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October 10, 2005

Mike Moriarty
Chair, Risk Assessment Working Group

c/o Leslie Geel, by e-mail: lgeel@naic.org
National Association of Insurance Commissioners

Comments on Risk Assessment Working Group's Proposed Revisions to the Examiners
Handbook

Mr. Moriarty:

Maryland First Financial Services Corp. is pleased to respond to your request for comments on the Risk Assessment Working Group's proposed revisions to the Financial Condition Examiners Handbook.

I previously submitted comments on an earlier release of the draft guidance in letters to the NAIC dated January 18, 2005 and February 18, 2005. You also kindly provided me the opportunity to explain my comments before the working group at an interim meeting in Chicago last January. However, it was not until the working group released its latest draft on August 25, 2005 that I was able to have any sense of the working group's reactions to those prior recommendations and how, if at all, they may have been addressed in the latest revisions. However, and based on my review of the revised text alone, I can not readily determine how my prior recommendations were considered by the working group.

This lack of clarity is exacerbated by several factors:

- The large volume of text that is now involved.
- The lack of an actual case study or example.
- The lack of dialogue between the working group and prior respondents as the initial text was being revised.
- The fact that drafting meetings have occurred in executive session.

As a result, as I strived to respond to your latest request for comments I found myself repeating comments that had been made earlier. Accordingly, I ceased those efforts. Instead, I hope that the working group will be amenable to a face-to-face meeting with all interested parties to explain how comments received during the initial exposure period last winter were considered in the revised text. I believe that such a meeting is necessary, because what is involved is more than mere editing. There are a number of substantive

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issues presented, and it would be helpful if those could be openly discussed to make sure that there is an adequate understanding by all.

It is often said that “a picture is worth a thousand words.” In the case of the proposed text, I believe that is an apt description of the problem that confronts us. There is a large amount of text that, if followed, would presumably culminate in the development of a risk assessment matrix and the determination of procedures to be deployed. However, the only “picture” that we have of that is a one-page matrix format that is void of content. Furthermore, it is apparent to me that if actual content was applied to the matrix, it would inevitably expand into a considerably larger, more complex, and perhaps unmanageable analysis. Until illustrative, substantive examples of the matrix are provided, it will be difficult to ensure that regulators and interested parties are of a common mind as to the concepts presented in the handbook. Such examples will also be necessary to ensure that examiners have a uniform vision of the new approach as it is launched. With a better and more common understanding, further edits should then be able to proceed apace.

I continue to have concerns about certain aspects of the handbook, including the following:

- The need for some kind of structure to define and frame key functional activities, how they relate to risks, and which of those – risks or activities – would actually comprise the best starting point for the planning process.
- The strategic role for analytical review as part of the examination effort.
- The deployment strategy that will be utilized, and what that may suggest about the amount of detail or examples to include in the text as opposed to other means, e.g., through training, on-line reference materials, etc.
- Ensuring that the stated “top-down” approach is actually applied in that manner, and that there is a reasonable balance between the desire to have all risks subjected to exam consideration on the one hand, and the practical need to more tightly focus the examination effort on the other.
- The practical realities of addressing a broader spectrum of risks as part of the exam process, for which insurers may have practices in place that are fewer in number and more varied as to their nature and effectiveness, as compared to traditional financial risks.
- What the outcomes would be for non-traditional risks, such as operational and strategic risks. What procedures would be deployed, how extensive might they be, what findings could arise and how might they be communicated?
- The application of PM/TE to non-traditional risks and the determination of procedures to be performed, and the lack of any quantitative guidance in the revised text as to how to determine PM.

I am aware that the interested parties group has or will be responding to you about various concerns relating to the work of the NAIC/AICPA working group and the need to

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synchronize efforts with those of the Risk Assessment Working Group. I would also echo those concerns.

I hope that you will find these comments constructive and helpful as you strive to improve upon the handbook, and look forward to an opportunity to be engaged in dialogue with the working group on these matters.

Sincerely,

A handwritten signature in cursive script, appearing to read "A. Thomas Finnell, Jr.".

A. Thomas Finnell, Jr.

Managing Director

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