

Draft date: 10/24/25

*Virtual Meeting*

**FINANCIAL ANALYSIS SOLVENCY TOOLS (E) WORKING GROUP**

Thursday, November 6, 2025

2:00 – 3:00 p.m. ET / 1:00 – 2:00 p.m. CT / 12:00 – 1:00 p.m. MT / 11:00 a.m. – 12:00 p.m. PT

**ROLL CALL**

Greg Chew, Chair	Virginia	Kristin Hynes	Michigan
Amy Garcia, Vice Chair	Texas	Danielle Smith	Missouri
Richard Russell/Todrick Burks	Alabama	Paul Lupo	New Jersey
Dave Lathrop/Kurt Regner	Arizona	Victor Agbu	New York
Michelle Lo	California	Tracy Snow/Mark Boston	Ohio
Jack Broccoli	Connecticut	Ryan Keeling	Oregon
N. Kevin Brown	District of Columbia	Liz Ammerman/Ted Hurley	Rhode Island
Carolyn Morgan/Shalice Rivers	Florida	Samantha Watkins	South Dakota
Amanda Denton	Indiana	Kristin Forsberg	Wisconsin
Gregory Ricci	Maryland		

NAIC Support Staff: Rodney Good/Ralph Villegas/John Murray

**AGENDA**

1. Consider Adoption of Sept. 23, 2025, Meeting Minutes—*Greg Chew (VA)* Attachment 1
2. Discuss Comments on Exposed Model 385 Hazardous Financial Condition Handbook Guidance—*Greg Chew (VA)* Attachment 2
  - a. Exposed Handbook Guidance
  - b. Comments – North Carolina Department of Insurance
  - c. Comments – Ohio Department of Insurance
  - d. Comments – Wisconsin Office of the Commissioner of Insurance
  - e. Comments – Doggett Consulting Services, LLC
3. Discuss Comments on Exposed Changes to the Handbook Guidance and Consider Adoption of Revised Guidance —*Greg Chew (VA)* Attachment 3
  - a. Branded Risk Assessment
  - b. Blank Changes Guidance for Principle Based Bond Definition (PBBD)
  - c. Separate Accounts General Interrogatories Disclosures on Guarantees
  - d. Notes to the Financial Statement
  - e. Risk Assessment IPS and GPS Examples
4. Consider Adoption of Changes to P/C IRIS Adjusted Liabilities to Liquid Assets Ratio—*Greg Chew (VA)* Attachment 4



5. Discuss Any Other Matters Brought Before the Working Group  
—*Greg Chew (VA)*
6. Adjournment

Draft: 10/22/25

Financial Analysis Solvency Tools (E) Working Group  
Virtual Meeting  
September 23, 2025

The Financial Analysis Solvency Tools (E) Working Group of the Examination Oversight (E) Task Force met Sept. 23, 2025. The following Working Group members participated: Greg Chew, Chair (VA); Amy Garcia, Vice Chair (TX); Richard Russell and Todrick Burks (AL); Dave Lathrop and Kurt Regner (AZ); Michelle Lo (CA); Jack Broccoli (CT); N. Kevin Brown (DC); Carolyn Morgan and Shalice Rivers (FL); Amanda Denton (IN); Greg Ricci (MD); Kristin Hynes (MI); Danielle Smith (MO); Paul Lupo (NJ); Victor Agbu (NY); Tracy Snow, Mark Boston, David Cook, and Eric Hronek (OH); Ryan Keeling (OR); Liz Ammerman and Ted Hurley (RI); Samantha Watkins (SD); and Kristin Forsberg (WI).

1. Adopted the *Financial Analysis Handbook* Guidance Referred by the Risk-Focused Surveillance (E) Working Group

Chew said the Working Group received a referral from the Risk-Focused Surveillance (E) Working Group to request the adoption of a revision to the *Financial Analysis Handbook* (Handbook) for guidance regarding contractor oversight. The proposed guidance is consistent with guidance proposed for the *Financial Condition Examiners Handbook* that was discussed and exposed by the Risk-Focused Surveillance (E) Working Group.

Garcia made a motion, seconded by Russell, to adopt the Handbook guidance for contractor oversight (Attachment x-x). The motion passed unanimously.

2. Exposed Draft *Financial Analysis Handbook* Revisions

Chew said several amendments to the Handbook are proposed, including proposed guidance on the recommended interpretation of conditions in the *Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition* (Model #385), which had resulted in a referral received from the Chief Financial Regulator Form (Attachment x-x). In addition, committee support are proposing revisions to various other sections of the Handbook in response to statutory financial statement blanks changes and general enhancements to the guidance.

A. Model #385 Financial Hazardous Condition Standards Guideline

Ralph Villegas (NAIC) said regarding Model #385 guidance, committee support drafted recommendations for interpreting Model #385 Subsection 3E and Subsection 3F within the Handbook Section IIIA(4)—Risk Assessment. The proposed guidance indicates regulators should still refer to each respective state's laws regarding hazardous financial condition criteria, as the proposal is intended to be guidance. Villegas asked the Working Group to consider exposing the draft for public comment.

Hronek said Ohio includes unrealized capital gains/losses in its net capital gain/loss calculation. Jane Koenigsman (NAIC) responded that the calculation in the proposal is based on feedback committee support received from a survey of state insurance regulators, where the majority of states provided that they did not include unrealized capital gains/losses. Koenigsman suggested that comments be requested specifically on which capital gains elements would be preferred in the calculation.

Cook said he thinks it is double-counting realized gains or losses included in net income. Villegas said he did not believe the calculation double-counted realized capital gains/losses. Chew agreed and asked Hronek and other commentators to comment on the exposure draft regarding whether to include net gains/losses, either realized, unrealized, or both.

#### B. Branded Risk Assessment User Guidance

Koenigsman said the revisions in the Handbook chapter IIIA(7) move this guidance to the front of the risk assessment section of the Handbook to eliminate redundancy. Additional edits are intended to encourage customization.

#### C. Guidance for PBBD

Koenigsman said the credit, liquidity, and market risk assessment chapters include updates made in response to statutory accounting and financial statement blanks reporting. The most significant revisions are for the principle-based bond definition (PBD). Revisions are drafted to be high-level on purpose. Koenigsman said that the guidance on structured notes is proposed to be deleted, and there is added guidance proposed on new modified coinsurance (modco) and funds withheld reinsurance reporting.

#### D. Guidance for Separate Accounts General Interrogatories Disclosures on Guarantees

Koenigsman said updates to the life reserves risk assessment chapter include guidance and a procedure on the new disclosures under *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55) related to asset adequacy testing (AAT) on reinsurance. Additionally, updates are proposed related to statutory financial statement blanks changes for separate account guarantees.

#### E. Guidance for Notes to the Financial Statement

Koenigsman said there were a multitude of Statutory Financial Statement Blanks Instruction changes that impacted notes to the financials, tax credit structures withheld, commitments and financing arrangements, reinsurance, and health care receivables.

#### F. Exposed Risk Assessment IPS and GPS Examples

Koenigsman said committee support proposed updates to the example Insurer Profile Summary (IPS) and Group Profile Summary (GPS) that are in the Handbook, as they believe the examples are out-of-date. Koenigsman stated that committee support recommend deleting the “Other Risk” category.. Koenigsman requested state insurance analysis staff feedback, recommending exposure of recommendations for public comment. With no objections, Chew said the proposed revisions to the handbook will be exposed for a 30-day public comment period ending Oct. 23, with a request to comment specifically on the unrealized capital gains and losses in the hazardous financial condition formula guidance.

### 3. Exposed Proposed Changes to P/C IRIS Ratio 9—Adjusted Liabilities to Liquid Assets Ratio

Rodney Good (NAIC) said that the Insurance Regulatory Information System (IRIS) Ratio 9—Adjusted Liabilities to Liquid Assets currently pulls the affiliated stock value from the five-year historical data table, which includes both

## **Attachment 1**

Attachment x-x

Examination Oversight (E) Task Force

12/XX/25

admitted and non-admitted amounts. This creates a double penalty for insurers with non-admitted affiliated amounts. In 2024, five insurers would have avoided the unusual result if the calculation excluded non-admitted values. Therefore, committee support recommended changing the source for affiliated stocks from the five-year historical data table to Schedule D, Part 6, where the net admitted value can be obtained.

With no objections, Chew said the IRIS ratio change will be exposed for a 30-day public comment period ending Oct. 23.

Having no further business, the Financial Analysis Solvency Tools (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2025\_3Fall/EOTF/FASTWG 9-23-2025 meeting minutes.docx

## III.A.4. Risk Assessment (All Statement Types) – Analyst Reference Guide

## Hazardous Financial Condition

The following standards, as outlined in *Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition* (Model #385), are included within each state insurance department's laws and regulations. [Refer to your own state's law for specific language].

**Model Law 385 – Hazardous Financial Condition***Section 3.*

*Standards* The following standards, either singly or a combination of two or more, may be considered by the commissioner to determine whether the continued operation of any insurer transacting an insurance business in this state might be deemed to be hazardous to its policyholders, creditors or the general public. The commissioner may consider:

*E. Whether the insurer's operating loss in the last twelve-month period or any shorter period of time, including but not limited to net capital gain or loss, change in non-admitted assets, and cash dividends paid to shareholders, is greater than fifty percent (50%) of the insurer's remaining surplus as regards policyholders in excess of the minimum required;*

*F. Whether the insurer's operating loss in the last twelve-month period or any shorter period of time, excluding net capital gains, is greater than twenty percent (20%) of the insurer's remaining surplus as regards policyholders in excess of the minimum required;*

For purposes of consistency across states in applying these standards to domestic insurers, the following formulas are recommended to assist regulators in aligning the terminology within the standard to the annual financial statement reporting for each statement type.

Life, Accident and Health		
	Model #385 Term	Annual Statement Reference
A.	Operating Income	Net Income: Page 4, Column 1, Line 35
B.	Net Capital Gains or Loss	Net Realized Capital Gains (Losses): Page 4, Col. 1, Line 34, where the amount >0
C.	Change in non-admitted assets	Change in Non-admitted Assets: Page 4, Col. 1, Line 41
D.	Cash dividends paid to shareholders	Dividends to Stockholders: Page 5, Col. 1, Line 16.5
E.	Remaining surplus	Total of Lines 29, 30, and 37 (Capital and Surplus): Page 2, Col. 1, Line 38
F.	Minimum Required	[State specific]

Formula for Section 3E:  $[(A+C+D)/(E-F)]*100 >50\%$

Formula for Section 3F:  $[(A-B)/(E-F)]*100 >20\%$

Property & Casualty		
	Model #385 Term	Annual Statement Reference
A.	Operating Income	Net Income: Page 4, Column 1, Line 20
B.	Net Capital Gains or Loss	Net Realized Capital Gains (Losses): Page 4, Col. 1, Line 10, where the amount >0
C.	Change in non-admitted assets	Change in Non-admitted Assets: Page 4, Col. 1, Line 27
D.	Cash dividends paid to shareholders	Dividends to Stockholders: Page 5, Col. 1, Line 16.5

III.A.4. Risk Assessment (All Statement Types) – Analyst Reference Guide

E.	Remaining surplus	Surplus as regards policyholders: Page 2, Col. 1, Line 37
F.	Minimum Required	[State specific]

Formula for Section 3E:  $[(A+C+D)/(E-F)]*100 >50\%$

Formula for Section 3F:  $[(A-B)/(E-F)]*100 >20\%$

Health		
	Model #385 Term	Annual Statement Reference
A.	Operating Income	Net Income: Page 4, Column 1, Line 32
B.	Net Capital Gains or Loss	Net Realized Capital Gains (Losses): Page 4, Col. 1, Line 26, where the amount >0
C.	Change in non-admitted assets	Change in Non-admitted Assets: Page 5, Col. 1, Line 39
D.	Cash dividends paid to shareholders	Dividends to Stockholders: Page 6, Col. 1, Line 16.5
E.	Remaining surplus	Total capital and surplus: Page 2, Col. 1, Line 33
F.	Minimum Required	[State specific]

Formula for Section 3E:  $[(A+C+D)/(E-F)]*100 >50\%$

Formula for Section 3F:  $[(A-B)/(E-F)]*100 >20\%$

Title		
	Model #385 Term	Annual Statement Reference
A.	Operating Income	Net Income: Page 4, Column 1, Line 15
B.	Net Capital Gains or Loss	Net Realized Capital Gains (Losses): Page 4, Col. 1, Line 10, where the amount >0
C.	Change in non-admitted assets	Change in Non-admitted Assets: Page 4, Col. 1, Line 21
D.	Cash dividends paid to shareholders	Dividends to Stockholders: Page 5, Col. 1, Line 16.5
E.	Remaining surplus	Surplus as regards policyholders: Page 2, Col. 1, Line 32
F.	Minimum Required	[State specific]

Formula for Section 3E:  $[(A+C+D)/(E-F)]*100 >50\%$

Formula for Section 3F:  $[(A-B)/(E-F)]*100 >20\%$



October 21, 2025

VIA ELECTRONIC MAIL TO [RVillegas@naic.org](mailto:RVillegas@naic.org)

Mr. Greg Chew  
Chair, Financial Analysis Solvency Tools (E) Working Group

Re: North Carolina Comments on Financial Analysis Solvency Tools (E) Working Group (FASTWG) Exposed Revisions to 2025 Financial Analysis Handbook Specifically Related to the Hazardous Financial Condition Standards

North Carolina supports the quest for clarity and consistency across states on the inputs to and calculation of the hazardous financial condition metrics under Model Regulation #385 and feels that additional guidance may be helpful to regulators. We also agree with the proposed calculation of the second standard in Section 3F, but we do not agree with the proposed inputs to the calculation of the first standard in Section 3E in the FASTWG exposure.

As discussed in our June response to the FASTWG survey on this subject, we approach the first standard in Section 3E as a general measure of the change in capital and surplus during the period and the second standard in Section 3F as a measure of the significance of a net loss for the period. We cannot definitively say that our approach aligns with the original intent of the drafters of the model, but our application of these standards has evolved over many years of practice to differentiate between the two and to evaluate two equally important but different measures, a significant drop in surplus vs. a significant net loss. A significant net loss can often result in a significant drop in surplus, but these two measures are not always correlated. A significant net loss can be offset by other capital and surplus increases like a capital contribution to avoid a significant drop in surplus. Likewise, a significant drop in surplus can result from capital and surplus adjustments that do not flow through the income statement like large stockholder dividends, unrealized capital losses, increases in nonadmitted assets, etc. regardless of whether there was a significant net loss for the period. We believe our approach more accurately identifies large net losses and significant declines in surplus, whether or not they are associated.

In applying the first standard and using references to the 2024 P&C Annual Statement Blank, we start with Net Income from Page 4, Line 20 as the “operating loss” and rely on the “including but not limited to” model language in our statutes to adjust it for all capital and surplus account changes included on Page 4, Lines 23 through 37 to get our starting numerator. We believe that the “including but not limited to” model language is intended to give regulators discretion on what items to include as adjustments to the “operating loss” and suggests that we consider other surplus adjustments beyond those explicitly referenced when appropriate. (It should be noted that the second standard in Section 3F does not include such language, which makes that

calculation less subjective) Therefore, our analysts then evaluate these adjustments using their judgment and knowledge of the particular insurer's activities and can remove the impact of any changes in the capital and surplus account deemed appropriate under the circumstances to get an adjusted numerator to be used as the measure of change in surplus for the period.

One concern we have with the proposed calculation of the first standard is that it prescribes fixed inputs, effectively ignoring the "including but not limited to" language of the model regulation and removing the discretionary authority we believe exists, which we don't think is appropriate. Another and potentially more important concern is that by including only the items explicitly referenced in the model (capital gains and losses, change in non-admitted assets and dividends to shareholders) and not allowing any other appropriate inputs, this calculation is more likely to result in false positives or negatives and fail to consistently accomplish its purpose of identifying financially hazardous companies.

In summary, we favor our approach over the more limited fixed inputs approach exposed for use in the first standard for the following reasons:

1. It gives us the regulatory discretion and flexibility to include or exclude certain capital and surplus adjustments or other items based on the specific facts and circumstances as opposed to the fixed one-size-fits-all proposed approach.
2. It is more effective at consistently identifying companies truly in a hazardous financial condition and will result in fewer false positives or negatives.

As exposed, the proposed calculation of the first standard allows for no regulator discretion and ignores the fact that Model Regulation #385 and most states laws have the "including but not limited to" language. We don't think that replacing that discretion with prescribed fixed inputs is advisable or appropriate. As a side note, if included in the Financial Analysis Handbook these inputs would need to be reviewed annually and updated to reflect changes to page and line number references in the Annual Statement Blanks.

Thank you for considering our position and I'm happy to discuss this in more detail if needed. I can be reached at 919-807-6143 or [marwan.zabaneh@ncdoj.gov](mailto:marwan.zabaneh@ncdoj.gov).

Sincerely,

*Marwan Zabaneh*

Marwan Zabaneh, CPA  
Financial Research Manager



October 23, 2025

Financial Analysis Solvency Tools (E) Working Group  
Mr. Greg Chew, Virginia Bureau of Insurance, Chair  
Ms. Amy Garcia, Texas Department of Insurance, Co-Chair

Re: Exposed language for Hazardous Financial Condition – Calculation of Standard E within Model Law 385 Section 3 – Inclusion of Change in Net Unrealized Capital Gains/Losses

Dear Members of the Financial Analysis Solvency Tools (E) Working Group,

The Ohio Department of Insurance (“Ohio”) commends the working group on its efforts to provide clarification to the ambiguous language within NAIC’s Model Regulation to Define Standards and Commissioner’s Authority for Companies Deemed to be in Hazardous Financial Condition (Model #385) by adding additional guidance in the Financial Analysis Handbook. This guidance will no doubt be helpful to those not only performing these calculations for various analyses, but also for implementing the standards in regulatory actions against insurers. The Department would like to take this opportunity to suggest the working group consider adding “Change in Net Unrealized Capital Gains/Losses” in that guidance to ensure the spirit of Model 385 is maintained as written and intended; by making sure we identify a hazardous financial condition (“HFC”) through consideration of all major components that can impact the magnitude of loss in an insurer’s financial position.

Standard E within Section 3 of Model 385, specifically states:

*Whether the insurer’s operating loss in the last twelve-month period or any shorter period of time, including but not limited to **net capital gain or loss**, change in non-admitted assets, and cash dividends paid to shareholders, is greater than fifty percent (50%) of the insurer’s remaining surplus as regards policyholders in excess of the minimum required;*

However, the clarifying guidance appears to have excluded any reference to “net capital gain or loss” in the calculation. States that have adopted the language verbatim will be looking for guidance on how net capital gain or loss fits into the calculation. For example, does “net capital gain or loss” include realized, change in unrealized, or both? Now, Ohio did not adopt this model law verbatim as our Ohio Administrative Code 3901-3-04(C)(1)(e) states:

*As reported in the most recent quarterly or annual statutory financial statement filing, the insurer’s net loss or negative net income in the last twelve month period or any shorter period of time, including but not limited to **net unrealized capital gains or losses**, change in non-admitted assets, and the payment of cash dividends to shareholders which are greater than fifty per cent of such insurer’s remaining capital and surplus as regards policyholders in excess of the minimum amount required*

While regulators understand that Net **Realized** Capital Gains/Losses is already baked into Net Income and included in the referenced calculation, there is nothing that refers to the Change in Net **Unrealized** Capital Gains/Losses within the exposed calculation, which amount Ohio has found in many cases to be a large contributing component when considering the HFC tests for companies we regulate in Ohio. It is

in the model law verbiage but not recognized in the exposed guidance calculation to clarify that verbiage to be included in the Financial Analysis Handbook. That handbook is used by regulators and also made known to the industry. Our concern would be that states like Ohio that use that line item in their HFC calculation may now be questioned both by other states and by companies upon which the calculation is being used. By excluding the Change in Net Unrealized Capital Gains/Losses, the exposed formula would be missing a major component of what makes up the overall impact to the insurer's financial position (and condition).

For the clarifying guidance to be presented in the charts and formulae, Ohio recommends changing the statement reference of "Net Realized Capital Gains (Losses)" to "Change in net unrealized capital gains or (losses)" from the Capital and Surplus Account section of page 4 (page 5 for Health) for purposes of providing guidance to support the clarification of Standard E in Section 3 of Model Law 385. This would be in line with the other items found in the formula that are also in the Capital and Surplus Account section including net income, change in non-admitted assets and cash dividends paid to shareholders. Should the working group want to maintain the Net Realized Gain/Loss in the guidance tables, at a minimum it should also include "Change in net unrealized gains or (losses)," as well, to meet the "net capital gains or losses" language of Model 385, along with the "Formulae" change. If consistency of application to the model is the goal, all aspects of *net capital gain or loss* should be included.

Further, the exposure simply states, "For purposes of **consistency** across states in applying these standards to **domestic** insurers, the following formulas are **recommended** to assist regulators in aligning the terminology within the standard ... [emphasis added]." We would like to point out that HFC tests are not just used for domestic insurers, but all licensed insurers; and "recommended" should be changed to "suggested" (this is being added to the Analyst Reference Guide section) to avoid overstepping a state's specific rule language.

Should the working group have any questions, please do not hesitate to contact me at (614) 728-1072 or via email at [david.cook@insurance.ohio.gov](mailto:david.cook@insurance.ohio.gov).

Sincerely,

David A. Cook, CFE, CPA (Inactive)  
Chief Financial Analyst/Examiner  
Office of Risk Assessment

**Financial Analysis Solvency Tools (E) Working Group  
Exposure Draft [Due: 10/23/25]  
Proposed Revisions to the Financial Analysis Handbook  
(2025 Annual/2026 Quarterly)  
WI OCI Comments**

**1. Model 385 Financial Hazardous Condition Standards Guideline (pgs. 2-3) <sup>1</sup>**

Comments:

(1) On pg. 3 [P&C Table] – the Annual Statement Reference for “E – Remaining Surplus” is:

“Surplus as regards policyholders: Page **2**, Col. 1, Line 37.”

