

## **Insurance Department Financial Analysis Support Services**

### **Statement of Work**

#### **Introduction**

The Pennsylvania Insurance Department (“PID”) is seeking multiple contractors to assist with its financial analysis functions on a temporary basis. This work involves auditing and accounting functions in the review and analysis of insurance company financial statements and other filings in order to determine compliance with the Commonwealth’s laws and regulations in support of PID’s solvency surveillance of licensed insurers for the protection of policyholders.

#### **Minimum Qualifications**

In order to provide the services identified in this Statement of Work, PID requires that the selected contractors have the following minimum qualifications:

1. Familiarity with any relevant Pennsylvania insurance laws and regulations associated with financial analysis of quarterly and annual statements.
2. Familiarity with the current versions of the National Association of Insurance Commissioners (“NAIC”) Financial Analysis Handbook and Accounting Practices and Procedures Manual.
3. Familiarity with TeamMate® Audit Management software (“TeamMate”).

#### **Tasks**

The selected contractors shall perform the following tasks:

1. Upon assignment of work/task, verify that no conflict of interest exists for the company that is the subject of the financial analysis. Verification that no conflict exists must be submitted to PID in writing within 2 business days of receipt of an assignment.
2. Upon assignment of work, prepare a proposed budget and recommended work plan and timeline for the completion of the services required herein to be approved by PID before any further services are provided under this engagement. This proposed budget and recommended work plan and timeline for completion of the services required herein must be submitted to PID within 3 business days of receiving an assignment.
3. Review and analysis may include: (a) 2016 annual statements; 2017 first, second and third quarter statutory financial statements ; and (b) 2016 non-lead state holding company system group profile summary (GPS), including the review of the annual holding company system registration statements (Form B), the ERM (Form F), legal entity grids, 10K/annual reports, and business plans for specifically identified PA domestic multi-state companies and holding company systems. This review and analysis shall include at least the following:
  - a. Auditing and accounting review and analysis in a manner that is consistent with the NAIC Financial Analysis Handbook and the Accounting Practices and Procedure Manual. It may also be necessary to reference any of the following NAIC publications: 2017 Quarterly Statement Blanks and Instructions (L,P,T,F,H); 2016 Annual and Quarterly Statement Blanks and Instructions (L,P,T,F,H); 2016 IRIS Ratio

Manual, 2017 Quarterly, 2016 Annual, and 2017 Quarterly Financial Analysis Solvency Tools (FAST).

- b. Review of the insurer's assets, liabilities, investments, income, expenses, surplus, premium, loss reserves, and other schedules and exhibits, including the use of Pennsylvania Benchmarks (P&C & Life only), NAIC's Complete Profile, Analyst Team System Level/Score/Report, Risk Based Capital Ratios, and checklist procedures including Level 1 and/or Level 2 (to be provided by the Department).
  - c. Performing testing and verification of accuracy of financial information submitted by companies.
  - d. Determining if the insurance company is operating within the limitations of the Commonwealth's insurance laws and regulations.
  - e. Recommending the priority category an insurance company should be placed in based upon the analysis findings, as well as possible corrective action and follow-up procedures to improve the financial condition of the insurance company and whether closer scrutiny is required.
  - f. Application of the NAIC early warning test ratios to assist in determining the insurance company's solvency and to target areas of the insurance company's operations for closer scrutiny including Financial Analysis Solvency Tools (FAST).
  - g. Obtaining additional data on insurance companies by reviewing and analyzing outside sources of insurance such as the NAIC Insurance Regulatory Information System (IRIS), NAIC I-Site, rating data, company examination reports, market conduct reports, and CPA audit reports.
  - h. Completion and certification of any necessary checklists and other procedures, which are provided to PID for supervisory review.
4. Utilize TeamMate software for financial analysis management and documentation, as directed by PID, and maintain any necessary TeamMate licenses required to complete the work associated with this Statement of Work.
  5. Obtain any necessary and up to date publications from the NAIC.
  6. Maintain all information reviewed and received while conducting financial analysis on behalf of PID confidential.
  7. Engage in discussions (including via telephone and email) with PID staff as needed throughout the term of this engagement and respond promptly to PID staff requests.
  8. Engage in questions and inquiries with assigned companies, as required to complete the analyses.
  9. Participate in any training as directed by PID to facilitate the completion of the services required by this Statement of Work.
  10. Perform other associated tasks required to complete the services identified in this Statement of Work.
  11. Maintain as confidential, even after the termination of this engagement, any and all information received or reviewed in the performance of services under this Statement of Work.
  12. Prepare or update Insurer Profile Summaries (IPS) for any assigned analyses, including the GPS report.

13. Return to the Department all: procedures, work papers, checklists, source documents, communications (e-mails, letters, faxes), and other items upon completion of assignments.

**Deliverables**

Verification of No Conflicts	Due within 3 business days of receipt of specific assignment for financial analysis.
Proposed Budget and Recommended Work Plan and Timeline	Due within 5 business days of receipt of specific assignment for financial analysis.
Financial Analysis Checklist	Due on date identified in recommended timeline (as approved by PID).

**Budget Requirements:**

Work associated with the services in this Statement of Work will be assigned at the discretion of PID. The proposed budget shall be at a fixed, blended hourly rate to be invoiced at the completion of each month to PID's satisfaction. PID will not be charged for any time associated with determining or verifying conflicts, or the development of the proposed budget and recommended work plan and timeline.

The total budget for this engagement shall not exceed \$200,000.

**Term of the Engagement**

The term of the engagement will be the shorter of: (a) September 30, 2017; or (b) the total expenditure of budgeted funds (not to exceed \$200,000 during the term of this engagement).