



National Association of Insurance Commissioners

To: Leslie Jones, Chair
Risk Retention Group (E) Task Force

From: Patrick McNaughton, Chair
RRG (E) Subgroup of the Financial Examiners Handbook (E) Technical Group

Date: June 10, 2010

Regarding: Proposed Accreditation Scope Limitations for Certain Risk Retention Groups

In its September 3, 2008 meeting, the Financial Examiners Handbook (E) Technical Group formed the RRG (E) Subgroup in response to a memo dated May 31, 2008 from Julie Glaszczak, Senior Accreditation Manager (NAIC) to the Risk Retention Group (E) Task Force. The RRG Subgroup was formed to develop financial examination guidance for the unique circumstances and risks in examining RRGs. In order to accomplish this charge, the Subgroup spent significant time evaluating the adequacy of the 7 Phase Risk-Focused Examination Approach with regard to examinations of RRGs, as well as developing additional necessary examination procedures.

The subgroup ultimately concluded that the 7 Phase Risk-Focused Examination Approach was applicable, with certain exceptions, to RRGs. However, although the group determined the Risk-Focused approach to be applicable, discussions arose with regard to the efficiency and effectiveness of performing a risk-focused examination for certain types of RRGs. Based upon these discussions the RRG Subgroup is not sure that full-scope, risk-focused exams would be necessary to address the risks of certain RRGs and may represent an unnecessary cost burden in certain instances. The Subgroup is, therefore, suggesting that the RRG Task Force discuss the potential for certain RRGs to be exempted from the accreditation standards surrounding the examination of an RRG in instances in which conducting an risk-focused examination would result in no additional measurable benefit.

Considerations that could be made with regard to these exemptions include, but are not limited to:

- The size of the RRG, based upon premium volume
- The effects the RRG has on non-domiciliary states
- The type of business written
- The riskiness of investments held by the RRG
- The ownership/membership (Type) of the RRG

I appreciate your time in attending to this matter. Please contact me or Jodi Bachelor (NAIC) if you should have any questions. Thank you.

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