The reference to page 2 is incorrect (it should be Page 3 – Liabilities, Surplus and Other Funds).

(2) Feedback on use of Net Unrealized Capital Losses in the calculation:

As the Change in Net Unrealized Capital Gains and Losses is already reflected in Surplus – I’m assuming this is referring to the total accumulated Unrealized Changes in Capital Gains and Losses.

The concern is that this is a paper loss only, which could fluctuate dramatically during periods of extreme volatility. [Also – for companies that have strong liquidity (good cash flows from operations and more than ample liquid assets), including this figure in the calculation could cause the company to ‘fail’ simply due to one bad day in the market (especially if it just happened to occur on a statutory reporting date).]

**2. Branded Risk Assessment Guidance (pg. 4)**

Comments: The following statement can be a bit confusing – as the term “risk components” is not defined:

- “Just as the analysis is customized to the individual insurer, analysts are strongly encouraged to customize the *risk component* names used within the analysis documentation...rather than relying solely on titles of risks from the Handbook guidance.”

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<sup>1</sup> For the Model 385 guidance, please provide any feedback on the components used in the suggested calculations shown in the attachment, including whether Net Unrealized Capital Gains/Losses should be included or not in the calculation (along with supporting reasoning).

Suggested change:

- Within each branded risk category, there are generally multiple sub-risks, which should be clearly defined (using a risk title/risk statement) for the benefit of the reviewer. For example, Reinsurance Recoverables is a common sub-risk within the “Credit” branded risk category:

Reinsurance Recoverables [Risk Title]: The risk that reinsurance recoverables are uncollectable and/or are not paid on a timely basis. [Risk Statement]

Once the sub-risk is clearly defined, the analyst should select appropriate metrics to assess the company’s exposure to the sub-risk (which could include quantitative and/or qualitative metrics).

When a branded risk category includes multiple sub-risks with different risk assessments include an explanation of the overall branded risk category assessment to explain how the overall risk assessment was determined.

**3. Blank Changes Guidance for Principle Based Bond Definition (PBB) (pgs. 5-24)**

Pg. 8: Procedures/Data First Bullet Point states: “Consider evaluating the following asset classes that may have credit default risk in comparison to total net admitted assets to determine the level of concentration...**Corporate Bonds...**”

Comment: The inclusion of “Corporate Bonds” in this list is misleading, as the vast majority of corporate bonds are highly liquid (publicly traded) and are mostly investment grade (NAIC 1 or 2). Recommend changing “Corporate Bonds” to:

- Non-investment grade Corporate Bonds

**Page 9: Suggest a slight modification to add when to this sentence: “*Within the six NAIC Designations are NAIC Designation Modifiers, which when combined result in the NAIC Designation Category.*”**

**4. Separate Accounts General Interrogatories Disclosures on Guarantees (pgs. 25 -31)**

Comments: None

**5. Notes to the Financial Statement (pgs. 32 – 43)**

Comments: None

**6. Risk Assessment IPS and GPS Examples (pgs. 44 – 68)**

Comments:

- Insurer Profile Summary Example: It would be helpful to include a subsection “Holding Company System Overview” (either within the Business Summary, or just after the Business Summary). [It’s difficult to have a good understanding of the company unless you understand the business profile of the holding company system (key business segments/products, geographic territory, etc.) (particularly if the company participates in an intercompany pooling arrangement).]

Note: This could be combined with the “Impact of the Holding Company on Insurer” section. [Since understanding the group is a critical pre-requisite for understanding the company’s risk profile – it would be best to place this information in the front-end of the IPS.]

**7. Proposed Changes to P&C IRIS Adjusted Liabilities to Liquid Assets Ratio (pg. 69)**

Comments: None (agree with the proposed changes).

**From:** Debbie Doggett <doggettconsultingservices@gmail.com>  
**Sent:** Wednesday, October 22, 2025 11:54 PM  
**To:** Villegas, Ralph <RVillegas@naic.org>; Good, Rodney <RGood@naic.org>  
**Subject:** Fwd: FASTWG Exposure Draft

Mr. Greg Chew, Chair of the Financial Analysis Solvency Tools Working Group,

Thank you for the opportunity to comment on the recently proposed changes to the Financial Analysis Handbook related to Model 385 Financial Condition Standards Guideline. To promote consistency in the determination of a hazardous financial condition, the proposed guidance includes references to annual financial statement reporting lines for determining whether Sections 3.E and 3.F, often referred to as the 50% loss test and 20% loss test respectively have been triggered. I support the effort to provide this guidance and promote consistency in the application of the loss tests.

Each of the loss tests start with operating loss and then each includes or excludes certain other items. For operating loss, the proposed annual statement reference is net income. I do not believe this is appropriate. Operating income is most often defined as the profit (or loss) a company realizes after its operating expenses related to its core business. It is earnings before interest and taxes and thus is separate and distinct from net income. Therefore, using the plain language of the Model Law, operating income for an insurance company should equate to underwriting gains or losses, rather than net income.

In addition, both of the loss tests require determination of losses for four periods - losses during the last 3, 6, 9, and 12 months. Therefore, it is important to determine each of the line items based on those time periods (i.e., the 6 month period would be the sum of the losses generated during the current quarter plus losses generated during the immediately prior quarter).

Attached is an excel worksheet that sets forth these calculations for a property and casualty insurer as an example. In addition, I've attached a worksheet showing the line items for life and health insurers that I believe should be used in conjunction with similarly designed worksheets.

Please let me know if you have any questions.

Debbie Doggett, CFE  
Doggett Consulting Services, LLC  
[doggettconsultingservices@gmail.com](mailto:doggettconsultingservices@gmail.com)

Financially Hazardous Condition  
Loss Tests

Life, Accident and Health / Fraternal		
	Model #385 Term	Quarterly Statement Reference - CQ + Prior 4 Quarters (CQ-1, CQ-2, CQ-3, CQ-4)*
A	Operating Income	Net Gain from Operations before ...: Page 4, Col. 1, Line 29
B	Net Capital Gain or Loss	Net Realized Capital Gains (Losses): Page 4, Col. 1, Line 34, where the amount >0
C	Change in non-admitted assets	Change in non-admitted assets: Page 4, Col. 1, Line 41
D	Cash dividends paid to shareholders	Dividends to Stockholders: Page 5, Col. 1, Line 16.5
E	Remaining Surplus	Capital and Surplus as of statement date: Page 4, Col. 1, Line 55
F	Minimum Required	[State specific]

\* Calculate for the 3, 6, 9 and 12 month periods the quarterly change for A through E (i.e., [CQ - CQ-1], [CQ-1 - CQ-2], etc.)  
 For each of the 3, 6, 9, and 12 month periods apply the formula for Section 3E:  $[(A+B+C-D) / (E-F)] * 100 > 50\%$   
 For each of the 3, 6, 9, and 12 month periods apply the formula for Section 3F:  $[(A-B) / (E-F)] * 100 > 20\%$   
 CQ = Current Quarter

Health		
	Model #385 Term	Quarterly Statement Reference - CQ + Prior 4 Quarters (CQ-1, CQ-2, CQ-3, CQ-4)*
A	Operating Income	Net Underwriting gain (or loss): Page 4, Col. 1, Line 24
B	Net Capital Gain or Loss	Net Realized Capital Gains (Losses): Page 4, Col. 1, Line 26, where the amount >0
C	Change in non-admitted assets	Change in non-admitted assets: Page 5, Col. 1, Line 39
D	Cash dividends paid to shareholders	Dividends to Stockholders: Page 6, Col. 1, Line 16.5
E	Remaining Surplus	Capital and Surplus as of statement date: Page 5, Col. 1, Line 49
F	Minimum Required	[State specific]

\* Calculate for the 3, 6, 9 and 12 month periods the quarterly change for A through E (i.e., [CQ - CQ-1], [CQ-1 - CQ-2], etc.)  
 For each of the 3, 6, 9, and 12 month periods apply the formula for Section 3E:  $[(A+B+C-D) / (E-F)] * 100 > 50\%$   
 For each of the 3, 6, 9, and 12 month periods apply the formula for Section 3F:  $[(A-B) / (E-F)] * 100 > 20\%$   
 CQ = Current Quarter

## Attachment 2E

Guidance: Complete the Hazardous Financial Condition tests each quarter, unless the Company has a history of profitability. The information in the green colored cells should be updated with the latest quarterly information. Information in the grey and yellow cells will automatically calculate. Regarding the loss test worksheet, chose the current quarter from the drop down list. The information from each quarter should be pulled from the quarterly/annual statement to which it relates the first time this form is completed. Subsequently, the analyst can copy and past the CQ through CQ-3 data from the green cells into the CQ-1 through CQ-4 green cells. Be sure to copy and paste values only, otherwise formulas will not perform correctly. Also, do not drop and drag the information from these cells to the adjacent column. Be sure to complete the Comments section under the Loss Test Section noting which periods failed the test, or that none failed. Also complete the analyst's remarks/conclusion in the summary area. Any questions, please consult with your reviewer or supervisor.

<b>Hazardous Condition Loss Test Worksheet</b>	
<b>Example P&amp;C Insurance Company</b>	
<b>99999</b>	

Minimum Capital and Surplus Required	\$ 2,500,000	Current Quarter	4
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Actual Quarter (Calculated)		4	3	2	1	4
Data		CQ Current Quarter	CQ-1 CQ minus 1 qtr	CQ-2 CQ minus 2 qtrs	CQ-3 CQ minus 3 qtrs	CQ-4 CQ minus 4 qtrs
Operating Gain or (Loss)	Statement of Income, Pg 4, L8, C1	\$ (4,082,868)	\$ (464,785)	\$ (30,568)	\$ 73,787	\$ 152,296
Net Capital Gain or (Loss)	Statement of Income, Pg 4, L10, C1	\$ (47,788)	\$ (47,789)	\$ (13,857)	\$ (18,015)	\$ (9,613)
Change in Non-Admitted Assets	Statement of Income, Pg 4, L27, C1	\$ 1,741	\$ (4,097)	\$ (11,804)	\$ (12,232)	\$ 13,471
Dividends (input as a negative number)	Statement of Income, Pg 4, L35, C1	\$ (500,000)	\$ -	\$ -	\$ -	\$ -
Capital & Surplus	Statement of Income, Pg 4, L39, C1	\$ 20,417,457	\$ 20,857,548	\$ 21,173,396	\$ 20,115,398	\$ 20,937,870
Quarterly change in operating gain (loss)		\$ (3,618,083)	\$ (434,217)	\$ (104,355)	\$ 73,787	\$ 152,296
Quarterly change in Net Capital Gain (Loss)		\$ 1	\$ (33,932)	\$ 4,158	\$ (18,015)	\$ (9,613)
Quarterly Change in Non-Admitted Assets		\$ 5,838	\$ 7,707	\$ 428	\$ (12,232)	\$ 13,471
Quarterly Change in Dividends		\$ (500,000)	\$ -	\$ -	\$ -	\$ -

Section 3E - whether the insurer's operating loss in the last twelve-month period or any shorter period of time, including net capital gain or loss, change in non-admitted assets and cash dividends paid to shareholders is greater than fifty percent of the insurer's remaining surplus as regards policyholders in excess of the minimum required;					
50% Loss Test		3 Month	6 Month	9 Month	12 Month
Operating Loss		\$ (3,618,083)	\$ (4,052,300)	\$ (4,156,655)	\$ (4,082,868)
Net Capital Gain or Loss		\$ 1	\$ (33,931)	\$ (29,773)	\$ (47,788)
Change in Non-Admitted Assets		\$ 5,838	\$ 13,545	\$ 13,973	\$ 1,741
Dividends		\$ (500,000)	\$ (500,000)	\$ (500,000)	\$ (500,000)
CQ Capital & Surplus less Minimum		\$ 17,917,457	\$ 17,917,457	\$ 17,917,457	\$ 17,917,457
Cumulative Loss by period		\$ (4,112,244)	\$ (4,572,686)	\$ (4,672,455)	\$ (4,628,915)
Loss as Percentage of C&S - Min		-22.95%	-25.52%	-26.08%	-25.83%
<b>Loss Greater than 50%?</b>		<b>NO</b>	<b>NO</b>	<b>NO</b>	<b>NO</b>

<b>Section 3F: whether the insurer's operating loss, excluding net capital gains, in the last twelve months or a shorter period of time is greater than twenty percent (20%) of the insurer's remaining surplus as regards policyholders in excess of the minimum required;</b>					
<b>20% Loss Test</b>		<b>3 Month</b>	<b>6 Month</b>	<b>9 Month</b>	<b>12 Month</b>
Operating Loss		\$ (3,618,083)	\$ (434,217)	\$ (104,355)	\$ 73,787
Cumulative Operating Loss		\$ (3,618,083)	\$ (4,052,300)	\$ (4,156,655)	\$ (4,082,868)
CQ Capital and Surplus Less Minimum		\$ 17,917,457	\$ 17,917,457	\$ 17,917,457	\$ 17,917,457
Loss as a Percentage of C&S - Min		-20.19%	-22.62%	-23.20%	-22.79%
<b>Loss Greater than 20%?</b>		<b>YES</b>	<b>YES</b>	<b>YES</b>	<b>YES</b>

**Conclusion:** All of the 20% and none of the 50% loss test failed for a 12 month or shorter period of time.

<b>Summary of Hazardous Financial Condition Tests</b>	<b>HFC Triggered?</b>
Section 3E: whether operating loss in last 12-month or shorter period, including net capital gain or loss, change in non-admitted assets, and cash dividends paid to shareholders is greater than 50% of remaining surplus in excess of minimum requirement	<b>NO</b>
Section 3F: whether operating loss, excluding net capital gains, in last 12-month or shorter period, is greater than 20% of remaining surplus in excess of minimum requirement	<b>YES</b>

**Analysts' Remarks/Conclusion: (comment on any 'Yes' responses)**

**Analyst:** Name

**Date:** Date

## USE OF BRANDED RISK ASSESSMENT GENERAL GUIDANCE

To assess ~~credit~~-a branded risk category, consider the procedures, data elements, metrics and benchmarks in this chapter. The placement of procedures, metrics and data within ~~credit~~-each branded risk category is based on “best fit.” Analysts should use their professional judgement in categorizing risks when documenting financial determinations of the analysis. For example, key insurance operations or lines of business may have related risks addressed in different risk categories. Therefore, analysts may need to review ~~other~~-risks in conjunction with ~~credit~~-risk multiple branded risk categories.

Analysts are not expected to document every procedure, data or benchmark result. Rather, analysts and supervisors should use their expertise, knowledge of the insurer and professional judgement to tailor the analysis to address the specific risks of the insurer and document the applicable details within the analysis. Results of ~~credit~~ risk analysis should be documented in Section III: Risk Assessment of the insurer. Documentation of the risk assessment analysis should be sufficiently robust to explain the risks and reflect the strengths and weaknesses of the insurer.

Just as the analysis is customized to the individual insurer, analysts are strongly encouraged to customize the risk component names [i.e., an individual risk exposure or element that contributes to the broader branded risk category assessment] used within analysis documentation (including within TeamMate+) and the IPS, rather than relying solely on titles of risks from the Handbook guidance. Clearly labeled risk component names benefit the understanding of the risk assessment for the reviewer and other readers of the IPS.

In conducting your analysis, utilize available tools in iSite+ such as financial profile reports, dashboards, investment snapshots, jumpstart reports, and other industry aggregated analysis. Consider also external tools such as rating agency reports, industry reports, and publicly available insurer information.

Analysts should complete their ~~credit~~ risk assessment in conjunction with:

- A review of the Supervisory Plan and Insurer Profile Summary and the prior period analysis.
- [Communication with the company.](#)
- Communication and/or coordination with other internal departments.
- The insurer’s corporate governance which includes the assessment of the risk environment facing the insurer in order to identify current or prospective solvency risks, oversight provided by the board of directors and the effectiveness of management, including the code of conduct established by the board.

The ~~following Handbook’s guidance by branded risk~~ is not an all-inclusive list of possible procedures, data, or metrics. Therefore, risks identified for which no procedure is available should be analyzed by the state insurance department based on the nature and scope of the risk.

**Commented [JK1]:** Staff recommends the highlighted text in response to WI’s comment #2. The term “Risk Component” has been used throughout the Handbook for several years. To change the terminology would be more extensive not only within the Handbook but also in analysis training materials. While “Risk Statement” is a term for documentation by examiners, it has not been used in analysis. While staff agrees with directing analysts to utilize metrics and make overall risk assessments, we feel that is already sufficiently covered elsewhere in existing Handbook guidance.

## III.B.1 Credit Risk Assessment

CREDIT RISK: Amounts actually collected or collectible are less than those contractually due or payments are not remitted on a timely basis.

The Credit Risk Assessment is focused primarily on exposure to credit risk of investments and reinsurance receivables. In analyzing credit risk, analysts may analyze specific types of investments and receivables held by insurers. Analysts' risk-focused assessment of credit risk should take into consideration the following areas (but not be limited to):

- Concentrations of investments in type and sector (i.e., diversification).
- Materiality of high-risk or low-quality investments.
- Credit quality of affiliates and subsidiaries.
- Extensive use of reinsurance.
- Credit quality of reinsurers.
- Collectability of reinsurance receivables.
- Quality of collateral held on unauthorized or overdue authorized reinsurance.
- Collectability of other receivables (e.g., intercompany receivables).
- Collectability of uncollected premium and agents' balances.
- ~~Credit quality of affiliates and subsidiaries.~~
- ~~Quality of collateral held on unauthorized or overdue authorized reinsurance.~~
- Strategies for mitigating credit risk (i.e., counterparty risk with derivatives and off-balance sheet transactions).
- ~~Collectability of uncollected premium and agents' balances.~~

~~Derivatives: Refer to IV.A. Supplemental Analysis Guidance — Financial Analysis and Reporting Considerations for general information and a primer on derivatives.~~

### ~~GENERAL GUIDANCE~~

~~To assess credit risk, consider the procedures, data elements, metrics and benchmarks in this chapter. The placement of procedures, metrics and data within credit risk is based on "best fit." Analysts should use their professional judgement in categorizing risks when documenting financial determinations of the analysis. For example, key insurance operations or lines of business may have related risks addressed in different risk categories. Therefore, analysts may need to review other risks in conjunction with credit risk.~~

~~In conducting your analysis, utilize available tools in iSite+ such as financial profile reports, dashboards, investment snapshots, jumpstart reports, and other industry aggregated analysis. Consider also external tools such as rating agency reports, industry reports, and publicly available insurer information.~~

~~Analysts are not expected to document every procedure, data or benchmark result. Rather, analysts and supervisors should use their expertise, knowledge of the insurer and professional judgement to tailor the analysis to address the specific risks of the insurer and document the applicable details within the analysis. Results of credit risk analysis should be documented in Section III: Risk Assessment of the insurer. Documentation of the risk assessment analysis should be sufficiently robust to explain the risks and reflect the strengths and weaknesses of the insurer.~~

~~Analysts should complete their credit risk assessment in conjunction with:~~

- ~~A review of the Supervisory Plan and Insurer Profile Summary and the prior period analysis.~~

### III.B.1 Credit Risk Assessment

- ~~Communication and/or coordination with other internal departments.~~
- ~~The insurer's corporate governance which includes the assessment of the risk environment facing the insurer in order to identify current or prospective solvency risks, oversight provided by the board of directors and the effectiveness of management, including the code of conduct established by the board.~~

~~The following is not an all-inclusive list of possible procedures, data, or metrics. Therefore, risks identified for which no procedure is available should be analyzed by the state insurance department based on the nature and scope of the risk.~~

#### Principles-Based Bond Definition (PBBB)

*Beginning in 2025, investment schedules and certain other Notes to the Financial, General Interrogatories, 5-Year History, and related pages of the quarterly and annual financial statement were amended for the implementation of the statutory accounting principles-based bond definition (PBBB) revisions.*

*Analysts should be aware that in some cases, changes between amounts reported on investment schedules and certain lines of the schedules may not be comparable to the prior year (2025 to 2024) or may vary from the prior year due to the bond definition change, in which an insurer may hold some securities that no longer meet the definition of a bond (or vice versa), as well as revisions to investment schedule reporting categories.*

The PBBB project revised the definition of a bond to “a security structure representing a creditor relationship with a fixed payment schedule.” A creditor relationship requires the evaluation of substance rather than solely the legal form. In assessing credit, market and liquidity risks for bonds, the analyst should have a clear understanding of what securities are reported as bonds and the related reporting requirements.

Debt securities that do not qualify as bonds are in scope of SSAP No. 21 and would be reported on Schedule BA. Under PBBB, there are three reasons why a debt security would not qualify as a bond: 1) the debt security does not reflect a creditor relationship (applies to Issuer Credit Obligations—ICO and Asset-Backed Securities—ABS); 2) the debt security has a lack of substantive credit enhancement (applies to ABS); and 3) the debt security lacks meaningful cash flows (applies to non-financial ABS).

The PBBB modified Schedule D reporting to differentiate more fully between Issuer Credit Obligations (ICO), reported on Schedule D Part 1, Section 1, and Asset-Backed Securities (ABS) reported on Schedule D Part 1, Section 2, which are defined as follows.

ICOs are issued by operating entities. For an ICO, the repayment of the instrument is supported primarily by the general creditworthiness of an operating entity or entities. ICOs are reported on Schedule D, Part 1, Section 1, which only includes securities in scope of SSAP No. 26. Investments in orange italics are not bonds but are explicit inclusions within the scope of SSAP No. 26.

