

October 22, 2009

Bruce Jenson, CPA
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National Association of Insurance Commissioners
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Via e-mail to: bjenson@naic.org

Re: Proposed Change to Model Audit Rule Implementation Guide

Dear Mr. Jenson:

On behalf of Invotex, Inc., I am pleased to respond to your request for comment on the proposed change to the Model Audit Rule Implementation Guide.

The proposed change purports to clarify the definition of “group of insurers” in the Implementation Guide. However, our reading of the proposed additional language is that it does not actually clarify that definition; rather, it renders it moot. It would create new requirements that would apply “regardless” of how a company defines the group structure in place. Moreover, those proposed new requirements appear to be inconsistent with the Annual Financial Reporting Model Regulation (AFRMR) itself and could force some insurers to revamp their efforts to comply with the AFRMR at some additional and unanticipated cost. Inasmuch as most insurers are now well on their way toward preparations to comply with the new AFRMR, such a change comes late in the game and could cause some to go back and perform much additional work and incur additional expense.

The proposed change to the Implementation Guide states that management’s assertion must apply at the legal entity level. That suggestion appears to be at odds with Section 16 of the AFRMR itself, which states that “Every insurer required to file an Audited financial report pursuant to this regulation . . . shall prepare a report of the insurer’s or Group of insurers’ Internal control over financial reporting...” (emphasis added)

My recollection of the deliberations before the NAIC/AICPA Working Group and the Revised Interested Party Proposal that was brought forward during that process is that the Section 16 report would be performed at either the insurer or “group of insurers” level, at the discretion of the company. The proposed “clarification” does not help to better interpret what is meant by the term “group of insurers,” but its impact would, for all practical purposes, eliminate that very concept and result in scoping and reporting at the legal entity level.

I also recall the efforts of the Risk Assessment Working Group that were ongoing in the same timeframe that the AFRMR was being developed by the NAIC/AICPA Working Group. The two initiatives were originally entwined to some degree in that it was hoped that efforts to improve and document internal controls over financial reporting would also enhance the ability of examiners to perform more efficient and effective examinations utilizing the risk-focused approach.

As I'm sure you are aware, implementation of the risk-focused examination approach has since given rise to some concerns as to how regulators might better coordinate their efforts on examinations of affiliated entities. Related discussions are currently ongoing at the Financial Examiners Coordination Working Group. Efforts to improve coordination of examinations of insurers within a group would seem to be enhanced by a regulatory system that recognizes that some groups of insurers do operate, manage, and control operations, risks, and financial reporting on a group basis, and which is able to assess and examine those insurers on that basis.

I would be pleased to address any questions you may have about these comments.

Sincerely,

s/ATF

A. Thomas Finnell, Jr.
Managing Director