for licensing staff, commensurate with the duties and responsibilities for analyzing company applications. Does the staff responsible for analyzing applications have a background in accounting, insurance/reinsurance, financial analysis or actuarial science? Does the department have sufficient resources to effectively review applications for licensure?

c. Scope of Procedures for Filings with respect to Change in Control of a Domestic Reinsurer.
Provide a description of any procedures for the review of key pieces of information included in filings with respect to change in control of a domestic reinsurer.

Section C. Jurisdiction's Requirements Applicable to U.S. Domiciled Reinsurers

The jurisdiction shall provide a description and explanation of the rights, benefits and the extent of reciprocal recognition afforded by the non-U.S. jurisdiction to reinsurers licensed and domiciled in the U.S.

Section D. Regulatory Cooperation and Information Sharing

The jurisdiction must agree to share information and cooperate with the U.S. state insurance regulators with respect to all certified reinsurers domiciled within the jurisdiction. The jurisdiction shall provide a confirmation and explanation of the supervisory authority's ability to cooperate, share information, and enter into an MOU with U.S. state insurance regulators. This should include information with respect to any existing MOU with U.S. state or federal authorities that pertain to reinsurance. The NAIC and the states will communicate and coordinate with FIO, USTR and other relevant federal authorities as appropriate with respect to the MOU process.

Section E. History of Performance of Domestic Reinsurers

The jurisdiction shall provide a general description with respect to the historical performance of reinsurers domiciled in the jurisdiction. This discussion should include, but not be limited to, the following information:

a. Number of reinsurers domiciled in the jurisdiction.

b. Any regulatory actions taken against specific reinsurers within the last 10 years.

c. A list of any reinsurers that have gone through insolvency proceedings within the last 10 years.

d. Any significant industry-wide fluctuations in capital or profitability with respect to domestic reinsurers within the last 10 years.

e. Any solvent schemes of arrangement or similar procedures that a domestic reinsurer has proposed or participated in.

Section F. Enforcement of Final U.S. Judgments

The jurisdiction shall provide a description or explanation of any restrictions with respect to the enforcement of final foreign judgments in the domiciliary jurisdiction. The NAIC will make a determination upon the effectiveness of the ability to enforce final U.S. judgments in the jurisdiction. This will include a review of the status of various treaties, conventions and international agreements with respect to final judgments, arbitration and choice of law.

Section G. Financial Sector Assessment Program (FSAP) Report

The jurisdiction shall provide a copy of the most recent FSAP Report.

Section H. Solvent Schemes of Arrangement

The jurisdiction shall provide a description of any legal framework that allows reinsurers domiciled in the jurisdiction to propose or participate in any solvent scheme of arrangement or similar procedure.