- U.S. Government Obligations
- Other U.S. Government Obligations
- Non-U.S. Sovereign Jurisdiction Securities
- Municipal Bonds – General Obligations
- Municipal Bonds – Special Revenue
- Project Finance Bonds Issued by Operating Entities (Unaffiliated / Affiliated)
- Corporate Bonds (Unaffiliated / Affiliated)
- Mandatory Convertible Bonds (Unaffiliated / Affiliated)
- Single Entity Back Obligations (Unaffiliated / Affiliated)
- *SVO-Identified Bond Exchange Traded Funds–Fair Value*
- *SVO-Identified Bond Exchange Traded Funds–Systemic Value*

**III.B.1 Credit Risk Assessment**

- [Bonds Issued by Funds Representing Operating Entities \(Unaffiliated / Affiliated\)](#)
- [Bank Loans—Issued \(Unaffiliated / Affiliated\)](#)
- [Bank Loans—Acquired \(Unaffiliated / Affiliated\)](#)
- [Mortgage Loans that Qualify As SVO-Identified Credit Tenant Loans \(Unaffiliated / Affiliated\)](#)
- [Certificates of Deposit](#)
- [Other Issuer Credit Obligations \(Unaffiliated / Affiliated\)](#)

[ABSs are bonds created for the primary purpose of raising debt capital backed by financial assets or cash-generating non-financial assets owned by the ABS issuer, where repayment is primarily derived from the cash flows associated with the underlying defined collateral other than the issuing entity's operating cash flows.](#)

- [Required Defining Characteristics:](#)
  - [Reporting entity holder of debt is in a different position than if the underlying collateral was held directly.](#)
  - [Collateral must be financial assets or cash-generating non-financial assets expected to generate a meaningful source of cash flows for bond repayment other than through sale or refinancing of the assets.](#)

[ABSs are reported on Schedule D, Part 1, Section 2, which only includes securities in scope of SSAP No. 43.](#)

- [Financial Asset-Backed Securities – Self-Liquidating \[i.e. RMBS, CMBS, CLOs\]](#)
  - [Agency Residential / Commercial Mortgage-Backed Securities – Guaranteed \(Exempt from RBC\)](#)
  - [Agency Residential / Commercial Mortgage-Backed Securities – Not/Partially Guaranteed \(Not Exempt from RBC\)](#)
  - [Non-Agency Residential / Commercial Mortgage-Backed Securities \(Unaffiliated / Affiliated\)](#)
  - [Non-Agency – CLOs/CBOs/CDOs \(Unaffiliated / Affiliated\)](#)
  - [Other Financial Asset-Backed Securities – Self-Liquidating \(Unaffiliated / Affiliated\)](#)
- [Financial Asset-Backed Securities – Not Self-Liquidating \[i.e. CFOs, other equity-backed\]](#)
  - [Equity Backed Securities \(Unaffiliated / Affiliated\)](#)
  - [Other Financial Asset-Backed Securities – Not Self-Liquidating \(Unaffiliated / Affiliated\)](#)
- [Non-Financial Asset-Backed Securities – Practical Expedient \[i.e. Lease-backed with less than 50% cashflows from sale/refinance at maturity\]](#)
  - [Lease-Backed Securities – Practical Expedient \(Unaffiliated / Affiliated\)](#)
  - [Other Non-Financial Asset-Backed Securities – Practical Expedient \(Unaffiliated / Affiliated\)](#)
- [Non-Financial Asset-Backed Securities – Full Analysis \[i.e. Lease-backed / other ABS supported as bonds due to entities detailed analysis\]](#)
  - [Lease-Backed Securities – Full Analysis \(Unaffiliated / Affiliated\)](#)
  - [Other Non-Financial Asset-Backed Securities – Full Analysis \(Unaffiliated / Affiliated\)](#)

[Further detailed guidance on the Principles Based Bond Definition, including what classifies as a bond and the related reporting changes can be found within:](#)

- [SSAP No. 21—Other Admitted Assets](#)
- [SSAP No. 26—Bonds](#)
- [SSAP No. 43—Asset-Backed Securities](#)
- [Statutory Issue Paper No. 169—Principles-Based Bond Definition](#)
- [2025 annual and quarterly financial statement reporting blanks and instructions](#)

## III.B.1 Credit Risk Assessment

## ANNUAL CREDIT RISK ASSESSMENT

## Significant Investment Concentration by Asset Class

Determine whether the insurer's investment portfolio appears to be adequately diversified to avoid an undue concentration of investments by asset type, duration or issuer.

Various types of investments to total net admitted assets (excluding separate accounts) are a measure of the diversity of the insurer's investment portfolio by type of investment. The results of these ratios may also provide some indication of the insurer's liquidity. Ratios are included for most types of investments except for government and agency bonds and cash and short-term investments, which are generally very liquid and have low credit risk. In addition, the ratio of the investment in any one issuer to total net admitted assets (excluding separate accounts) is a measure of the diversity of the insurer's investment portfolio by issuer.

## Procedures / Data

- Consider evaluating the following assets classes that may have credit default risk in **comparison to total net admitted assets** to determine the level of concentration:

~~o Industrial and miscellaneous bonds (unaffiliated)~~

o Issuer Credit Obligations (Unaffiliated):

- Project Finance Bonds Issued by Operating Entities
- Corporate Bonds **(non-investment grade)**
- Mandatory Convertible Bonds
- Single Entity Back Obligations
- Bonds Issued by Funds Representing Operating Entities
- Bank Loans—Issued or Acquired
- Mortgage Loans that Qualify As SVO-Identified Credit Tenant Loans
- Other Issuer Credit Obligations

o Financial and Non-Financial Asset-Backed Securities

~~Residential mortgaged-backed securities (RMBS), commercial mortgage-backed securities (CMBS) or other loan-backed and structured securities (LBaSS)~~

- Preferred stocks
- Mortgage loans
- Other invested assets (Schedule BA)
- Derivative exposure to any single Exchange, Counterparty or Central Exchange
- Collateral Loans [Life/A&H Insurers]
- Aggregate write-ins for invested assets
- Investments in affiliates, subsidiaries, and parent
- Any single investment (by issuer) in bonds, preferred stock, mortgages, or BA assets (excluding federal issuers and affiliated investments)

## Additional Review Considerations

- Review the percentage distribution of assets for significant shifts in the mix of investments owned during the past five years.
- Compare the insurer's distribution of cash and invested assets to industry averages and peer averages on iSite+ to determine significant deviations from the industry and peer averages. The comparison should focus on an appropriate peer group based on insurer type and asset size.

Commented [JK1]: Addresses WI Comment #3

**III.B.1 Credit Risk Assessment**

- Review of the Annual Supplemental Investment Risks Interrogatories to identify any unusual items or areas and determine whether the insurer's investment portfolio is adequately diversified to avoid significant aggregate credit risk.
- Perform sector analysis of Schedule D holdings with assistance of the NAIC Capital Markets Bureau if concerns exist that indicate a sector of the market may be experiencing financial distress that could result in credit risk to holders of bonds or stocks in that sector.
- If concerns exist regarding counterparty credit risk on derivatives, review Annual Financial Statement, Schedule DB, Part D to identify the counterparties and use available information (e.g., rating agency reports) to identify any concerns with the credit quality of the counterparty. [Refer to IV.A. Supplemental Analysis Guidance – Financial Analysis and Reporting Considerations for general information and a primer on derivatives.](#)
- Review the Legal Risk Assessment to determine whether the insurer's investment portfolio is in compliance with the investment limitations and diversification requirements per the state's insurance laws.
- Inquire of the insurer:
  - Planned asset mix and diversification strategies.
  - How the insurer manages counterparty credit risk, including diversification risk of counterparties.

**---DETAIL ELIMINATED TO CONSERVE SPACE---**

**Procedures / Data**

- Distinguish between the different non-investment grade classes as the risks are materially different. Consider the level of exposure to non-investment grade bonds in comparison to policyholder surplus (P/C), to capital and surplus plus AVR (L/H) and to capital and surplus (Health), to total bonds, or to total invested assets.
- Consider fluctuations in non-investment grade bond holdings by designation.
- Review Annual Financial Statement, Schedule D – Part 1A – ~~Section 1~~ and compare the insurer's holdings of non-investment grade bonds to the limitations included in *Investments in Medium and Lower Grade Obligations Model Regulation* (#340) (or similar state law). Given the potential volatility in prices and that the main concern is risk of loss to capital, an important consideration is the price at which non-investment grade bonds are held. The NAIC's Model #340 establishes limitations on the concentration of non-investment grade bonds because of concerns that changes in economic conditions and other market variables could adversely affect insurers having a high concentration of these types of bonds.
  - Review the amount of non-investment grade bonds by NAIC designation compared to total net admitted assets (excluding separate accounts) utilizing Model #340:
    - Aggregate amount of all bonds owned which have an NAIC rating of 3, 4, 5, or 6.
    - Aggregate amount of all bonds owned which have an NAIC rating of 4, 5, or 6.
    - Aggregate amount of all bonds owned which have an NAIC rating of 5, or 6.
    - Aggregate amount of all bonds owned which have an NAIC rating of 6.

[Within the six NAIC Designations are NAIC Designation Modifiers, which when combined result in the NAIC Designation Category. These categories are 20 granular delineations of investment risk within the NAIC 1 through NAIC 6 investment risk scale used to relate investment risk in insurer-owned securities to a risk-based capital factor.](#)

[Refer to the Purposes and Procedures Manual of the NAIC Investment Analysis Office for detailed information on how the following NAIC designations and modifiers are determined.](#)

## III.B.1 Credit Risk Assessment

NAIC Designation	NAIC Designation Modifier	NAIC Designation Category
1	A	1A
	B	1B
	C	1C
	D	1D
	E	1E
	F	1F
	G	1G
2	A	2A
	B	2B
	C	2C
3	A	3A
	B	3B
	C	3C
4	A	4A
	B	4B
	C	4C
5	A	5A
	B	5B
	C	5C
6		6

Additional Review Considerations

- If the level of non-investment grade bonds is material, review Annual Financial Statement, Schedule D Part 1A and Part 1, Jumpstart Reports (e.g., Bond Investment Designation Exception Report), [Risk-Based Capital report](#), and the Financial Profile Reports and Dashboards to assess and understand the composition of non-investment grade bonds:
  - [Amount and/or percentage of bonds in each NAIC designation class 3, 4, 5 or 6.](#)
  - [Amount and/or percentage of bonds within each NAIC designation 3, 4, or 5 by designation category.](#)
  - Fluctuations and shifts in concentrations by class; new purchases; downgrades or upgrades.
  - Concentration by sector or issuer, including affiliates.
  - Whether or not bonds have been rated by a credit rating provider (CRP) (e.g., Moody's Investors Service, Standard & Poor's, A.M. Best, or Fitch Ratings).
  - Issuers that the rating agencies have on negative watch.
- Inquire of the insurer:
  - Explanation of significant exposures.
  - Policies and strategy for investing in non-investment grade bonds. Determine if the insurer is adhering to those investment policies.
  - For the more significant non-investment grade bonds, consider requesting from the insurer audited financial statements and a rating agency report from a CRP for the issuer of the bonds to assess the issuer's current financial position and ability to repay its debt.

Borrower Default [and Volatility](#) for ~~RMBS, CMBS and LBaSS~~ [Asset-Backed](#) Securities,

~~Volatility of RMBS, CMBS, and LBaSS Securities;~~

~~or~~ [OR](#)

Prepayment Variability for RMBS

Determine whether concerns exist over borrower default risk due to the level of investments in [asset-backed securities \(ABS\) including residential mortgage-backed securities \(RMBS\), commercial mortgage-backed securities \(CMBS\) and other financial or non-financial asset-backed securities reported on Schedule D Part 1, Section 2;](#) ~~and loan-backed and structured securities (LBaSS)~~ or prepayment variability risk in RMBS. Lower credit

**III.B.1 Credit Risk Assessment**

quality of the borrowers (i.e., prime versus subprime) may result in higher risk of default, leading to credit losses in the event of a housing and/or commercial real estate market downturn.

**---DETAIL ELIMINATED TO CONSERVE SPACE---**Procedures / Data

- Review the following ratios to determine the level of concentration in ~~RMBS, CMBS and LBaSS~~ [asset-backed securities](#) owned.
  - Ratio of all ~~RMBS, CMBS and LBaSS~~ [asset-backed securities](#) compared to total net admitted assets.
  - Ratio of all ~~RMBS, CMBS and LBaSS~~ [asset-backed securities](#) compared to policyholder surplus (P/C), or capital and surplus or capital and surplus [L/H or Health].
  - RMBS compared to total cash and invested assets, or to capital and surplus.
  - Any increasing trend in a material exposure from the prior year.

Additional Review Considerations

- Review the [asset-backed securities](#) ~~RMBS, CMBS and LBaSS~~ securities categories in Annual Financial Statement, Schedule D – Part 1 – [Section 2](#) for bonds with a book/adjusted carrying value (BACV) significantly in excess of par value. This could result in a loss being realized if bond prepayments occur faster than anticipated.
- Review the [asset-backed securities](#) ~~RMBS, CMBS and LBaSS~~ categories in Annual Financial Statement, Schedule D – Part 1 – [Section 2](#) for bonds with an unusually high effective yield.
- The effective yield on most debt securities is generally linked to its credit risk and duration. However, significant prepayment risk can also increase the effective yield.
- Review Annual Financial Statement, Schedule D, Part 1 – [Section 2](#), and the Snapshot Investment Summary Report on iSite+ to assess exposure to agency versus non-agency [asset-backed securities](#) ~~RMBS, CMBS and LBaSS~~.
- Consider having the [asset-backed securities](#) ~~RMBS, CMBS and LBaSS~~ modeled by an independent actuary as a part of an independent cash flow analysis.
- Inquire of the insurer:
  - Estimated prepayment speeds on its RMBS. Several standardized forms of calculating the rate of prepayments of a mortgage security exist in the market. Historically, the constant prepayment rate (CPR) and the standard prepayment model of the Bond Market Association (PSA curve) are simple methods used to measure prepayments. Numerous other methods have evolved. Analysts should consider further analysis in those instances that prepayment risk appears high.
  - There are many different types of RMBS, each of which have different characteristics and inherent risks. Therefore, consider requesting information from the insurer regarding the percentage distribution and amounts of each type of [asset-backed securities](#) ~~RMBS, CMBS and LBaSS~~ held; planned amortization class (PAC), support bonds, interest-only (IO) tranches, and principle-only (PO) tranches to evaluate the help evaluate the riskiness of the portfolio and the level of prepayment risk in the portfolio. IO bonds are particularly volatile.
  - Projected prepayment speeds on its RMBS portfolio and compare with historical prepayments, as well as the prepayment assumption at the time of purchase.

**---DETAIL ELIMINATED TO CONSERVE SPACE---****Default, Volatility or Collateral Concentration of Structured Notes**

**III.B.1 Credit Risk Assessment**

~~Determine whether concerns exist due to the level of structured notes held by the insurer. If the amount is material compared to the the insurer's capital and surplus plus asset valuation reserve (AVR) (L/H), to policyholder surplus (P/C), or to capital and surplus (Health), the analyst should consider steps to gain a better understanding of the prospective risks of these investments and the insurer's level of investment expertise regarding these types of notes.~~

~~Structured notes are issuer bonds where the cash flows are based on a referenced asset and not the issuer credit. These notes differ from structured securities in that they do not have a related trust. Structured notes that are classified as mortgage referenced securities are valued in accordance with *Statement of Statutory Accounting Principles (SSAP) 43—Asset Backed Securities* while all other structured notes are valued in accordance with *SSAP 86—Derivatives*. Some examples of mortgage referenced securities include securities issued by the Federal Home Loan Mortgage Corporation (FHLMC) (e.g., Structured Agency Credit Risk or STACR) and the Federal National Mortgage Association (FNMA). These mortgage referenced securities are not FE, and the Structured Securities Group (SSG) assigns their NAIC designation based upon modeling assumptions.~~

Risks related to structured notes include:

- ~~Structured notes collateral concentration risk
 
  - ~~Material investment in structured notes that may have collateral type concentration may result in concentration risk (lack of diversity) to the insurer's portfolio.~~~~
- ~~Structured notes default
 
  - ~~Structured notes may be subordinated in the overall transaction representing exposure to non-payment in event of default.~~~~
- ~~Structured notes cash flow volatility risk (Refer to Market Risk)
 
  - ~~Impact of the volatility of structured notes and the underlying asset on which its cash flows are based.~~~~

Procedures / Data

- ~~Ratio of investments in structured notes to capital and surplus plus AVR (L/H), to policyholder surplus (P/C), or to capital and surplus (Health).~~

Additional Review Considerations

- ~~Review the Annual Financial Statement, Schedule D—Part 1—Section 2, to identify and understand the types of structured notes.~~
- ~~Refer to any recent examination findings.~~
- ~~Inquire of the insurer on such items as the structured note's use and investment strategy, the insurer's level of expertise with this type of security and controls the insurer has implemented to mitigate this risk.~~

**---DETAIL ELIMINATED TO CONSERVE SPACE---**

**Default or Volatility of Other Invested Assets (Schedule BA)**

Determine whether concerns exist due to the level of investment in other invested assets (Schedule BA). The types of investments included in Annual Financial Statement, Schedule BA include: [debt securities that do not qualify as bonds; surplus notes; capital notes; collateral loans](#), joint ventures, and partnerships, and [limited liability companies; collateral loans; non-collateral loans; federal and state tax credit investments; working capital finance investments; and residual tranches or interests](#) ~~oil and gas production and mineral rights~~. Refer to [SSAP No. 21 and the guidance above on the PBBB as it relates to debt securities that do not qualify as bonds](#). Joint ventures and partnerships typically involve real estate. These types of assets also tend to be fairly illiquid and may contain significant credit risk. BA assets often have complex investment strategies and unpredictable cash flows. The

**III.B.1 Credit Risk Assessment**

volatility of underlying assets (e.g., certain hedge funds and private equity funds) may result in underlying assets not being adequate.

Credit risks for Schedule BA assets include:

- Credit quality of the investments that may result in impairment and default.
- Complexity of BA assets.
- Adequacy of collateral of BA assets.
- Volatility of cash flows.
- Portfolio volatility driven by economic changes on BA assets.

**---DETAIL ELIMINATED TO CONSERVE SPACE---**

### Credit Quality, Adequacy and Appropriateness of Assets Held for Modco or FWH Agreements (Life/A&H Insurers)

Concerns may exist regarding the quality, adequacy and appropriateness of assets held to support Modified Coinsurance (Modco) or Funds Withheld (FWH) reinsurance, particularly as investments become increasingly complex. Concerns may include controls and governance over investment practices, valuation and ratings of assets, and if material amounts of assets involve related party transactions.

Where collateral held is related to Modco and FWH reinsurance, the analyst should review the information in Note to the Financials #5L(1), #5L(4) and #5L(5), and Schedule S—Part 8—Reinsurance Agreements with Funds Withheld and Modified Coinsurance, in conjunction with other credit, operational and strategic risk of the insurer's reinsurance program. Additionally, review the analysis considerations related reserve reporting required by AG 53 (complex assets) and AG 55 (assets supporting reinsurance) outlined in the Reserving Risk Assessment and SOA procedures and guidance.

Where the company is engaged in material Modco and FWH arrangements, the analyst can use the detail of collateral received and held under Note 5L(4) to identify the types of assets held by investment schedule, and gain an understanding of the materiality of aggregate BACV of the collateral received to the insurer's asset portfolio. Further, the Note #5L(5) disclosure identifies if securities held as collateral under Modco or FWH agreements are also pledged under other arrangements, in which case they would not be for the benefit of the reinsurer or available to fulfill the liabilities of the reinsurance contract. The analyst can use the information in Schedule S—Part 8 to identify any concerns with the types of assets and credit quality of assets held under ceded or assumed Modco or FWH agreements.

#### Procedures / Data

- Identify the types of reinsurance agreements and jurisdiction of the reinsurer [Annual Financial Statement, Schedule S – Part 3] and determine if concerns may exist over the adequacy and quality of assets held by reinsurers in support of ceded reserves that may require further analysis or inquiry to the insurer.
- Compare the BACV of the collateral received and assets held under Modco/FWH Reinsurance Agreements to the recognized obligation for Modco and FWH assets. [Annual Financial Statement, Notes to the Financials #5L(4)(m and n)].
- Identify if investments held under FWH agreements (including Modco) are related to the Modco/FWH reinsurer [Annual Financial Statement, Notes to the Financials 5L(5)(o-v)].
- Identify if the insurer is engaged in ceding business under Modco and FWH agreements with offshore reinsurers.

**III.B.1 Credit Risk Assessment**

- [Gain an understanding, through review of Schedule S - Part 3, of the types of insurance business ceded, the reinsurer's jurisdiction, if affiliated or non-affiliated, and applicable collateral requirements by type of reinsurer \(i.e. authorized, unauthorized, reciprocal jurisdiction, certified\)](#)
- [Review Schedule S – Part 8 to determine if concerns exist regarding the types of assets held or the credit quality of assets held under Modco/FWH agreements. Consider if the aggregate of medium or lower quality assets held represent a material amount of the related Modco/FWH liabilities.](#)
- [Determine if assets held under Modco or FWH agreements are also pledged under other agreements \[Annual Financial Statement, Notes to the Financials #5L\(5\)\].](#)

Additional Review Considerations

- [If concerns exist regarding the types of assets held or the credit quality of assets held under Modco or FWH agreements, or concerns over reinsurance reporting, inquire of the insurer to:](#)
  - [Identify the applicable reinsurers and reinsurance agreements.](#)
  - [Has the insurer entered into new offshore unaffiliated Modco or FWH agreements for which the agreement was not required to be reviewed by the Department?](#)
  - [If offshore reinsurance, gain an understanding of the insurer's business purpose for ceding business offshore.](#)
  - [Gain an understanding of the collateral requirements for the type of reinsurance and jurisdiction.](#)
  - [Request a copy of the applicable Modco/FWH reinsurance agreements and assess if the investment requirements are in compliance with the terms of the agreement and the state's reinsurance statutes.](#)
  - [Gain an understanding of the insurer's investment practices, governance policies and use of asset managers for reinsurance assets.](#)
- [If a material amount of assets held under Modco or FWH agreements are also pledged under other arrangements, inquire of the insurer to gain a better understanding of their use of collateral assets within their reinsurance program and to ensure the insurer is in compliance with collateral requirements.](#)
- [Refer significant concerns identified to the examiner for further review, if warranted.](#)

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## QUARTERLY CREDIT RISK ASSESSMENT

The quarterly credit risk procedures are designed to identify the following. [For additional guidance on individual procedure steps, please see the corresponding annual procedures discussed above.](#)

---DETAIL ELIMINATED TO CONSERVE SPACE---

**Volatility Risk by Asset Class**

Determine whether the insurer has a significant portion of its assets invested, or has significantly increased its holdings since the prior year-end, in certain types of investments that tend to be riskier.

