



STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

David A. Paterson  
Governor

Eric R. Dinallo  
Superintendent

Circular letter No. 25 (2008)  
November 18, 2008

To: All New York authorized insurers  
RE: Financial Condition Stress Testing  
Statutory Reference: Sections 305, 308 and 309 of the Insurance Law

The New York State Insurance Department will be commencing a review of insurers' financial stress testing and scenario analyses. The Department expects every insurer to have a scenario stress testing process in place as part of prudent management. The Department intends to review those processes, including investment functions, to discern how different economic scenarios are analyzed by senior management to determine what actions are warranted.

Insurers should systematically review their stress testing and scenario analyses, especially in light of recent market events. In a robust process, inputs, assumptions, stress scenarios and the resulting impact must be continuously monitored, assessed and updated. Scenarios may include; interest rate shocks; equity market shocks; yield curve shifts; changes in credit quality and liquidity; rating agency downgrades; collateral calls; and large-scale catastrophes.

Any models utilized by insurers also may be reviewed by the Department. In addition, the Department will evaluate how such models are independently reviewed within the company by risk management professionals, internal auditors, external auditors and/or consulting firms. During the Department's reviews, insurers may be required to furnish relevant reports and analyses demonstrating the use of stress testing in the management of their businesses.

The Department's reviews will be conducted primarily on-site at the insurers' offices, and initially the Department will focus its attention on New York domestic insurers. The Department's Property, Life and Health Bureaus will be contacting insurers to set up the reviews. It is anticipated that these reviews each will run a day or two in duration, although that may be subject to change depending on a company's circumstances.

Please contact Chief Risk Management Specialist of the Department's Capital Markets Bureau, Tim Nauheimer, at (212) 480-7213 or [tnauheim@ins.state.ny.us](mailto:tnauheim@ins.state.ny.us) with any questions regarding this Circular Letter.

Very truly yours,

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