Procedures/Data

- Review and determine whether there are concerns due to the change in certain asset classes from the prior year-end.

**III.B.1 Credit Risk Assessment**

- Increase in non-investment grade bonds and non-investment grade short-term investments from the prior year-end, where such investments are material compared to cash and invested assets (L/H) or policyholder surplus (P/C), or capital and surplus (Health).
- Increase in mortgage loans from prior year-end, where the ratio of total mortgage loans are material compared to cash and invested assets (L/H) or policyholder surplus (P/C), or capital and surplus (Health).
- Increase in BA assets from prior year-end, where the ratio of BA assets is material compared to cash and invested assets (L/H) or policyholder surplus (P/C) or capital and surplus (Health).
  - [Note: Beginning with quarterly 2026, collateral loans are classified and reported on Schedule BA Parts 2 and 3, in accordance with the type of collateral that secures the loan, enabling analysts the ability to identify the type of collateral. \(Refer to 2026 Quarterly Blanks Instructions and SSAP No. 21R–Other Admitted Assets\).](#)
- 
- Increase in aggregate write-ins from prior year-end, where the ratio of aggregate write-ins are material compared to cash and invested assets (L/H) or policyholder surplus (P/C) or capital and surplus (Health).
- Increase in affiliated investments from the prior year-end, where the ratio affiliated investments are material compared to cash and invested assets (L/H) or policyholder surplus (P/C) or capital and surplus (Health).
- [Life only] Review Schedule DB – Part D – Section 1. Increase in derivative investments where the ratio of potential exposure to counterparty exposure for derivative instruments to capital and surplus plus AVR is material.

**---DETAIL ELIMINATED TO CONSERVE SPACE---**

## III.B.3. Liquidity Risk Assessment

---DETAIL ELIMINATED TO CONSERVE SPACE---

PRINCIPLES-BASED BOND DEFINITION (PBBD)

*Beginning in 2025, investment schedules and certain other Notes to the Financial, General Interrogatories, 5-Year History, and related pages of the quarterly and annual financial statement were amended along with the implementation of the statutory accounting principles-based bond definition (PBBD) revisions.*

*Analysts should be aware that in some cases, changes between amounts reported on investment schedules and certain lines of the schedules may not be comparable to prior year (2024) or may vary from the prior year due to the bond definition change, in which an insurer may hold some securities that no longer meet the definition of a bond (or vice versa).*

*\*Refer to the Credit Risk Assessment chapter of this Handbook for further information on the PBBD.*

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## ANNUAL LIQUIDITY RISK ASSESSMENT

Insufficient Overall Liquidity, f

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Illiquid Assets are Significant}

Evaluate the insurer's liquidity position and examine its ability to meet financial obligations as they come due, including claim payments, operational expenses, and other financial commitments. Less liquid assets may be unavailable to pay policyholder claims as they are not as easily or quickly marketable. The assessment of liquidity involves a detailed analysis of changes in the insurer's liquid assets, asset-to-liability ratios, and liquidity trends. Comparison with industry averages and peer companies offers valuable insights into the insurer's liquidity standing within its market segment.

Procedures / Data

- Analyze the insurer's liquidity position by reviewing the following metrics and data elements:
  - Change in liquid assets
    - A significant increase in an insurer's total liquid assets could indicate that it has been unable to collect on receivables. If the change is significant, an analyst may consider a more detailed review of the change in the asset mix from the prior period to determine the cause of the fluctuation.
  - Ratio of restricted assets to total cash and invested assets
    - Assessment of materiality of restricted assets is intended to determine if any liquidity concerns exist regarding the level of assets not under the insurer's exclusive control. Analysts should review General Interrogatories and Notes to the Financial Statement #5 to determine the reason the assets are not under the insurer's exclusive control (e.g., loaned to others, subject to repurchase or reverse repurchase agreements, pledged as collateral, placed under option agreements) and who holds the assets in order to evaluate whether there are liquidity concerns. Analysts should also consider the potential for pledging additional assets, as in variation margin requirements for derivatives transactions.

### III.B.3. Liquidity Risk Assessment

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- [Assess if collateral received and assets held under Modco/Funds Withheld reinsurance contracts reflected as assets within the insurer's financial statement have also been pledged under other agreements and are not available for the benefit of the reinsurer \(e.g., securities lending, repo transactions, FHLB collateral, etc.\), per Notes to the Financials 5L\(5\).](#)

---DETAIL ELIMINATED TO CONSERVE SPACE---

## ADDITIONAL PROCEDURES ~~APPLICABLE TO LIQUIDITY RISK~~

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---DETAIL ELIMINATED TO CONSERVE SPACE---

### Inquire of the Insurer

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Consider requesting additional information from the insurer if liquidity risk concerns exist in a specific area. The list provided are examples of types of information or explanations to be obtained that may assist in the analysis of liquidity risk for specific topics where concerns have been identified.

- General Investment Inquiries
  - If management has adequately reviewed the investment portfolio and understand the yields, underlying collateral, cash flows and investment volatility.
  - Any additional concentration by collateral type.
  - Management's process for valuing securities to assist the analyst in assessing if the securities are valued appropriately.
  - Management's intended use of certain riskier investments and purpose within the insurer's portfolio.
  - If management has an appropriate level of knowledge and expertise with the type of securities being purchased/held.
  - If the insurer has controls implemented to mitigate the risks associated with this investment type.
  - Sources of liquidity, such as letters of credit (LOCs).
  - Information/explanation of guarantees or other commitments to PSA.
  - Securities lending program (nature, size, reinvestment policies, etc.).
  - Separate accounts plan descriptions and/or policy forms as they relate to its securities lending program (Life/A&H).
- Investment Diversification
  - Planned asset mix and diversification strategies.
- Mortgages
  - Handling of foreclosed mortgage loans.
- BA Assets
  - Information regarding the liquidity of non-traditional investments to ensure that limitations in this area are understood.
  - Current Audited Financial Statements and other documents (partnership agreements, etc.) necessary to support the value of the insurer's investment in partnerships and joint ventures.
  - Information necessary to support the value of significant other invested assets other than partnerships and joint ventures.
  - Current details on cash flows and returns for the different types of investments, especially hedge funds and private equity funds.

**III.B.3. Liquidity Risk Assessment**

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- ~~RMBS, CMBS and LBaS~~[Financial and Non-Financial Asset-Backed Securities](#)
  - Percentage distribution and amounts of ~~each type of RMBS, CMBS and LBaS~~[asset-backed securities \(e.g. Agency RMBS/CMBS, Non-Agency RMBS/CMBS, CLO/CBO/CDO, Other ABS\)](#) held; planned amortization class (PAC), support bonds, interest only (IO) tranches, and principle only (PO) tranches to evaluate the level of prepayment risk in the portfolio.
  - Projected prepayment speeds on its RMBS portfolio and compare with historical prepayments, as well as the prepayment assumption at the time of purchase.

**---DETAIL ELIMINATED TO CONSERVE SPACE---**

### III.B.4. Market Risk Assessment

**MARKET RISK:** Movement in market rates or prices (such as interest rates, foreign exchange rates or equity prices) adversely affect the reported and/or market value of investments.

The **mMarket Rrisk Aassessment** is focused primarily on exposure to market risk of investments and **reinsurance** receivables. In analyzing market risk, the analyst may analyze specific types of investments and receivables held by insurers. An analyst's risk-focused assessment of market risk takes into consideration the following areas (but not be limited to):

- Diversification of assets subject to market risk
- Valuation of assets
- Economic/market impacts on asset value (e.g., real estate, **structured notes**, etc.)
- Use of derivatives
- Investment turnover
- Capital gains and losses on investments
- Investment Income

#### Derivatives

~~Refer to IV. Supplemental Analysis Guidance — Financial Analysis and Reporting Considerations for general information and a primer on derivatives.~~

#### General Guidance

~~To assess market risk consider the procedures, including specific data elements, metrics, and benchmarks in this chapter. The following is not an all-inclusive list of possible procedures, data, or metrics. Therefore, risks identified for which there is no procedure is available should be analyzed by the state insurance department based on the nature and scope of the risk.~~

~~The placement of procedures, metrics, and data within market risk is based on “best fit.” Analysts should use their professional judgement in categorizing risks when documenting financial determinations of the analysis. For example, key insurance operations or lines of business may have related risks addressed in different risk categories. Therefore, analysts may need to review other risks in conjunction with market risk.~~

~~In conducting your analysis, utilize available tools in iSite+ such as financial profile reports, dashboards, investment snapshots, jumpstart reports, and other industry aggregated analysis. Consider also external tools such as rating agency reports, industry reports, and publicly available insurer information.~~

~~Analysts are not expected to document every procedure, data or benchmark result. Rather, analysts and supervisors should use their expertise, knowledge of the insurer and professional judgement to tailor the analysis to address the specific risks of the insurer and document the applicable details within the analysis. Results of market risk analysis should be documented in Section III: Risk Assessment of the insurer. Documentation of the risk assessment analysis should be sufficiently robust to explain the risks and reflect the strengths and weaknesses~~

### III.B.4. Market Risk Assessment

~~of the insurer.~~

~~Analysts should complete their market risk assessment in conjunction with:~~

- ~~• A review of the Supervisory Plan and Insurer Profile Summary and the prior period analysis.~~
- ~~• Communication and/or coordination with other internal departments. The insurer's corporate governance which includes the assessment of the risk environment facing the insurer in order to identify current or prospective solvency risks, oversight provided by the board of directors and the effectiveness of management, including the code of conduct established by the board.~~

#### Principles-Based Bond Definition (PBBD)

*Beginning in 2025, investment schedules and certain other Notes to the Financial, General Interrogatories, 5-Year History, and related pages of the quarterly and annual financial statement were amended along with the implementation of the statutory accounting principles-based bond definition (PBBD) revisions.*

*Analysts should be aware that in some cases, changes between amounts reported on investment schedules and certain lines of the schedules may not be comparable to prior year (2024) or may vary from the prior year due to the bond definition change, in which an insurer may hold some securities that no longer meet the definition of a bond (or vice versa).*

*\*Refer to the Credit Risk Assessment chapter of this Handbook for further information on the PBBD.*

## ANNUAL MARKET RISK ASSESSMENT

### Significant Investment Concentration by Asset Class

Determine whether the insurer's investment portfolio appears to be adequately diversified to avoid an undue concentration of investments by asset type, duration or issuer.

Various types of investments to total net admitted assets (excluding separate accounts for Life/A&H) are a measure of the diversity of the insurer's investment portfolio by type of investment. The results of these ratios may also provide some indication of the insurer's liquidity. In addition, the ratio of the investment in any one issuer to total net admitted assets (excluding separate accounts for Life/A&H) is a measure of the diversity of the insurer's investment portfolio by issuer.

For foreign securities, market risk may include material exposures that could result in credit losses if those investments are affected by negative changes in geopolitical or foreign economic environments.

For mortgage loans, market risk may include the risk that the insurer is not properly identifying, handling and recording foreclosed mortgage loans.

#### Procedures/Data

- Consider evaluating the following assets classes in comparison to total admitted assets<sup>1</sup> to determine the level of concentration (See also *Credit Risk Assessment for diversification of other asset classes*):
  - ~~Asset-Backed Securities: Residential mortgaged-backed securities (RMBS, commercial mortgage-backed securities (CMBS), or other loan-backed and structured securities (LBaSS).~~
  - Foreign bonds.

<sup>1</sup> For ratios in this asset concentration procedure, net admitted assets excludes separate accounts for Life/A&H.

## III.B.4. Market Risk Assessment

- Common stocks.
- Mortgage loans.
- Real Estate (before encumbrances), including home office real estate.
- Total derivatives (notional value).
- Investment in affiliates.
- Any one single investment in foreign bonds, common stock, real estate and derivatives (excluding affiliated investments) (Note that single investments in [financial asset-backed securities](#) are considered [within](#) the Credit Risk Assessment).

## ---DETAIL ELIMINATED TO CONSERVE SPACE---

~~Structured Notes Cash Flow Volatility, Collateral Concentration Risk, or Default Risk~~

~~Determine whether concerns exist due to the level of structured notes held by the insurer and the impact of the volatility of structured notes and the underlying asset on which its cash flows are based (e.g., the risks on structured notes are different from risks of typical corporate bonds). Material investment in structured notes that may have collateral type concentration may result in concentration risk (i.e., lack of diversity) to the insurer's portfolio. (e.g., structures can be complicated and cash flows hard to predict. Cash flows can be linked to a variety of factors or indices, including those that are not capital markets related.) Structured notes may be subordinated in the overall transaction, representing exposure to non-payment in event of default.~~

~~If the amount is material as compared to the the insurer's capital and surplus plus asset valuation reserve (AVR), consider steps to gain a better understanding of the prospective risks of these investments and the insurer's level of investment expertise regarding these types of notes.~~

~~Structured notes are issuer bonds where the cash flows are based upon a referenced asset and not the issuer credit. These notes differ from structured securities in that they do not have a related trust. Structured notes that are classified as mortgage-referenced securities are valued in accordance with *Statement of Statutory Accounting Principles (SSAP) 43—Asset-Backed Securities* while all other structured notes are valued in accordance with *SSAP 86—Derivatives*. Some examples of mortgage-referenced securities include securities issued by the Federal Home Loan Mortgage Corporation (FHLMC) (e.g., Structured Agency Credit Risk or STACR) and the Federal National Mortgage Association (FNMA). These mortgage-referenced securities are not FE, and the Structured Securities Group (SSG) assigns their NAIC designation based upon modeling assumptions.~~

~~Determine whether there are concerns due to the level of investment in structures notes.~~

~~Procedures/Data~~

- ~~● Ratio of investment in structured notes to surplus.~~

~~Additional Review Considerations~~

- ~~● Review the Annual Financial Statement, Schedule D—Part 1 to identify the types of structured notes and the yield reported.
 
  - ~~○ If an insurer has a material amount of structured notes, through discussion with the insurer, determine whether management has adequately reviewed the insurer's structured note portfolio and understands the underlying yields, cash flows and volatility.~~
  - ~~○ Consider the following risks related to structured notes: collateral type concentration, subordination in the overall structure of the transactions, and trend analysis of underlying assets to ensure appropriate valuation.~~
  - ~~○ Assess if the notes are valued appropriately so as to ensure the insurer is not undercapitalized.~~~~
- ~~● Refer to any recent examination findings.~~

**Commented [JK1]:** Removed due to Principles-based bond definition. However, a note is recommended to be added to the Primer on Derivatives in IV.A. stating "Additionally, securities that are labeled "principal-protected notes" and "structured notes" are captured within the scope of *SSAP No. 86—Derivatives* (refer to *SSAP No. 86* paragraph 5g)."

**III.B.4. Market Risk Assessment**

- ~~• Inquire of the insurer on such items as the structured note's use, valuation, the insurer's level of expertise with this type of security and controls the insurer has implemented to mitigate this risk.~~
- ~~• If management has adequately reviewed the structured note portfolio and understands the underlying yields, cash flows and volatility~~
- ~~• Concentration by collateral type, subordination in the overall structure of the structured note transactions, and any trend analysis management has performed on the underlying assets to ensure appropriate valuation of the structured note~~
- ~~• Management's process for valuing the structured notes so as to assist analysts in assessing if the notes are valued appropriately~~
- ~~• Management's intended use of these structured notes and purpose within the insurer's portfolio~~
- ~~• If management has an appropriate level of expertise with this type of security~~
- ~~• If the insurer has controls implemented to mitigate the risks associated with this investment type~~
- ~~• What the insurer's expectations are for liquidity in the secondary market~~
- ~~• Ensure that the insurer understands the difference between these instruments and more traditional corporate bonds (i.e., that there is significant risk that is separate from the issuer's ability to pay)~~

**---DETAIL ELIMINATED TO CONSERVE SPACE---**

Exposure to Derivative Investments,

~~or~~ **OR**

Hedge Effectiveness of Derivatives Portfolio

Determine whether concerns exist due to the value of investment in derivative instruments. A derivative instrument is a financial market instrument which has a price, performance, value, or cash flow based primarily on the actual or expected price, performance, value, or cash flow of one or more underlying interests. Derivative instruments (which consist of options, caps, floors, collars, swaps, forwards, swaptions and futures) are used by some insurers to hedge against the risk of a change in value, yield, price, cash flow, or quantity or degree of exposure with respect to its assets, liabilities, or anticipated future cash flows. A market risk may include that insurer's derivatives strategy may not meet hedge effectiveness for mitigating risk. If an insurer invests in derivative instruments, it is important for the analyst to understand the impact that these derivative instruments have on the risk return profile of the insurer's cash market investment portfolio under different scenarios. For insurers with significant investments in derivative investments, this will probably require the analyst to obtain the assistance of an actuary.

[Refer to IV. Supplemental Analysis Guidance – Financial Analysis and Reporting Considerations for general information and a primer on derivatives.](#)

**---DETAIL ELIMINATED TO CONSERVE SPACE---**

## QUARTERLY MARKET RISK ASSESSMENT

The quarterly market risk procedures are designed to identify the following. [For additional guidance on individual procedure steps, please see the corresponding annual procedures discussed above.](#)

Significant Investment Concentration by Asset Class

**III.B.4. Market Risk Assessment**

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Determine whether the insurer's investment portfolio appears to be adequately diversified to avoid an undue concentration of investments by type or issue. See also Credit Risk Assessment for diversification of other asset classes.

Procedures/Data

- Common stocks owned as a percent of total net admitted assets<sup>ii</sup>.
- Mortgage loans owned as a percent of total net admitted assets.
- Real estate (before encumbrances), including home office real estate owned as a percent of total net admitted assets.
- Investments in affiliates owned as a percent of total net admitted assets.

Additional Procedures

- Review iSite+ for significant shifts in the mix of investments owned over the last five years.

**---DETAIL ELIMINATED TO CONSERVE SPACE---**

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<sup>ii</sup> For ratios in this asset concentration procedure, net admitted assets excludes separate accounts for Life/A&H, and Health.

---DETAIL ELIMINATED TO CONSERVE SPACE---

**Reserve Understatement / Reserve Adequacy Risk Based on Review of Actuarial Memorandum**

1. Consider the following procedures for reviewing the Actuarial Memorandum.

\*\*\*\*\*DETAIL ELIMINATED TO CONSERVE SPACE\*\*\*\*\*

	Comments
g. <a href="#">If required within the scope of Actuarial Guideline 55 (AG-55) and as required under VM-30, did the company provide (either in the AOMR, a standalone document, or similar memorandum) a report documenting the information on treaties, cash-flow testing assumptions and results, attribution analysis and risk identification reinsurance transactions?</a>	

2. Identify any concerns from the review of the Actuarial Memorandum including, but not limited to, the areas of assets, liabilities, scenario results, actuarial assumptions, sensitivity tests and the general overall adequacy of the asset adequacy analysis.

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	Comments
If additional concerns are noted based on the review of the RAAS and/or Actuarial Memorandum, consider performing the following additional procedures [Note: Procedures “a” through “d” are applicable to insurers utilizing the New York 7 actuarial interest rate scenario tests. Procedure “e” is applicable to other cash flow scenario testing.]	
g. <a href="#">Review the AG-55 reporting in the AOMR regarding asset intensive reinsurance transactions, if within scope of AG-55. Determine whether concerns exist in meeting asset adequacy requirements, such as:</a> i. <a href="#">the adequacy of assumptions utilized</a> ii. <a href="#">the cash flow testing results</a> iii. <a href="#">attribution analysis performed and its results</a> iv. <a href="#">explanations provided within risk identification or other analysis performed</a> v. <a href="#">the collectability risk associated with the assuming company</a>	

## RESERVING RISK: Actual losses and other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.

The Reserving Risk Assessment is focused primarily on two key aspects of reserving: 1) reserve valuation; and 2) reserve adequacy. Analysis of reserves relies heavily on the review of the Statement of Actuarial Opinion (SAO) and other related filings. In analyzing reserving risk, the analyst may analyze specific types of reserves established by life insurers, reserving methodologies and various aspects of life insurance that affect reserving. For example, an analyst's risk-focused assessment of reserving risk may consider the following areas (but not limited to):

- Reserve valuation in accordance with the appropriate valuation requirements.
- Reasonableness of valuation bases utilized, testing, assumptions, and methodologies to determine reserves.
- Adequacy of assets to support policyholder benefits.
- Appropriate reporting of reserves.
- Lines of business written by the insurer.
- Types of reserves for life, accident, and health (A&H) and annuity lines of business.
- Reserve development.
- Reinsurance.
- Reserving for guarantees on separate accounts.

The analyst may need to review other risks in conjunction with reserves. For example:

- Reserves are also addressed in the Actuarial Opinion Worksheet.
- Separate Accounts are also addressed in the Operations and Liquidity Risks.
- Surrender activity is also addressed in the Liquidity Risk.

## GENERAL GUIDANCE

The Annual Reserve Risk Assessment Procedures are designed to identify potential areas of concern to the analyst. While the underlying actuarial techniques relating to life reserves are quite complicated, the analyst should remember that there are two basic objectives regarding life reserves. The first objective is that the insurer's life reserves are calculated using the appropriate valuation methodology (formula or principle-based), and the second objective is that the insurer's assets are adequate to support the future policy obligations. To meet the first objective, reserves for policies and contracts subject to the formula-based valuation methodology, including the formula reserves required by VM-20, should be calculated in accordance with the minimum formula statutory valuation standards, using the appropriate valuation assumptions and valuation methods. For policies and contracts subject to a principle-based valuation methodology, in addition to the formula reserves, reserves should be calculated in accordance with the principle-based valuation requirements of VM-20.

**Involvement of an Actuary:** The analyst should involve an actuary where indicated in the procedures or as needed. To stay within any required deadlines for reviews, the analyst should document any greater in-depth reviews being performed by the actuary (such as involving the confidential actuarial memorandum or the confidential principle-based reserving (PBR) report for life reserves) and supplement the documentation when such actuarial review is complete. Questions or requests for assistance regarding PBR and for asset adequacy analysis may be

### III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal

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made to the NAIC actuarial resources. Please see the NAIC website for the Valuation Analysis (E) Working Group for contact information regarding the use of NAIC actuarial resources and use of the Working Group if needed.

**Depth of Review:** Life, annuity, PBR and accident and health (A&H) involve many products and complex requirements. A complete determination of compliance with all of these requirements during the course of an annual financial analysis review is typically not practical for many companies. Judgment in a risk-focused approach will need to be exercised regarding greater focus and use of actuarial expertise in any procedure provided below.

## ---DETAIL ELIMINATED TO CONSERVE SPACE---

### Non-Guaranteed Elements Opinion (if applicable)

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**PROCEDURE #6.** Determine that a qualified actuary prepared the non-guaranteed elements opinion.

**PROCEDURES #6B AND #6C.** Review the non-guaranteed elements opinion in order to determine that the insurer's reserves were determined in a manner that considered the non-guaranteed elements for individual life and annuities policies.

### ~~GENERAL GUIDANCE~~

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~~The Annual Reserve Risk Assessment Procedures are designed to identify potential areas of concern to the analyst. While the underlying actuarial techniques relating to life reserves are quite complicated, the analyst should remember that there are two basic objectives regarding life reserves. The first objective is that the insurer's life reserves are calculated using the appropriate valuation methodology (formula or principle-based), and the second objective is that the insurer's assets are adequate to support the future policy obligations. To meet the first objective, reserves for policies and contracts subject to the formula-based valuation methodology, including the formula reserves required by VM-20, should be calculated in accordance with the minimum formula statutory valuation standards, using the appropriate valuation assumptions and valuation methods. For policies and contracts subject to a principle-based valuation methodology, in addition to the formula reserves, reserves should be calculated in accordance with the principle-based valuation requirements of VM-20.~~

~~To assess reserve risk consider the quantitative and qualitative data, benchmarks, and procedures in this chapter. The assessment is not an all-inclusive list of possible procedures. Therefore, risks identified for which no procedure is available should be analyzed by the state insurance department based on the nature and scope of the risk.~~

~~The placement of the following data and procedures in the reserving risk assessment is based on "best fit." Analysts should use their professional judgement in categorizing risks when documenting financial determinations of the analysis. Key insurance operations/activities or lines of business, for example, may have related risks addressed in different risk categories. Therefore, the analyst may need to review other risks in conjunction with reserves. For example:~~

~~Reserves are also addressed in the Actuarial Opinion Worksheet.~~

~~Separate Accounts are also addressed in the Operations and Liquidity Risks.~~

~~Surrender activity is also addressed in the Liquidity Risk.~~

~~In conducting your analysis, utilize available tools in iSite+ such as financial profile reports, dashboards, investment snapshots, jumpstart reports, and other industry aggregated analysis. Consider also external tools such as rating agency reports, industry reports, and publicly available insurer information.~~

**III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal**

~~Analysts are not expected to document every procedure, data or benchmark result. Rather, analysts and supervisors should use their expertise, knowledge of the insurer and professional judgement to tailor the analysis to address the specific risks of the insurer and document the applicable details within the analysis.~~

~~Results of risk analysis should be documented in Section III: Risk Assessment of the insurer. Documentation of the risk assessment analysis should be sufficiently robust to explain the risks and reflect the strengths and weaknesses of the insurer.~~

~~Analyst should complete their reserve risk assessment in conjunction with:~~

- ~~• A review of the Supervisory Plan and Insurer Profile Summary and the prior period analysis.~~
- ~~• Communication with the company.~~
- ~~• Communication and/or coordination with other internal departments.~~

~~The analyst should also consider the insurer’s corporate governance which includes the assessment of the risk environment facing the insurer in order to identify current or prospective solvency risks, oversight provided by the board of directors and the effectiveness of management, including the code of conduct established by the board.~~

~~**Involvement of an Actuary:** The analyst should involve an actuary where indicated in the procedures or as needed. To stay within any required deadlines for reviews, the analyst should document any greater in depth reviews being performed by the actuary (such as involving the confidential actuarial memorandum or the confidential principle based reserving (PBR) report for life reserves) and supplement the documentation when such actuarial review is complete. Questions or requests for assistance regarding PBR and for asset adequacy analysis may be made to the NAIC actuarial resources. Please see the NAIC website for the Valuation Analysis (E) Working Group for contact information regarding the use of NAIC actuarial resources and use of the Working Group if needed.~~

~~**Depth of Review:** Life, annuity, PBR and accident and health (A&H) involve many products and complex requirements. A complete determination of compliance with all of these requirements during the course of an annual financial analysis review is typically not practical for many companies. Judgment in a risk focused approach will need to be exercised regarding greater focus and use of actuarial expertise in any procedure provided below.~~

## ANNUAL RESERVING RISK ASSESSMENT

*Refer to the Overview sections at the end of this chapter for more guidance on Life, Annuity, A&H and Long-Term Care reserves.*

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### Insufficient Asset Adequacy

Determine whether the insurer’s underlying assets are adequate to support the future obligations of its life insurance policies. Risks may include the potential for understated reserves if unusual or specific policy features and benefits are not valued and reserved for correctly; or, if asset adequacy testing results reflect the assets held and may not be sufficient to support future policy obligations. If the insurer filed an SAO based on an asset adequacy analysis, then the SAO itself, and the supporting actuarial memorandum, if requested, can provide the analyst with comfort in this regard. If a SAO that does not include an asset adequacy analysis is filed, the analyst can review net interest spread ratios for insights regarding the relationship of investment income with tabular interest. Insurance Regulatory Information System (IRIS) ratio #11 is included in the procedures as a test of reserve consistency between the current year and the prior year.

### III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal

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The analyst may also consider performing a review of the actuarial memorandum, if available. This will provide the analyst with substantial analyses with regard to asset adequacy. If an actuarial memorandum is not available, the analyst should consider the need to have an independent asset adequacy analysis conducted. Additional procedures regarding the SAO are found in Section III.B.8.d. Additional guidance for new reporting requirements for AG-53 regarding high-yielding complex assets is found above.

#### Procedures / Data

- Net interest spread on life reserves (net investment income, less tabular interest, divided by average life reserves)
- Change in Asset Mix (IRIS Ratio 11)

#### Qualitative and Additional Review Considerations

- If the insurer filed a Statement of Actuarial Opinion based on an asset adequacy analysis, review the results of the Actuarial Opinion Assessment, and note any concerns regarding the adequacy of the insurer's underlying assets to support future life insurance policy obligations.
- Pursuant to the review of the Regulatory Asset Adequacy Issues Summary (RAAIS) in the Actuarial Opinion Assessment, note whether the responses to the questions were satisfactory.
- If concerns still exist upon review of the asset adequacy analysis, discuss with the appointed actuary and the company, and request any additional information or work to be performed to address these concerns. If the insurance commissioner determines that the supporting actuarial memorandum fails to meet the standards prescribed by the Valuation Manual or is otherwise unacceptable to the insurance commissioner, the insurance commissioner may engage a qualified actuary at the expense of the company to review the opinion and basis for the opinion and prepare the supporting actuarial memorandum required by the insurance commissioner. See the state's equivalent authority to NAIC Model #820, Section 3B(3)(b). This also is noted in the Actuarial Opinion Worksheet.
- Review the Actuarial Guideline 53 reporting relating to assumptions and sensitivity testing for reinvested high-yielding complex assets within the asset adequacy analysis, if applicable. Determine whether concerns exist in meeting asset adequacy requirements. See further guidance in the AOMR procedures and reference guide.
- [Review the Actuarial Guideline 55 reporting related to assumptions and cash flow testing for assets that support long-duration reinsurance transactions within asset adequacy analysis, if applicable. Determine whether concerns exist in meeting asset adequacy requirements. See further guidance in the AOMR procedures and reference guide.](#)

### Understated Reserves Associated with Separate Account Products & Guarantees

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Review and identify situations where separate accounts products may be creating contingent liabilities to the general account that may not be sufficiently reserved for on the general account. This is largely a function of the types of separate accounts products offered by the insurer, and the analyst should rely on general knowledge of the insurer's products at this stage of the analysis.

The analyst should review disclosures in Separate Accounts General Interrogatories, Analysis of Operations by Line of Business (Page 6), Analysis of Increase in Reserves During the Year (Page 7) and the Notes to the Financial Statements of the general account to gain an understanding of the types of products included in the separate account and the general account guarantees on separate account products, as well as identify any concerns with reserving or asset adequacy that may require additional analysis of actuarial filings. The analyst should gain an understanding of any products in the separate account that contain guarantees that are held in the separate account instead of the general account and the types of guarantees (guaranteed minimum death benefit [GMDB], guaranteed minimum income benefit [GMIB], etc.). [Where the general account provides an inherent/ultimate guarantee, the analyst should review the Separate Account General Interrogatories #2.7 to identify the materiality of the BACV of the separate account assets attributed to those products \(i.e. pension risk transfer group annuities,](#)

### III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal

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[registered index linked annuities, other group and individual annuities and life insurance\), the related risk charges to the general account and if the asset were included in asset adequacy testing.](#)

## Exposure to Separate Account Products & Guarantee Liabilities and Accuracy of Separate Account Reserve Liabilities

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### Procedures / Data

- [Identify the materiality of Separate Account assets with General Account guarantees \[Separate Account Gen. Int. #2.71\].](#)
- Identify if any of the separate accounts have guarantees that are designed to mirror an established index (Annual Financial Statement, Note #35B-).
- Identify if any of the separate accounts have material non-indexed guarantees. [Annual Financial Statement, Note #35B]

### Qualitative and Additional Review Considerations

- If material guarantees exist, or if non-insulated products exist, determine whether the assets associated with these products are being invested in accordance with statutory guidelines.
- [If material guarantees exist, gain and understanding of the types of Separate Account products for which the guarantees are provided \[Separate Account Gen. Int. #2.71\].](#)
- [If material guarantees exist, determine whether the assets associated with these products were included in asset-adequacy testing \[Separate Account Gen. Int. #2.71\].](#)
- Review Separate Account General Interrogatory #5 to identify if the insurer reported a material amount of assets in the separate account at amortized cost rather than fair value. If yes, consider additional analysis of actuarial and asset adequacy reporting.
- Review Separate Account Analysis of Operations by Line of Business (Page 5) and Analysis of Increase in Reserves During the Year (Page 6) to identify if any concerns exist regarding the types of products included in the Separate Account and reserving for those products. If yes, consider additional analysis of actuarial and asset adequacy reporting.
- Based upon an overall understanding of the insurer's separate accounts products, assess if there is evidence that such products may be creating contingent liabilities to the general account with product features such as minimum guaranteed death benefits, minimum guaranteed interest rates, etc.
- If concerns or questions are noted, contact the state insurance department's actuary or other actuarial resource to discuss the nature and scope of the valuation procedures performed relating to guarantees included with separate accounts products. If determined to be necessary, contact the company's qualified actuary.
- Determine whether growth in separate accounts appears to be financed through borrowings of the general account and, if so, whether any concerns exist regarding the terms of repayment or collateralization.
- Determine whether the insurer writes any modified guaranteed annuities and, if so, the overall materiality and potential negative impact on the insurer's general account.
- Through the analyst's quarterly interdepartmental communication with the policy forms department, inquire as to whether the insurer filed any new and unusual separate account policy forms during the past 12 months.
- If concerns are noted about the types of policies included in separate accounts, review the insurer's separate accounts plan descriptions and/or policy forms to better understand the types of plans offered and the specific policy features and benefits, particularly minimum guarantees.
- If concerns are noted about reserving for separate accounts, consider a target examination of reserves, request that the field examination staff request a valuation listing by plan and issue year, and test a sample of the individual policy reserves for accuracy.
- Assess if there is any indication of contingent liabilities created by the separate accounts for the general account.

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**III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal**

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- Assess if separate account assets and liabilities were subject to asset adequacy analysis. If “no,” review the actuarial opinion for an explanation.
- Request from the insurer separate accounts plan descriptions and/or policy forms to better understand the types of plans offered and the specific policy features and benefits, particularly minimum guarantees.
- Request information from the insurer regarding any significant changes in reserve methodologies and assumptions, underwriting practices, case reserving, or claims handling practices with the potential to affect reserve setting.

## DISCUSSION OF ACTUARIAL OPINION ASSESSMENT PROCEDURES

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### Actuarial Guideline 53:

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Beginning with annual 2022, certain insurers will be required to document support for asset<sup>s</sup> adequacy analysis for high-yielding complex assets pursuant to *Actuarial Guideline 53 – Application of the Valuation Manual for Testing of Adequacy of Life Insurer Reserves (AG-53)*.

As noted in AG-53, "regulators have observed a lack of uniform practice in the implementation of asset adequacy analysis. The variety of practice in incorporating the risk of complex assets into testing does not provide regulators comfort as to reserve adequacy. Examples of complex assets are structured securities, including asset-backed securities and collateralized loan obligations, as well as assets originated by the company or an affiliated or contracted entity. An initial increase in this activity has been noted in support of general account annuity blocks; however, recent activity was noted in other life insurer blocks. AG-53 is intended to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for asset adequacy analysis performed by life insurers."

This Guideline applies to a limited scope of life insurers, specifically those with:

- A. Over \$5 billion of general account actuarial reserves (from Exhibits 5, 6, 7, and 8 of the Annual Statement) and non-unitized separate account assets; or,
- B. Over \$100 million of general account actuarial reserves (from Exhibits 5, 6, 7, and 8 of the Annual Statement) and non-unitized separate account assets and over 5% of supporting assets (selected for asset adequacy analysis) in the category of Projected High Net Yield Assets, as defined in Section 3.F. of the AG-53.

The NAIC Life Actuarial (A) Task Force has developed a template for reporting of AG-53 documentation. The templates include reporting by asset classes, affiliated vs. non-affiliated, and initial assets vs. reinvestment assets. The template along with a narrative are submitted for the filing.<sup>‡</sup>

The NAIC Valuation Analysis Working Group (VAWG) anticipates conducting reviews of AG-53 filings and can serve as a resource for state insurance departments for their own AG-53 reviews.

### Actuarial Guideline 55:

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<sup>‡</sup> Given this is a new reporting requirement in 2022, additional analysis guidance in this area may be added to the Handbook in the future.

**III.B.8.b.ii Reserving Risk Assessment – Life/A&H/Fraternal**

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Beginning with annual 2025, certain insurers will be required to document support for asset adequacy analysis for the assets that support reinsurance transactions pursuant to *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties (AG 55)*.

As stated in AG55, the reporting provides information for the analyst “to better understand the amount of reserves and type of assets supporting long duration insurance business that relies substantially on asset returns. In particular, there is risk that domestic life insurers may enter into reinsurance transactions that materially lower the amount of reserves and thereby facilitate releases of reserves that prejudice the interests of their policyholders. The goal of this Guideline is to enhance reserve adequacy requirements for life insurance companies by requiring that asset adequacy analysis use a cash flow testing methodology that evaluates ceded reinsurance as an integral component of asset-intensive business.”

This Guideline applies to all life insurers with asset intensive reinsurance transactions exceeding certain amount of reserve credit plus modified coinsurance reserves (see AG 55 for specific scope limits).

The AG 55 documentation, sensitivity test results, and attribution analysis referenced within AG 55 are to be incorporated as a separate, easily identifiable section of the actuarial memorandum required by VM-30 or as a standalone document, with a due date of April 1 following the applicable valuation date. Similar memorandum may also be allowed under certain circumstances.

The NAIC Valuation Analysis Working Group (VAWG) anticipates conducting reviews of AG-55 asset adequacy analysis filings, on a targeted basis, and coordinating with states as appropriate. VAWG will serve as a resource for state insurance departments for their own AG-55 reviews as well as providing periodic reports identifying outliers and concerns regarding the analysis to help inform regulators about the effectiveness of this Guideline in meeting the objectives.

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## IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement

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**Note 5 – Investments**

This Note focuses on:

- A. Accounting for mortgage loans, including mezzanine real estate loans and the allowance for credit losses as required as a result of *SSAP No. 37—Mortgage Loans*.
- B. Recording of the investment in loans that have been recognized as impaired as required by *SSAP No. 36—Troubled Debt Restructuring*.
- C. Information regarding the credit risk for the reporting entity and the methods and assumptions used in calculating the reserve for reverse mortgages as a result of *SSAP No. 39—Reverse Mortgages*.
- D. Sources of prepayment assumptions for yield calculations and the risk exposure in ~~loan-backed securities~~ asset-backed securities as required by *SSAP No. 43R—~~Loan~~Asset-Backed ~~and~~ Structured Securities*.
- E. Insurer's policy on collateral requirements for repurchase agreements and/or securities lending transactions and accounting for the asset and income associated with it, as required by *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.
- F. Information regarding the insurer's policy or strategies for repurchase agreements, accounted for as secured borrowings transactions and collateral requirements associated with it, as required by *SSAP No. 103R*.
- G. Information regarding the terms of the reverse repurchase agreements and collateral requirements for any repurchase agreements accounted for as secured borrowings transactions the insurer has, as required by *SSAP No. 103R*.
- H. Information regarding the insurer's policy or strategies for repurchase agreements, accounted for as sale transactions and collateral requirements associated with it, as required by *SSAP No. 103R*.
- I. Information regarding the terms of the reverse repurchase agreements and collateral requirements for any repurchase agreements accounted for as sale transactions the insurer has, as required by *SSAP No. 103R*.
- J. Recording of real estate investments that have been recognized as impaired and the reporting of receivables and improvements associated with retail land sale operations as required by *SSAP No. 40R—Real Estate Investments*.
- K. Information regarding the investment in ~~low-income housing~~ tax credit structures (~~LIHTC~~) ~~properties~~ and the accounting for the asset and income associated with it as required by *SSAP No. 93—~~Low-Income Housing Investments in Tax Credit Structures~~ Property Investments*.
- L. Recording of restricted assets, which are assets pledged to others as collateral or otherwise restricted by the insurer.
- M. Recording of the book/adjusted carrying value (BACV) of working capital finance investments in aggregate, as required by *SSAP No. 105R—Working Capital Finance Investments*.
- N. Disclosures regarding the offsetting and netting of assets and liabilities as required by *SSAP No. 64—Offsetting and Netting of Assets and Liabilities*.
- O. Disclosure regarding ~~structured notes~~ 5GI securities as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual).
- ~~P. Disclosure regarding 5\* securities as defined in the P&P Manual.~~
- ~~Q.P.~~ Q.P. Disclosures regarding short sales within the reporting period, including settled and unsettled, as required by *SSAP No. 103R*.
- Q. Disclosures regarding prepayment penalties and acceleration fees.

## IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement

[R. Reporting of shares of a qualified cash pool.](#)[R-5. Reporting of aggregate collateral loans by qualifying investment collateral, pursuant to SSAP No. 21R—Other Admitted Assets.](#)

The information provided in this Note is helpful to the analyst in reviewing the financial statements and related investment schedules for income, and gains and losses.

Section, Part		Risks
A, 1–3	The analyst should use the information provided in section (A) of this Note to help quantify the insurer’s investment in mortgage loans, including mezzanine real estate loans, and assess the impact of impaired loans; determine whether the insurer followed the guidelines as prescribed by SSAP No. 37 to record the carrying value of the loan; and what allowances for credit losses on impaired loans have been made by the insurer.	CR, MK
	---DETAIL ELIMINATED TO CONSERVE SPACE---	
F–I	The analyst should use the information provided in Sections (F-I) to gain an understanding of the insurer’s policy for requiring collateral or other security under repurchase agreements and/or reverse repurchase agreements. Insurance companies invest in repurchase agreements to purchase securities with the intent to resell them at a stated price on a specified date within 12 months of the purchase. Under SSAP No. 103R, repurchase agreements should be accounted for as collateralized loans. It should be noted that the underlying securities should not be accounted for as investments owned by the insurer, but rather as short-term investments. For repurchase agreements, the analyst should determine whether the estimated fair value of the security has fallen below 95% and therefore requires additional collateral. For reverse repurchase agreements, the analyst should determine whether the estimated fair value of the security has fallen below 100% and therefore requires additional collateral.	CR, MK
J	The information provided in Section (J) of this Note can be helpful in quantifying the insurer’s investment in real estate determined to be impaired. The analyst should use this information to determine whether the insurer has recorded the investment in real estate recognized as impaired as prescribed by SSAP No. 40R. In addition, if the insurer engages in retail land sales operations, the analyst should use this information to determine whether accounts receivable and expenditures have been accounted for properly as prescribed by SSAP No. 40R.  The analyst should consider the information disclosed in this section to evaluate the insurer’s investment in impaired real estate. The analyst should note the amount of the impairment and how fair value was determined. Also, the analyst should use information in this section regarding retail land sales operations to assess the maturities and quality of accounts receivable, planned expenditures and recorded obligations for improvements.	CR, MK
K	The analyst should use the information provided in Section (K) of this Note to gain an understanding of an insurer’s <del>investments in Tax Credit Structures (tax credit investments) in LIHTC properties</del> . The insurer is required by SSAP No. 93 to provide <del>information that enables the users of the financial statements to understand the insurer’s investments in projects that generate tax credits and other tax benefits from tax programs. the number of remaining years of unexpired tax credits and the required holding period for the LIHTC investments, as well as comment on whether any LIHTC properties are currently subject to any regulatory reviews and the status of such review</del> . The insurer is also required to provide	CR, MK

## IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement

	<p>details regarding <a href="#">the nature of investments in these projects, the effect of recognition and measurement of these investments, the balance recognized, a schedule of tax credits expected to be generated for the subsequent five years, commitments or contingent commitments, -if the project is currently subject to any regulatory reviews and the status of such review; modifications or events that result in changes to the program, <del>the ownership, accounting policies, and valuation of each partnership or limited liability company investment if the aggregate investment in LHHC properties exceeds 10% of total admitted assets. In addition, the insurer is required to disclose</del>and any recognized impairments and the nature of any <a href="#">impairments, write-downs or reclassifications made during the year.</a></a></p> <p>The information can be helpful in the rare instances where insurers hold this type of investment to help identify the extent of the insurer's exposure and any issues regarding impairment write-downs <del>or reclassifications.</del></p>	
L	<p>Section (L) requires the reporting entity to disclose the amount and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under exclusive control, assets subject to a put option contract, etc.) by the reporting entity. The analyst should review the detail on restricted assets provided in this Note for any restricted assets greater than 10% of total cash and invested assets. Restricted assets impact liquidity as they are not assets available to pay policyholder claims.</p> <p><a href="#">Where collateral held is related to Modified Coinsurance (Modco) or Funds Withheld (FWH) reinsurance, review the information in this note in conjunction with credit, operational and strategic risk of the insurer's reinsurance program. The disclosure also identifies if securities held as collateral under Modco or FWH agreements are also pledged under other arrangements, in which case they would not be for the benefit of the reinsurer or available to fulfill the liabilities of the reinsurance contract. Further, where the company is engaged in material Modco and FWH arrangements, the analyst can use the detail of collateral received and held under Note 5L(4) to identify the types of assets held and gain an understanding of the materiality of the collateral BACV to the insurer's asset portfolio and related reinsurance liability.</a></p>	CR, MK, ST
M	<p>Section (M) requires the reporting entity to disclose certain working capital finance investments on an aggregate basis regarding the BACV, by NAIC designation as required by SSAP No. 105R. Per SSAP No. 105R, working capital finance investments represent a confirmed short-term obligation to pay a specified amount owned by one party (the obligor) to another (typically a supplier of goods), generated as a part of a working capital finance investment program currently designated by the NAIC Investment Analysis Office. The information provided assists the analyst in the review of this Schedule D category. Like other Schedule D investments, the analyst should consider NAIC designation, other-than-temporary impairments and credit risk associated with the investment.</p>	CR, MK
N	<p>Section (N) for Life/Accident and Health (A&amp;H) insurers, Fraternal Societies and Health entities only requires the reporting entity to disclose certain quantitative information (separately for assets and liabilities) when derivative, repurchase and reverse repurchase, and securities borrowing and securities lending assets and liabilities are offset and reported net in accordance with a valid right to offset per SSAP No. 64. Assets and liabilities that have a valid right to offset but are not netted because they are prohibited under SSAP No. 64 are not required to be captured in these disclosures. The information in this note assists the analyst in gaining a better understanding of the netted assets, if material, by providing the gross and offset amounts.</p>	CR, MK
Ø	<p><del>Section (O) requires the reporting entity to disclose the following per the P&amp;P Manual: the Committee on Uniform Security Identification Procedures (CUSIP), actual cost, fair value,</del></p>	CR, MK

## IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement

	<del>and BACV of the structured note. The reporting entity is also required to disclose if the structured note is a Mortgage-Referenced Security.</del>	
<a href="#">QP</a>	Section ( <a href="#">QP</a> ) requires the reporting entity for each annual reporting period to provide a comparable disclosure to the prior annual reporting period of the number 5* <a href="#">GI</a> securities, by investment type, and the BACV and fair value for those securities, per the P&P Manual, Special Reporting Instructions.	CR, MK
<a href="#">PQ</a>	The analyst should use the information provided in Section ( <a href="#">PQ</a> ) of this Note to gain an understanding of an insurer's utilization of short sales. The insurer is required by SSAP No. 103R, for unsettled short sale transactions, to provide the amount of proceeds received and the fair value of the securities to deliver, with current unrealized gains and/or losses, and the expected settlement timeframe (# of days), including current transactions that were not settled within three days. For settled short sale transactions, the aggregate amount of proceeds received and the fair value of the security as of the settlement date with recognized gains and/or losses, including the aggregated fair value of settled transactions that were not settled within three days and that were settled through a securities borrowing transaction.	CR, MK
<a href="#">QR</a>	Section ( <a href="#">QR</a> ) requires the reporting entity to disclose the following: the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee.	CR, MK
<a href="#">R</a>	<a href="#">Section (R ) requires the reporting entity to disclose its share of cash pools by asset type: cash, cash equivalents and short-term investments. This information may be used in assessing available liquidity.</a>	<a href="#">LQ</a>

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## Note 11 – Debt

This note discloses information related to all other debt, including capital notes as provided by *SSAP No. 15—Debt and Holding Company Obligations*. SSAP No. 15 requires a full description of the type of borrowing, (e.g., amounts, interest rates, collateral, interest paid, debt terms, covenants and any violations) and information related to agreements with the Federal Home Loan Bank (FHLB).

Section		Risks
A	The analyst should use the information in this Note to review the insurer's total debt. In cases where the insurer's total debt exceeds 10% of capital and surplus, special attention should be given. For all debt, the analyst should verify that the insurer has a sufficient matching of assets to meet the debt repayment schedule given its current cash flow needs and the maturity of investments. If any new debt has been reported, the analyst should evaluate the reasons or need for additional funding. Another important area to review is repayment conditions, restrictions, or covenants. In particular, the analyst needs to be aware of any violations of the covenants or restrictions and possible ramification (e.g., collateral pledged) to the insurer for these violations. The analyst should also determine if there are any provisions in the debt to require early payment. For capital notes, the analyst should evaluate the quality of assets received in exchange for the note and determine if the insurer has properly valued the assets.	ST, LQ
B	The analyst should review any agreements the insurer has entered into with FHLB. The	ST, LQ

## IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement

	analyst should evaluate the type of funding (advances, lines of credit, borrowed money, etc.) and intended use of the funding. The analyst should also evaluate the amount of collateral pledged to FHLB, the amount of FHLB stock purchased as part of the agreement, and the total borrowing capacity currently available to the insurer. In particular, the analyst needs to be aware how assets and liabilities related to the agreement with FHLB are classified within the general and separate accounts, and the elements that support these classifications. FHLB agreements that are reported as deposit-type fund contracts are reported in Note 31, while FHLB agreements reported as debt are reported in Note 11.	
<u>C</u>	<a href="#">Section C provides disclosures on short-term and long-term unused commitments and lines of credit for financing arrangements for the current and prior year. The analyst should review this information in conjunction with an overall assessment of available liquidity as it identifies undrawn amounts available as well as terms and conditions in accordance with SSAP No. 15–Debt and Holding Company Obligations.</a>	<u>ST, LQ</u>

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**Note 13 – Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations**

This Note covers key areas of an insurer’s overall capitalization.

<i>Section</i>		<i>Risks</i>
<del>A-J</del> <del>10</del>	The first portion of the Note (#1–#10) is capital and surplus. The analyst should be familiar with the overall holding company structure of the insurer before reviewing and analyzing the information included in this Note. The analyst should use the information in this area of this Note to obtain a greater understanding of the capital structure of the insurer. The first item of this Note provides the number of shares of capital stock authorized, issued, and outstanding as of the statement date. Items #2–#10 of this Note disclose restrictions on dividends and surplus, along with other information on the company’s capital and surplus. These items should be reviewed by the analyst to determine the amount of the insurer’s surplus that is available to meet policyholders’ liabilities. When considering the overall capital structure of the insurer, the analyst should take into account any recent Form A filings made by the insurer. If there is any change in the capital stock of the insurer, the analyst should consider if a Form A was necessary and, if it was filed, reviewed, and approved by the insurance department.	ST
<del>K</del> <del>11</del>	The analyst should use the information in the second portion of the Note to obtain a greater understanding of the insurer’s surplus note obligations. The analyst should be able to determine if the insurer has issued any surplus notes recently. Insurers must have prior insurance department approval for the issuance of surplus notes and each payment. The analyst should review any new surplus notes to verify appropriate approvals were given for the issuance of surplus notes. Additionally, the analyst should verify: 1) the proper accounting for the notes and any associated interest; 2) the payment schedule for repayment and if the insurer will be able to meet this schedule; 3) the type and quality of assets received in the transaction; 4) <a href="#">any guarantees, support guarantees or related party transactions associated with the surplus note issuance</a> ; and 45) if the notes were issued to a parent or affiliate <a href="#">or related party</a> . If the notes were issued to an insurance affiliate, the analyst should consider reviewing the affiliate’s financial statements to verify the notes are appropriately reported by the other entity.	OP

## IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement

12, 13L, M	The third portion of this Note provides information on quasi-reorganization. Insurers must receive prior regulatory approval for quasi-reorganizations. The analyst should verify approval was given. Quasi-reorganizations are generally rare and are usually only allowed if certain conditions are met. If the insurer has received prior approval, the analyst should verify proper disclosures and accounting for this transaction. (See SSAP No. 72— <i>Surplus and Quasi-Reorganizations</i> for further discussion.)	ST
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## Note 21 – Other Items

This Note is required by various SSAPs, INTs and other sources and focuses on:

- A. Unusual or infrequent items as required by SSAP No. 24
- B. Troubled debt restructuring for debtors as required by SSAP No. 36
- C. Other miscellaneous amounts not recorded in the financial statements that represent assets pledged to others as collateral in accordance with SSAP No. 1
- D. Business interruption insurance recoveries, including information related to the nature and aggregate amount of losses and recoveries recognized due to business interruption
- E. State transferable and non-transferable tax credits
- F. Subprime mortgage-related risk exposure and related risk management practices
- G. Use of retained asset accounts for beneficiaries (life/A&H insurers, fraternal societies and health entities only)
- H. Insurance-linked securities (ILS) contracts

Section		Risks
A	Section (A) requires the insurer to disclose the nature and financial effect of any unusual or infrequent items. Under SSAP No. 24, an insurer is required to account for any unusual or infrequent item using the same lines that are used to report continuing operations. Section (A) allows the analyst to understand the impact that the event or transaction considered unusual or infrequent items have had on each of the financial statement line items and in total. This Note should be used to better understand the impact of the item on the insurer's overall financial position and allows the analyst to more easily compare the financials of the current period with prior periods.	CR, LQ
	---DETAIL ELIMINATED TO CONSERVE SPACE---	
E	Section (E) requires the insurer to disclose information regarding state <u>and federal transferable</u> tax credits. The total unused <del>transferable state</del> tax credits represent the entire <del>transferable state</del> tax credits available. The information includes the following: 1) the carrying value of <del>transferable and non-transferable state</del> tax credits <u>disaggregated by transferable/certificated or non-transferable</u> gross of any related <del>state</del> tax liabilities <del>and total unused transferable and non-transferable state tax credits by state and in total by jurisdiction and in total</del> ; 2) <u>the total unused tax credits by jurisdiction disaggregated by transferable/certificated or non-transferable</u> ; 23) the method of estimating utilization of remaining <del>transferable and non-transferable state</del> tax credits or other projected recovery of the current carrying value; 34) the impairment amount recognized by the reporting period, if any; <del>and 45</del> ) the identity <u>of of state</u> tax credits by transferable/ <u>certificated</u> and non-	OP

## IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement

	transferable classifications, and the admitted and nonadmitted portions of each classification; and 6) <a href="#">any commitment or contingent commitment to purchase tax credits</a> . To the degree the amount of the transferable tax credits is material to the insurer, the analyst should perform a more in-depth review.	
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**Note 24 – Retrospectively Rated Contracts and Contracts Subject to Redetermination**

This Note requires the insurer to disclose general information regarding its premium volume under retrospectively written contracts. (This Note is not applicable to title insurers.) The accounting guidance for retrospectively rated contracts is addressed in *SSAP No. 66—Retrospectively Rated Contracts*. SSAP No. 66 defines a retrospectively rated contract as one that determines the final policy premium based on the loss experience of the insured during the term of the policy (including loss development after the term of the policy) and the stipulated formula set forth in the policy. The periodic adjustments might involve either the payment of return premium to the insured or payment of an additional premium by the insured, or both, depending on experience. Policy periods do not always correspond to reporting periods, and because an insured's loss experience may not be known with certainty until sometime after the policy period expires, retrospective premium adjustments are estimated based on the experience to date. Contracts with retrospective rating features are referred to as loss-sensitive contracts.

Section		Risks
A, B, C	Although these types of contracts generally subject the insurer to less risk than more traditional contracts, the analyst should use the information in the Note to determine if the amount of retrospective premiums is material in relation to total net premiums written. This Note also requires the insurer to disclose how it determined the estimated premium adjustment. The disclosure should include all business that is subject to the accounting guidance provided in SSAP No. 66, including business that is subject to medical loss ratio rebate requirements pursuant to the Public Health Service Act or otherwise known as the ACA.  The analyst should review the Note to determine whether the reported amount is recorded in compliance with statutory guidance.	PR/UW, RV
D	Section (D) requires reporting on the ACA medical loss ratio rebates. The analyst should use this information to assess if rebates were paid and/or liabilities established, as well as calculate the materiality and impact of rebates on the capital and surplus of the insurer.	PR/UW, ST
E (P)	For P/C companies, the analyst should compare the admitted amount reported in the Note for accrued retrospective premiums to what is recorded on the balance sheet.	PR/UW, RV
E, F (P)	One of the most significant new drivers of uncertainty attributable to the ACA is its premium stabilization programs, <a href="#">ACA Risk Adjustment Program</a> , <del>which are referred to as the 3Rs—risk adjustment, reinsurance benefits and risk corridors</del> . These <del>is</del> programs primarily affect <del>s</del> the commercial individual and small-group markets <del>starting in 2014</del> . The impact on a specific health entity will be somewhat dependent on its concentration in those markets.  <a href="#">ACA Risk Adjustment Program</a> <del>Each of the premium stabilization programs</del> is designed to provide protection to the health insurance entity by mitigating adverse financial outcomes; however, these programs could have a negative impact as well. Moreover, <del>each the</del> program includes a retrospective settlement process. The health entity's annual	PR/UW, ST

## IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement

	<p>financial statements will include estimates of amounts payable or receivable under these programs. However, these estimates may be uncertain in magnitude and direction, and may be large in relation to the forecasted annual net income for the affected lines of business.</p> <p>The analyst should monitor an insurer’s writings and determine whether the insurer wrote any A&amp;H insurance premium which is subject to the ACA <a href="#">Risk Adjustment Program</a> <del>risk-sharing provisions</del>. It is also recommended that the analyst identify whether the impact of underestimating the amount of health premium subject to the ACA <a href="#">Risk Adjustment Program</a> <del>risk-sharing provision</del> is greater than their level of capital would allow. The analyst should review the health care chapter in <a href="#">VI.C. and ACA risk assessment within Section-III. B.9 Strategic Risk Assessment</a>.</p> <p>Any reporting entity that reports A&amp;H insurance premium and losses on their statement that is subject to the ACA <a href="#">Risk Adjustment Program</a> <del>risk-sharing provisions</del> must complete the tables provided within Note 24 for the purpose of disclosure of the impact of <a href="#">Risk Adjustment Program</a> <del>risk-sharing provisions of the ACA</del> on admitted assets, liabilities, and revenue by program for the current year even if all amounts in the table are zero.</p>	
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## Note 28 – Health Care Receivables

(For Health insurers only, Note 28 is for supplemental reserve and requires disclosure of discounting, the method, rate and amount of discount.)

This Note requires disclosure on pharmaceutical rebate receivables and information on risk sharing receivables. While this Note contains quarterly information, the disclosure is only required annually unless material changes occur. The Note for health care receivables is required by SSAP No. 84—*Health Care and Government Insured Plan Receivables*. Exhibit C—Implementation Guide of SSAP No. 84 provides additional accounting guidance for the practical application of SSAP No. 84. Note that when reviewing health care receivables, amounts from government insured plans may be admitted if they are in excess of 90 days, provided the receivable originates from the government.

Section, Part	Pharmaceutical Rebate Receivables	Risks
A	As stated in SSAP No. 84, pharmaceutical rebates are arrangements between pharmaceutical companies and insurers in which the insurer receives rebates based on the drug utilization of its subscribers. These rebates are recorded as receivables by the insurer and include both billed amounts and estimated amounts.	LQ
A, 1	Estimates are calculated using a variety of methods. Section (A) of the Note addresses the method used by the reporting entity to estimate pharmaceutical rebate receivables. As stated in Exhibit C of SSAP No. 84, the insurer should use the most accurate method possible utilizing historical information and should consider such things as contractual changes in rebate amounts, seasonality differences, changes in membership or premium revenue, changes in utilization for various rebate levels, etc. An analyst should use the information in the Note to gain an understanding of the method used for estimating receivables. If an insurer has not taken into consideration all of the factors that can impact the amount of the receivable, material differences might exist between the estimated receivable and the actual receivable.	LQ
	Section (A) of the Note also contains a table (from Exhibit A of SSAP No. 84), which	

## IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement

	<p>discloses, for the most recent three years, the estimated balance of pharmacy rebate receivables, pharmacy rebates as billed or otherwise confirmed, and pharmacy rebates received. The simplest way to understand the table is with the example provided at the end of the Note.</p> <p>The disclosure for pharmaceutical rebates was developed to compare an insurer's actual pharmacy rebates to its estimated pharmacy rebates. By comparing the second column, titled Estimated Pharmacy Rebates as Reported on Financial Statements (the estimate), to the third column, titled Pharmacy Rebates as Invoiced/Confirmed (the actual amount), the analyst can gain an understanding of the insurer's ability to reasonably estimate their pharmacy receivables. If an insurer reported significant discrepancies between its estimated and actual receivable balances, the analyst may consider doing further analysis into causes for the discrepancy and the methods used by the insurer to calculate the estimated receivable.</p>	
A, 2	<p>When reviewing this Note in conjunction with the balance sheet and statement of revenue and expenses, the analyst should consider that, while Column A of the Note should only reflect amounts recorded as admitted assets on the balance sheet, rebates on uninsured plans are included in the Note. Uncollected rebates on uninsured plans are only admitted to the extent that they exceed offsetting rebates due to the uninsured plan. Further, pharmacy rebates for uninsured plans (including admitted receivable balances) are reported as reductions in administrative expenses, while rebates on insured plans are reported as a reduction in pharmacy claims expense on the Statement of Revenue and Expenses. The analyst should also be aware that, as stated in SSAP No. 84, adjustments to previously billed amounts (billed or confirmed in writing) would be included in the disclosure. This could result in variances between the estimate and the billed/confirmed amount. Any material variances should be explained in the Note. The analyst should consider additional analysis if any material variances exist that is not explained in the Note.</p>	LQ
A, 3	<p>The Note was also designed to provide information on collectability. If, in accordance with SSAP No. 5R, it is probable the balance of a receivable is uncollectable, any uncollectable receivable shall be written off and charged to income. This also applies to risk-sharing receivables (discussed below). As in the example above, an analyst can use the information in the fourth, fifth, and sixth columns of the table to gain an understanding of the collectability of the receivables. Significant discrepancies between the actual amount of the receivables and the amount collected might indicate to the analyst that the insurer has not appropriately evaluated the collectability of pharmaceutical rebate receivables, and certain receivables should be written off if they are deemed to be uncollectable.</p>	LQ
<i>Section, Part</i>	<i>Risk Sharing Receivables</i>	<i>Risks</i>
B, 1	<p>SSAP No. 84 defines risk-sharing agreements as contracts between insurers and providers with a risk-sharing element based on utilization. These agreements can result in receivables due from providers if the actual utilization differs from the estimates. Section (B) of the Note should disclose the method used by the reporting entity to estimate its risk-sharing receivables. Gross receivable and payable balances should be disclosed in the Note if any receivable or payable amounts with the same provider have been netted. As stated in Exhibit C of SSAP No. 84, receivables consist of estimated amounts and billed amounts. The estimated amounts represent the reporting entity's best estimate of the receivable. When determining an estimate, an insurer should use the most accurate methods possible that utilize inception-to-date encounter data relative to outpatient surgery encounters, hospital days, etc. An analyst should use the information in the Note to gain an understanding of the</p>	LQ

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

	<p>method used for estimating receivables. If an insurer has not taken into consideration all of the factors that can impact the amount of the receivable, material differences might exist between the estimated receivable and the actual receivable.</p> <p>The Note also contains a table that discloses, for the most recent three years, the risk-sharing receivables estimated and reported in the prior year for annual periods ending in the current year; risk-sharing receivables estimated and reported for annual periods ending in the current year or in the following year; risk-sharing receivables invoiced as determined after the annual period; risk-sharing receivables not yet invoiced; and amounts collected from providers as payments.</p> <p>Exhibit B of SSAP No. 84 provides an illustration of the disclosure and an explanation of the amounts in the table. Exhibit C, Question #17 of SSAP No. 84 provides a detailed explanation of what should be reported in the columns for risk-sharing receivables (columns 3–6). In addition to the guidance in the SSAP, it is helpful to note that the sum of the columns titled “Risk-Sharing Receivable Invoiced” and “Risk Sharing Receivable Not Invoiced” should equal the balance in the column entitled “Risk-Sharing Receivable as Estimated and Reported in the Current Year,” unless the company has invoiced amounts in a certain year and collected on that invoice in the current year.</p>	
B, 2	<p>The purpose of this disclosure is to show how an insurer’s risk-share balances have changed over time (i.e., estimated and billed amounts), to show how much of the receivable is estimated amounts or subsequently billed amounts, and to provide information on collectability. An analyst’s review of this section should be similar to the analysis of the pharmaceutical rebate receivable section of the Note. If an insurer reported significant discrepancies between their estimated and actual receivable balances, the analyst might consider doing further analysis to determine the causes for the discrepancy and to evaluate the methods used by the insurer to calculate their estimated receivable. Significant discrepancies between the actual amount of the receivables and the amount collected may indicate to the analyst that the insurer has not appropriately evaluated the collectability of risk-sharing receivables, and certain receivables should be written off if they are deemed to be uncollectable. Risk-sharing receivables from affiliated entities are included in this footnote and are reported as Health Care Receivables.</p>	LQ
<u>C</u>	<p><u>The purpose of this disclosure is to show how much of health care receivables are attributed to Medicare Part D prescription payment plans receivables and the aging of those receivables. The analyst can use this information to assist in assessing any issues with collectability or impairment of recoverables.</u></p>	

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**Note 35 – Separate Accounts (L/AH/F)**

This Note discloses detailed information on the reporting entity’s separate account activity, a description of the general nature and characteristics of separate accounts business conducted by the insurer included in the company’s Separate Accounts Statement as prescribed by SSAP No. 56—*Separate Accounts*, and a reconciliation of the amounts reported as transfers between the general and separate accounts in their respective summary of operations.

Separate accounts are authorized by state statutes to allow insurance companies to accumulate assets without investment restrictions for specific purposes pursuant to product agreements. SSAP No. 56 defines separate

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

accounts as segregated pools of assets owned by a Life/Health insurer in which the investment experience is credited directly to the participating policies. Generally, performance is not guaranteed. Separate accounts were first used primarily to fund pension accounts. Now they are used for investment type products with unique life options and/or guaranteed returns. The investment income and any realized and unrealized capital gains or losses emanating from the separate account assets are credited or charged against the separate account policyholders. Separate accounts fund the liabilities for variable life insurance and annuities, modified guaranteed life insurance and annuities, or various group contracts under pension or other employee benefit plans.

SSAP No. 56 states that the separate account statement reports the assets, liabilities and operations of the separate account. Moreover, the Separate Accounts Annual Statement is concerned primarily with the recording of the cash flow of funds related to investment activities and obligations of the separate accounts and to document the transfer of funds between the separate account and the general account. Certain products found in the separate accounts contain risks that are the responsibility of the general account. Some of these are: Modified Guaranteed Annuities, Modified Guaranteed Life, and separate accounts established and filed with the regulator that provide guaranteed benefits – such as interest rate guarantees built into the product.

Section		Risks
A	<p>Section (A) provides a detailed summary of the general nature of the reporting entity’s separate account activity on the general account. In reviewing this note, the analyst should be able to identify those assets on the separate account that are legally isolated from claims on the general account. This note should also provide a total for those products on the separate account that have guarantees that are backed by the general account. This should include providing the total maximum guarantees, the amount of risk charges paid to the general account over the prior five-year period as compensation for the risk transferred to the general account and the total amount of guarantees paid by the general account to the separate account over the past five years.</p> <p>The analyst should gain an understanding of general account guarantees on separate account products. If the General Interrogatories indicate that the insurer provides guarantees on separate account assets, then there should be some risk charges paid to general accounts. Otherwise the insurer is not charging any risk fees for providing guarantees that could result in contingent liabilities to the general account. Note that while group products require risk charges, there may be no requirements for risk charges on individual products.</p> <p>The analyst should determine whether there were any securities lending transactions within the separate account and conduct a separate review of the amount of loaned securities within the separate account. The analyst should determine whether the investment policies and procedures for the separate account differ from those for the general account.</p> <p><u><a href="#">Note that new reporting in Note 35A for disclosures where the general account provides an inherent or ultimate guarantee, such as with pension risk transfer (PRT) or registered index-linked annuity (RILA) products, and other related disclosures (2025-09BWG and SSAP Ref. #2024-10), are effective for 1-1-2026; however, early adoption is permitted and disclosures may be available at Annual 2025 for insurers who adopt early. The disclosures identify if reisk charges have been provied to the general account, confirm the inclusion of these separate account produts within asset-liability testing, discuss securities lending and repurchase/reverse repurchase agreements in the separate account, and fair value of asset transfers that do not reflect sales in exchange for cash beteen the general account and separate account.</a></u></p>	OP, RV

**IV.B. Supplemental Analysis Guidance – Notes to the Financial Statement**

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## III.A.5. Risk Assessment (All Statement Types) – IPS Example

## XX DEPARTMENT OF INSURANCE

## INSURER PROFILE SUMMARY

COMPANY NAME

As of 12/31/20XX

Updated as of XX/XX/20XX

## BUSINESS SUMMARY

Provide a summary of the business operations and lines of business of the insurer.

*ABC is an independently owned property and casualty insurance organization based in state X that specializes primarily in ~~writing auto and homeowners insurance with significant exposure in the southeastern states. As such, ABC carries significant reinsurance protection with highly rated reinsurers to mitigate catastrophe exposure.~~ private passenger automobile insurance coverage. Through its subsidiaries, DEF Insurance Company, GHI Insurance Company, JKL Underwriters, and MNO Premium Finance Company, the group offers a variety of insurance related services including premium finance and claims processing.*

*Identify the ultimate controlling person (UCP), and provide a brief summary of the holding company system (e.g., business profile and key operations or segments, pooling arrangement). Refer to the Group Profile Summary to avoid unnecessary duplication of detail that is not specific to the impact on the solvency the insurer.*

*ABC is owned by PQR Holding Company, a mutual owned holding company that acts as the ultimate controlling person for the group. The group provides a wide range of financial products to its customers, but operates under a fairly direct and simple organizational structure. The PQR Holding Company is divided into two business segments: insurance, and financial services/planning. The insurance segment makes up approximately 70% of the group's total revenue, which includes both property & casualty (55% of total revenue) and life insurance (15% of total revenue). Refer to the Group Profile Summary for PQR (file location) for further detail.*

*The following is a description of the reinsurance program from the Interrogatory on Catastrophe Reinsurance Program PR027A:*

*ABC's catastrophe reinsurance program provides coverage for natural perils, including hurricanes, severe convective storms, wildfires, winter storms, and earthquakes. The program consists of an excess of loss treaty, effective from June 1 to the following May 31 each year. It is designed to protect the company up to a 1-in-250 year probable maximum loss, estimated at \$950 million. The program is structured as a series of cascading layers of protection. Each layer provides coverage for a specific range of losses above the company's \$50 million retention level, up to a total program limit of \$950 million (representing \$900 million in cumulative reinsurance protection). This is shown in the accompanying diagram. The program also includes one reinstatement of coverage limits per year.*

Commented [JK1]: Added in response to WI comment #6.

## Insurer's Group Number

List here

## Lead State/Groupwide Supervisor

List here

## State Prioritization

List X out of X

## RBC Ratio

List % here as calculated in the 5-year history by the Company

## Insurer's Financial Strength/Credit Ratings

List here

## Contact at Insurer

List name here

List phone here

List e-mail here

## Key Personnel

List name here – CEO

List name here – CFO

List name here – CRO

List name here – Other

## CPA Firm

List here

## Appointed Actuary

List here

## Analyst

List here

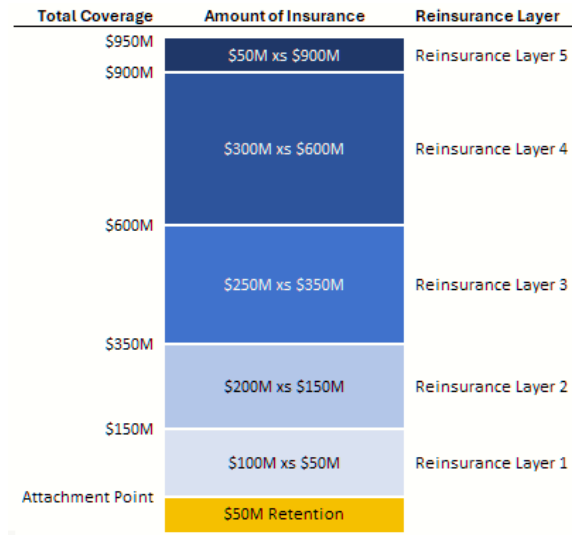
## Date of Last Exam

List here

## Examiner In Charge

List here

## III.A.5. Risk Assessment (All Statement Types) – IPS Example



## REGULATORY ACTIONS

Discuss any significant actions taken against the company, permitted practices, issues of non-compliance, results from the most recent financial examination, etc.

In 20XX, ABC was required to file a corrective action plan with the department to address its breach of the RBC Company Action Level. Since that time, ABC received a capital infusion from its parent and has raised its RBC to an acceptable level. The company has been granted a permitted practice relating to its SCA investment in JKL Underwriters. The permitted practice allows ABC to admit its investment in JKL (\$2 million at 12/31/XX) without requiring an independent financial statement audit.

**Assets and Liabilities**

<b>Years Ended December 31 (Dollars in millions)</b>	<b>20XX</b>	<b>20XX<sup>Y</sup></b>
Total Invested Assets	219	253
Other Assets	111	131
<b>TOTAL ASSETS</b>	<b>330</b>	<b>384</b>
<b>LIABILITIES</b>		
Insurance reserves	97	95
Other liabilities	169	193
<b>TOTAL LIABILITIES</b>	<b>266</b>	<b>288</b>
Capital and Surplus	64	96
<b>TOTAL LIABILITIES AND C&amp;S</b>	<b>330</b>	<b>384</b>
<b>Operations</b>		
	<b>20XX</b>	<b>20XX<sup>Y</sup></b>
Premiums	218	233
Investment income (net of gains/losses)	1	8
Other income	0	0
<b>Total revenues</b>	<b>219</b>	<b>241</b>
<b>LOSSES, BENEFITS AND EXPENSES</b>		

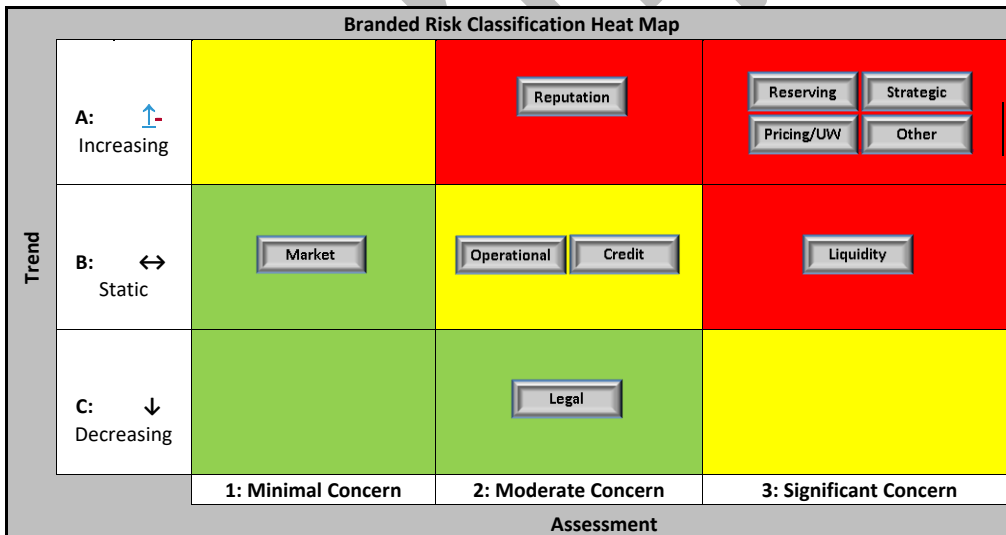
III.A.5. Risk Assessment (All Statement Types) – IPS Example

<b>FINANCIAL SNAPSHOT (SUMMARY DATA) – OPTIONAL</b>	<i>Policyholder Benefits</i>	177	157
	<i>Expenses</i>	77	80
	<i>Total losses, benefits and expenses</i>	254	237
	<i>Other</i>	0	2
	<b>NET INCOME</b>	(35)	2

**BRANDED RISK ASSESSMENTS**

Summarize your assessment of the branded risk classifications for the insurer based upon both quantitative (e.g., 5-year trending of key ratios) and qualitative information. An assessment of each significant individual risk component (including prospective risks) relevant to the classification should be provided by indicating either “minimal concern,” “moderate concern,” or “significant concern” as well as the direction in which the risk is trending. If no significant individual risk components are identified for a branded risk classification, documentation should be provided to support this conclusion. Consider the materiality and/or significance of each individual risk component in aggregating the overall assessment and overall trend, including positive considerations and mitigating factors, for each branded risk classification. Update the Branded Risk Classification Heat Map to illustrate your conclusions.

The following is an interactive map. Click and drag the risk classification to the appropriate section of the risk classification heat map after assessing the trend in each individual category.



III.A.5. Risk Assessment (All Statement Types) – IPS Example

**Credit:** This risk is considered moderate, driven primarily by a fairly conservative investment mix (96.4% of bonds are NAIC 1 with 28% US government, 14% US states, most of the rest high quality corporates) and limited exposure to equities, offset by a relatively high amount of real estate (\$33 million, 10% of assets), growing agent balances (\$959 million) including past due amounts of \$12 million and significant reinsurance recoverables (paid and unpaid) of \$481 million. However, the reinsurance recoverables are diversified across a number of highly rated reinsurers.

Overall, the credit risk is assessed as moderate and increasing due to the material exposure to real estate and receivables, mitigated by a diverse reinsurance program and a conservative bond portfolio.

Minimal Concern	Moderate Concern	Significant Concern	Trend
Bonds			↑
Reinsurance Recoverable			↑
	Real Estate-Home Office		↔
		Agent Balances and Uncoll Prem	↑
<b>Overall Credit Assessment: Moderate Concern</b>		<b>Overall Trend:</b>	↑

**Legal:**

**Fee Schedule Lawsuits:** The Company has a vested interest in the outcome of the case of GEI v. Virtual Imaging which is before the State Supreme Court. This case pertains to a change in statutes, effective January 1, 20xx08, that affected the manner in which insurers, including the Company, have paid claims. Subsequent to the statutory change, cases have been brought and trial courts have concurred that the statutes and resulting payments are ambiguities in the statutes. These cases are collectively known as the “Fee Schedule” matter. The Company began receiving lawsuits on this matter in May 20xx10, some of which were closed at high cost. Since that time, the Company has modified its strategy for handling these cases and has received multiple trial victories from juries that ruled no further payments were owed to the plaintiffs. Exam results indicate that the Company’s legal team tracks and monitors outstanding lawsuits and involves experienced external counsel in representing the Company in these matters.

Overall: Overall, legal risk is assessed as moderate with a declining trend as a ruling on the Fee Schedule matter is expected soon and the Company has taken measures to address the claim payments prospectively.

Minimal Concern	Moderate Concern	Significant Concern	Trend
Effectiveness of legal counsel			↔
	Fee Schedule lawsuits		↓
<b>Overall Legal Assessment: Moderate Concern</b>		<b>Overall Trend:</b>	↓

**Liquidity:**

**Exposure to PIP Market:** The Company is subject to high liquidity risk due to the lines of business written and the corresponding need to meet short-term obligations. The Company’s high exposure to the volatile PIP market and related losses has reversed the trend of improved liquidity in recent years due to a sharp increase in claim liabilities in the current year.

**Liquidity Position:** Trends in the Company’s five-year liquidity ratio are shown in the following chart, which was indicating improvements in the ratio before a negative shift in the current year.:



III.A.5. Risk Assessment (All Statement Types) – IPS Example

**Overall:** *The overall assessment for liquidity risk is moderate and static as the above noted risks are somewhat mitigated by an asset portfolio that is comprised of cash, and mostly investment grade bonds and highly liquid equities.*

Minimal Concern	Moderate Concern	Significant Concern	Trend
		Exposure to PIP Market	↔
		Fluctuations in Liquidity Position Ratio	↔
<b>Overall Liquidity Assessment: Moderate Concern</b>		<b>Overall Trend:</b>	↔

**Market:** *Market risk includes e*

**Equity Exposure and Changes in Credit Spreads:** *Equity risks, changes in credit spreads, and also interest rate risks, exist for this Company but are, ~~Mostly~~, of these risks are not inherently significant to the Company due to its relatively conservative investment portfolio and relatively short-term policies (typically 6 months or 1 year), which allow the Company to reprice fairly easily to align with shifts in the market.*

**Economic Volatility:** *However, as shown As reflected during the recent financial crisis volatility in the last quarter, some of the Company's products are more sensitive to general economic downturns volatility, which can impact the Company's performance.*

**Overall:** *As a result, the overall assessment is moderate and static.*

Minimal Concern	Moderate Concern	Significant Concern	Trend
Equity Exposure			↔
Changes in Credit Spreads			↔
	Economic Downturn Volatility		↑
<b>Overall Market Assessment: Moderate Concern</b>		<b>Overall Trend:</b>	↔

**Operational:**

~~The results of the last exam indicated that the Company has a reliable IT environment and effective internal controls in most areas.~~

~~However, Segregation of Duties:~~ Concerns were raised regarding segregation of duty issues relating-related to the handling of claims and cash disbursements during the last exam.

**Agent Fraud:** In addition, a recent news report indicated that one of the Company's independent agents has been charged with committing fraudulent activities. Due to the Company's heavy reliance on independent agents to generate business and manage policyholder relations, even though the report might be an isolated incident it represents a moderate concern in this category.

**Compliance Issues:** *The Company has consistently been out of compliance with one or more laws, regulations or requirements of the Department and other states.*

**Incorrect Statutory Financial Statements:** *The analyst and examiner have noted issues with certain amounts reported incorrectly within the statutory financial statements, affecting reported income statement results and supporting schedules. The Company has agreed to amend the most recent statement and implement changes within their accounting department processes/systems to address the Department's concerns.*

**Overall:** *The results of the last exam indicated that the Company has a reliable IT environment and effective internal controls in most areas. Cybersecurity risk was tested during the exam and controls were determined to be generally effective. Overall, the assessment is moderate and increasing following the recent exam and annual*

III.A.5. Risk Assessment (All Statement Types) – IPS Example

reporting. The analyst will continue to monitor the insurer’s progress in implementing improvements to address the exam findings and concerns noted above.

Minimal Concern	Moderate Concern	Significant Concern	Trend
<del>IT Environment</del>			↔
	Segregation of Duties		↔
	Agent Fraud		↑
	<u>Compliance with Laws</u>		↑
		<u>Incorrect Statutory Financial Statements</u>	↑
<b>Overall Operational Assessment: Moderate Concern</b>		<b>Overall Trend:</b>	↔↑

**Pricing/Underwriting:**

Rate Adequacy: Although the Company is primarily engaged in short-term products (6 months or 1 year), it is subject to highly competitive price pressure and has shown historically weak underwriting results. Underwriting results have shown a negative trend over the past 6 periods as losses incurred continue to rise, a sign that pricing pressures are influencing the bottom line. The Company appears to be utilizing cash flow underwriting as a way to bolster earnings through investment income, which leads to a concern regarding the adequacy/appropriateness of rates used by the Company.

Lack of Underwriting Guidelines: In addition, the last financial exam noted a lack of documented underwriting guidelines at the Company, which is in the process of being corrected. However, the lack of documented, detailed underwriting guidelines represents a moderate concern in this area.

Overall: Overall, this risk category represents a ~~significant ongoing~~ moderate increasing concern for the Company.

Minimal Concern	Moderate Concern	Significant Concern	Trend
	<u>Lack of Underwriting Guidelines</u>		↔
		Rate Adequacy	↑
<b>Overall Pricing/Underwriting Assessment: Moderate Concern</b>		<b>Overall Trend:</b>	↑

**Reputation:**

Agent Fraud: The Company’s business is not rating sensitive, but the Company is highly dependent upon business produced by agents. As noted ~~above~~ in the Operational section, a recent concern has been identified regarding potential fraud committed by one of the Company’s agents.

Market Conduct Findings/Violations: In addition, the findings of a recent market conduct examination led to numerous violations. These violations related to claims handling issues, such as failure to comply with timely payments and denial of legitimate claims. Although the Company has disputed these findings, gross writings continue to suffer as several agents have stopped writing on behalf of the Company.

Overall: As a result of these outstanding issues, the overall assessment is moderate and increasing.

Minimal Concern	Moderate Concern	Significant Concern	Trend
	Agent Fraud		↑
	Market Conduct Findings/Violations		↑

III.A.5. Risk Assessment (All Statement Types) – IPS Example

Overall Reputation Assessment: Moderate Concern	Overall Trend:	↑
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**Reserving:** ~~The Company's is subject to high reserving risk is moderate and increasing, as shown in the following reserve trending of information.~~

**Long-tail Exposure:** The Company historically has been overly optimistic in the forecasting of future liabilities and reserving, where actual reported results have failed to meet projections for the long-tailed homeowners lines of business, that represent [x%] of overall reserves.

**Adverse Development** The types of business written and geographic regions in which coverage is provided leave the Company vulnerable to high losses and a greater than industry average risk for adverse reserve development.

	CY	PY	PY1	PY2	PY3
Two Year Develop	53.4%	8.0%	-20.3%	25.7%	100.1%
Loss & LAE/C&S	204.1%	132.3%	168.0%	235.2%	496.9%

**Loss Portfolio Transfer and Adverse Development Cover Agreement:** Effective [date], the Company entered into a loss portfolio transfer and adverse development cover agreement with 123 Reinsurance Co. This agreement substantially covers the outstanding reserves for the lines of business that have been driving unfavorable development, thereby mitigating some of the risk of future reserve deficiencies. As a result of this mitigating factor on prospective risk, the overall assessment for reserves is lowered to Moderate. The actual results of the reinsurance program's impact will be monitored in future reporting periods.

**Overall:** The Company's reserving risk is moderate and increasing, driven primarily by the above reserve trend information, which is expected to be mitigated by the new loss portfolio transfer and adverse development cover agreement.

Minimal Concern	Moderate Concern	Significant Concern	Trend
		<del>Lines of Business</del> <u>Long-tail Exposure</u>	↔
		<del>Loss</del> <u>Adverse Development</u>	↑
Overall Reserving Assessment: Moderate Concern		Overall Trend:	↕↔

**Strategic:** The following issues have been identified relating to the Company's strategy:

- **Profitability Impact on Capital Concerns:** As discussed above, the Company has experienced weak underwriting, which has resulted in material losses and material reductions in capital. Underwriting losses have been reported in each of the past five years. Consequently, profitability and capital are considered weak as investment activity has been used to prop up the bottom line, in addition to capital contributions from the Company's parent. The Company has not yet finalized and presented an updated business plan to demonstrate how it will address these strategic issues going forward.
- **Expansion in New Jurisdictions:** The ~~Group Company~~ indicated in ~~its~~ the Group's ORSA Form F that it was changing its mix of business in states other than State X and Y. This could create a risk as the Company has only been writing in the other states for a few years; therefore, there is limited historical development available for these states. This should be considered in the context of the targeted examination.
- **Catastrophe Reinsurance Program:** ABC's catastrophe reinsurance program covers natural perils including hurricanes, severe convective storms, wildfires, winter storms, and earthquakes. The program consists of an excess of loss treaty, effective from June 1 to the following May 31 each year and is designed to protect the company up to a 1-in-250 year probable maximum loss, estimated at \$950 million. There is a series of cascading layers of protection. Each layer providing coverage for a specific range of losses above the company's \$50 million retention level, up to a total program limit of \$950 million (representing \$900 million in cumulative reinsurance protection). The analyst considers the reinsurance program sufficient, however, given the Company's exposure to natural perils and the hardening reinsurance market, it is

## III.A.5. Risk Assessment (All Statement Types) – IPS Example

determined to be a moderate concern with an increasing trend. The analyst will continue to review the catastrophe reinsurance program for adequate cover in the near future.  
Overall: The overall strategic risk assessment is significant and increasing as a result of the weak profitability, capital position, natural cat exposure and uncertainties in future business plans.

Minimal Concern	Moderate Concern	Significant Concern	Trend
	Expansion in new jurisdictions		↑
		Profitability impact on capital concerns	↑
	Catastrophe Reinsurance Program		↑
Overall Strategic Assessment: Significant Concern		Overall Trend:	↑

~~Other: The following other issues have been identified that don't clearly fit into one of the branded risk classifications highlighted above:  
The company has consistently been out of compliance with one or more laws, regulations or requirements of the Department and other states.~~

Minimal Concern	Moderate Concern	Significant Concern	Trend
	Incorrect statutory financial statements		↕
		Lack of knowledge or laws	↕
Overall Reserving Assessment: Moderate Concern		Overall Trend:	↕

## IMPACT OF HOLDING COMPANY ON INSURER

Summarize the evaluation of the impact of the holding company system on the domestic insurer. [Utilize information provided in the Group Profile Summary prepared by the Lead State.](#)

## EXAMPLE:

~~The group is highly dependent upon cash flows from the various entities, including ABC, to make payments on the holding company debt used to help finance past transactions associated with the growth of the group. The ORSA and Form F provides more specific information on group has sufficient liquidity to meet the necessary cash flows expected in the near term. Other risks from the non-insurers is are not significant. See Domestic and/or Non-Lead State Analysis Holding Company Procedures the Group Profile Summary for further discussion.~~

## EXAMPLE:

The holding company's UCP, has provided capital to the insurer when it has been required. The presence of many agreements involving the insurer and its affiliates indicate that the holding company is highly interconnected with entities being dependent on one another. The insurer provides services to, as well as receives services from affiliates. This is accomplished via a Risk Share Agreement which superseded previous agreements the insurers had with the affiliated entities. The insurer provides TPA services for certain members of the group.

Overall, the operations of the holding company are profitable and able to maintain the ability for the holding company to infuse capital into the three insurers when needed. The holding company has requested distributions from the insurer from time to time to help fund capital deficiencies in two affiliates, but there is no concern with the insurer's financial condition or independent ability to provide this support at the present time. In evaluating whether the holding company has the ability to provide necessary financial support to its insurers, it is noted that the holding company has equity of \$X billion as of its most recent audited financial statements and has positive net operating income over the past several years. In addition, the holding company has bond ratings from Moody's of Aa3 and from Standard & Poors of AA. These strong ratings coupled with a strong balance sheet provide evidence

## III.A.5. Risk Assessment (All Statement Types) – IPS Example

that the holding company has the ability to continue to assist the insurer by means of capital infusions should the needs arise.

**Sample text:**

The [name of parent] has [issued or modified] a parental guarantee agreement [or capital support agreement] under which the Parent will be responsible for ensuring that the Company has sufficient capital and liquid assets to pay claims. The Parent will also maintain capital at a level that ensures a minimum RBC level of ~~f~~##.##% ACL.

**OVERALL CONCLUSION AND PRIORITY RATING**

This section should include an overall conclusion as to the Company's financial condition, discuss strengths that potentially mitigate the risks assessed above, and highlight weaknesses and any concerns with the Company's operations going forward. Include any actions that may have been taken (e.g., significant holding company transactions, prior or planned meetings with management, and referrals to/from other divisions, etc.). Recommend the priority level that should be assigned to the Company and explain the rationale.

**EXAMPLE:**

Based on the branded risk assessments provided above as well as the Company's poor financial results reported in recent periods, the Company appears to be potentially troubled. The Company has triggered more than five of the department's prioritization criteria and is a multi-state insurer; therefore, the Company has been assigned our highest priority rating of 1, which is unchanged from the prior year. Some of the most significant issues facing the Company include rate adequacy, reserve sufficiency and overall cash flow and liquidity issues. However, these weaknesses are somewhat offset by Company strengths including a conservative investment portfolio, brand recognition and a strong historical reputation. The department has scheduled a meeting with senior management for the 3<sup>rd</sup> Quarter to discuss the Company's poor financial performance and ongoing business plan. During the meeting, the department plans to share its concerns and inform the Company of steps planned to monitor the company's operations more closely, as described below.

**SUPERVISORY PLAN**

List any specifically identified items that require further monitoring by the analyst or specific testing by the examiner. In addition, indicate if the Company is or should be subject to any enhanced monitoring, such as monthly reporting, a targeted examination, or a more frequent exam cycle.

If any Holding Company issues impact the insurer, include any monitoring or follow-up with the Lead State or the insurer. For example, include suggested follow-up procedures to address any potentially significant unresolved concerns with cost sharing or service agreements with affiliates or significant reliance on affiliates to provide services.

**EXAMPLE:****Analysis Follow Up**

- Obtain further detail regarding the impact of proposed rate increases and monitor through monthly financial reporting.
- Obtain further detail regarding the insurer's liquidity strategy.
- A new business plan has been requested. Assess the reasonableness of the Company's business plan as soon as it is received, given the inability to execute the most recent strategy. Consider ~~attending~~ requesting minutes of the board meetings to reflect assess the concern regarding the future viability of the Company.
- ~~Include suggested follow-up procedures to address any potentially significant unresolved concerns with cost sharing or service agreements with affiliates or significant reliance on affiliates to provide services.~~ Follow-up correspondence was sent regarding examination follow-ups (IT, and corporate governance over accounting & reporting and segregation of duties). Requested a response from the Company by [date].

**III.A.5. Risk Assessment (All Statement Types) – IPS Example**

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**Examination Follow-Up**

- *During the next regularly scheduled examination, audit the specific risks associated with the Company's agents' balances and uncollected premiums to determine if further concerns exist.*
- *Follow-up on segregation of duties issues noted in the last examination.*
- *Perform a targeted examination of the reserves, pricing and claims management. Consider in the reserve study any pricing review, information related to the changing legal environment, as well as the mix of business in states outside of X and Y.*

## VI.C.1. Group-Wide Supervision – Group Profile Summary Example

## XX DEPARTMENT OF INSURANCE

## GROUP PROFILE SUMMARY

## GROUP NAME

As of 12/31/20XX

Updated as of XX/XX/20XX

<b>Group Number</b>	List here
<b>Lead State</b>	List here
<b>Group-wide Supervisor</b>	List here
<b>Group Credit Rating</b>	List here
<b>Publicly Traded</b>	List ticker and exchange
<b>International Jurisdictions</b> Country/Capital Regime (Solvency II, Swiss Solvency Test, etc.)	
<b>Contact at Group</b>	List name, phone and email
<b>CPA Firm</b>	List here
<b>Analyst</b>	List here
<b>List of Affiliated Firms</b>	

**Holding Company System Summary**

Identify the ultimate controlling person (UCP), and provide a summary of the structure and business operations of the holding company system, including any significant recent events or changes in structure.

**EXAMPLE:**

**Ultimate Controlling Person:** COMPANY 1 is a mutual holding company that acts as the ultimate controlling person for the group.

**Organizational Structure:** The group is structured as a mutual holding company. The majority of the entities within the group are 100% owned by COMPANY 1. The group provides a wide range of financial products to its customers, but operates under a fairly direct and simple organizational structure.

**Business Segments:** The GROUP is divided into three business segments: insurance, banking and financial services/planning. All of the business segments are designed for and marketed to TARGET MARKET. The insurance segment makes up approximately 70% of the group's total revenue, which includes both ~~personal~~-property & casualty (55% of total revenue) and life insurance (15% of total revenue). Banking services make up approximately 15% of total revenue, with the remaining 15% attributed to financial services/planning and other minor segments.

Insurance policies are sold through ~~internet~~the internet, mail, and telephone on a direct basis, primarily from its LOCATION office. There are 13 financial centers in cities with TARGET MARKET LOCATION to assist members with insurance, banking and investments. The company is exposed to some level of risk concentration due to its concentration in the TARGET MARKET, which exposes it to certain geographic concentrations.

**Sample text:**

The [name of parent] has [issued or modified] a parental guarantee agreement [or capital support agreement] under which the Parent will be responsible for ensuring that the insurance Companies [LIST APPLICABLE PARTIES TO THE AGREEMENT] have sufficient capital and liquid assets to pay claims. The Parent will also maintain capital at a level that ensures a minimum RBC level of ##.##% ACL.

**Insurance Entities and Jurisdictions:** The group has seven different insurance legal entities domiciled across three different states in the U.S. In addition, COMPANY 9 is an alien insurer domiciled in FOREIGN LOCATION. The Company is authorized to provide insurance in the other countries in that region and is subject to insurance

**Commented [JK1]:** Staff suggestion: Consider adding international Jurisdiction capital regime or accounting basis, if applicable for international groups

**VI.C.1. Group-Wide Supervision – Group Profile Summary Example**

supervision by the FOREIGN SUPERVISOR. COMPANY 9 reported \$547 million in retained profit in 2011<sup>xx</sup>, so its operations are not overly significant to the Group.

**Captives:** The group has established COMPANY 14 as a captive life insurer, to assume XXX and AXXX reserve liabilities from COMPANY 6. COMPANY 14 is domiciled in CAPTIVE STATE X and is subject to coordinated supervision. The initial transaction to transfer reserve liabilities was subject to review and approval by the CEDING STATE and the CAPTIVE DOMICILE and is subject to ongoing review and oversight. During a Dec. 31, 20XX, coordinated examination, it was determined that the group continues to operate in accordance with the approved transaction restrictions and maintains sufficient reserves, collateral and surplus to support the captive reinsurance structure.

**Non-Insurance Entities:** The group offers many banking and financial products including credits cards, consumer loans, home equity loans, mortgages, auto loans, checking and savings accounts through COMPANY10 and COMPANY 11. The Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) regulate the banks and the LEAD STATE communicates with those supervisors on a regular basis regarding group issues.

In 20XX, the Group was examined by the Federal Reserve Bank (FRB). No significant findings were noted during the exam. In 20XX, the Group issued \$800 million in additional bank debt through Company 1. However, this additional debt does not appear to significantly increase the group's current leverage position, which is conservative in comparison to most competitors and does not represent a significant concern at this time.

In 20XX, the Federal Reserve conducted stress testing on the bank in COMPANY10. The bank passed the latest stress tests, demonstrating that they have sufficient capital to withstand adverse scenarios.

**Other Information:** A recent press release announced the group's intentions to partner with UNAFFILIATED COMPANY A to offer additional financial services products to its existing customers. The partnership is not expected to have a significant financial impact in the near term.

**Financial Snapshot (Selected Summary Data)**

Provide financial data as well as any notes and explanations of the data to outline the group's financial position, segment performance and other key information that is customized and relevant for an understanding of the specific group. Financial information provided in the GPS, ~~which~~ may be more detailed as compared to ~~than~~ the insurer profile summary of a legal entity insurer ~~as~~ since the availability of group data differs significantly from one group to the next and fewer tools are available at the group level. However, the information presented may vary depending upon the availability of consolidated financial data from one group to the next.

**EXAMPLE:**

<u>Consolidated Balance Sheet (U.S. GAAP)</u>		
<u>Years Ended December 31 (Dollars in millions)</u>	<u>20XX</u>	<u>20XY</u>
<u>Insurance Assets</u>	<u>\$</u>	<u>\$</u>
<u>Non-Insurance Assets</u>	<u>\$</u>	<u>\$</u>
<u>[Add detail based on group specifics]</u>	<u>\$</u>	<u>\$</u>
<u>TOTAL ASSETS</u>	<u>\$</u>	<u>\$</u>
<u>Holding Company Debt</u>	<u>\$</u>	<u>\$</u>
<u>[Add detail based on group specifics]</u>	<u>\$</u>	<u>\$</u>
<u>TOTAL LIABILITIES</u>	<u>\$</u>	<u>\$</u>
<u>EQUITY</u>	<u>\$</u>	<u>\$</u>

## VI.C.1. Group-Wide Supervision – Group Profile Summary Example

<u>TOTAL LIABILITIES AND EQUITY</u>	<u>\$</u>	<u>\$</u>
<u>[Add detail based on group specifics]</u>	<u>\$</u>	<u>\$</u>
<u>Total revenues</u>	<u>\$</u>	<u>\$</u>
<u>Total losses, benefits and expenses</u>	<u>\$</u>	<u>\$</u>
<u>NET INCOME</u>	<u>\$</u>	<u>\$</u>
<u>CASH FLOW</u>	<u>\$</u>	<u>\$</u>
<u>NET INCOME BY SEGMENT</u>	<u>20XX</u>	<u>20XY</u>
<u>Property &amp; Casualty Insurance</u>	<u>\$</u>	<u>\$</u>
<u>Life Insurance</u>	<u>\$</u>	<u>\$</u>
<u>Banking &amp; Finance</u>	<u>\$</u>	<u>\$</u>
<u>Non-Financial</u>	<u>\$</u>	<u>\$</u>
<u>Corporate</u>	<u>\$</u>	<u>\$</u>
<u>INSURANCE OPERATIONS BY JURISDICTION</u>	<u>20XX</u>	<u>20XY</u>
<u>[Add international detail based on group, e.g., premium, revenue, or assets under management]</u>	<u>\$</u>	<u>\$</u>
<b>Consolidated Balance Sheet (U.S. GAAP)</b>		
<b>Years Ended December 31 (Dollars in millions)</b>	<b>20XX</b>	<b>20XX</b>
Cash and cash equivalents	13,447	8,786
Investments	38,944	35,033
Real estate investments, net	2,370	1,956
Loans receivable	38,103	37,548
Premiums due from policyholders	2,309	2,124
Property and equipment, net	1,309	1,343
Other Assets	7,870	7,472
<b>TOTAL ASSETS</b>	<b>\$104,352</b>	<b>\$94,262</b>
Insurance reserves	15,588	14,062
Life insurance funds on deposit	15,368	13,626
Bank deposits	46,432	39,775
Borrowings	1,974	3,441
Other liabilities	5,050	4,647
<b>TOTAL LIABILITIES</b>	<b>\$84,312</b>	<b>\$75,551</b>
Equity	\$20,040	\$18,711
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$104,352</b>	<b>\$94,262</b>
<b>Consolidated Income Statement</b>	<b>20XX</b>	<b>20XX</b>
Insurance premiums	11,960	11,205
Total investment return	2,940	2,723
Fees, sales and loan income, net	3,489	3,422
Real estate investment income	253	190

## VI.C.1. Group-Wide Supervision – Group Profile Summary Example

<i>Other income</i>	<del>424</del>	<del>406</del>
<i>Total revenues</i>	<del>\$19,036</del>	<del>\$17,946</del>
<b>LOSSES, BENEFITS AND EXPENSES</b>		
<i>Policyholder Benefits</i>	<del>177</del>	<del>157</del>
<i>Net losses, benefits and settlement expenses</i>	<del>10,998</del>	<del>9,160</del>
<i>Deferred policy acquisition costs</i>	<del>574</del>	<del>556</del>
<i>Real estate investment expenses</i>	<del>189</del>	<del>153</del>
<i>Interest expense</i>	<del>475</del>	<del>604</del>
<i>Dividends to policyholders</i>	<del>112</del>	<del>223</del>
<i>Other operating expenses</i>	<del>3,899</del>	<del>3,669</del>
<i>Total losses, benefits and expenses</i>	<del>\$16,247</del>	<del>\$14,365</del>
<i>Pre-tax income</i>	<del>2,789</del>	<del>3,581</del>
<i>Income tax expense</i>	<del>661</del>	<del>944</del>
<b>NET INCOME</b>	<del>\$2,148</del>	<del>\$2,637</del>
<b>CASH FLOW From Operations</b>	<del>\$4,737</del>	<del>\$2,828</del>

**EXAMPLE:**

Significant Financial Performance Notes:

- The ~~group~~ Group continues to experience positive financial results including steady revenue growth, increasing capital/surplus levels, positive net income and positive cash flow from operations.

**Corporate Governance Summary**

Provide a summary of the corporate governance structure and an overall assessment for the holding company.

**EXAMPLE:**

The Group is governed by a board of directors at the mutual holding company level and separate boards are in place for each insurance and banking entity, but they are led by company employees and have limited responsibilities. Strategic direction is set by the COMPANY 1 board and the audit committee for COMPANY 1 has assumed responsibility for the financial reporting and internal controls of all insurance entities. The board is made up of 10 members, 8 of which are independent from management. The Board and its committees are governed by formal written charters and the board meets a minimum of 4 times a year to fulfill its responsibilities. Based on the results of the most recent financial exam, board members of Company 1 were deemed suitable for their positions with a wide-range of experience and expertise demonstrated including financial and actuarial knowledge. A review of insurance board meeting materials and minutes indicated that the board is actively engaged in reviewing reported financial results of the organization and taking action to address strategy when necessary.

Senior management is led by a CEO that has been in place since 20XX and has a background in insurance company leadership going back more than 25 years. Based on the most recent discussions with management at the department and through discussions at the last supervisory college, the CEO appears to be well informed in regards to all significant operations of the group. All of the other members of senior management appear to have appropriate knowledge, background and experience to fulfill their responsibilities and appear to be actively engaged in the group's strategic initiatives. The assignment of authority and responsibility across the group appears to be clear and effective and the management team has demonstrated its competence through numerous interviews and meetings with the department. Overall, the Group's corporate governance is assessed as strong.

## VI.C.1. Group-Wide Supervision – Group Profile Summary Example

**Enterprise Risk Management Summary**

Provide a summary of the enterprise risk management function and an overall assessment for the holding company, as well as a discussion of the ORSA Summary Report filing status.

**EXAMPLE:**

*The Enterprise Risk Management function is organized at the COMPANY 1 level, although an ERM function is also organized for the banking subsidiaries. Both are overseen by a Risk Management Committee of the board. The Risk Management Committee is governed by a charter that makes it responsible for developing, communicating and implementing a risk appetite statement and supporting risk limits/tolerances across the organization. The Chief Risk Officer oversees the Enterprise Risk Management function for COMPANY 1 and reports to the Risk Management Committee at least quarterly, providing updates on the organization's compliance with risk limits/tolerances, describing new and emerging risks the organization is facing, and seeking input on changes to risk limits/tolerances and remediation efforts to address breaches. Individual risks are assigned to risk owners for development of mitigation strategies, monitoring and day-to-day management. The results of the organization's ERM efforts are documented in an ORSA Summary Report and similar information is reviewed and approved by the Risk Management Committee and the Board of Directors on an annual basis. ~~The results of the most recent regulatory assessment of the organization's ORSA Summary Report (filed 10/25/XX) indicate that the ERM function is generally performing at "Level 4", which is at or above the majority of its peers in this area. Similar conclusions were reached during the last supervisory college conducted for the Group.~~*

~~*The insurer also reviews liquidity (see liquidity branded risk) and discusses contingency funding to mitigate potential liquidity stresses due to catastrophic events or severe market fluctuations.*~~

*The Group's assessment of its key risks through its ERM framework generally align with the department's understanding of the Group and its exposures, with the exception of geopolitical risk (see other branded risk) that is of concern to the department but not directly addressed by the Group as a key risk. A recommendation has been made for the Group to incorporate additional geopolitical risk considerations into its ERM framework going forward.*

*Amongst a wide range of other risk exposures, the Group also reviews liquidity (see liquidity branded risk) and discusses contingency funding to mitigate potential liquidity stresses due to catastrophic events or severe market fluctuations.*

**Group Capital Calculation Summary**

Provide a summary of an assessment of the GCC both quantitatively and qualitatively, including any such items as may not be applicable to a branded risk category. The GCC summary is intended to be high-level. Therefore, other more detailed observations from reviewing the GCC should generally not be documented into the GPS unless they are specifically insightful, add to a high-level understanding of the ~~group~~Group's financial condition, or are specific to a branded risk category as stated.

**EXAMPLE:**

It may be appropriate to indicate whether the review of the ~~group~~Group's GCC indicated the scope of the application is consistent with the lead state's determination and summarize the general scope of the GCC. For example, "the GCC includes all U.S. and Bermuda operations, but excludes ABC non-insurance operations in South American countries".

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

It may also be appropriate to identify key drivers of risks for the **groupGroup** within the GCC as those risks supplement existing risk assessments derived from holding company analysis or are new risks that warrant further review.

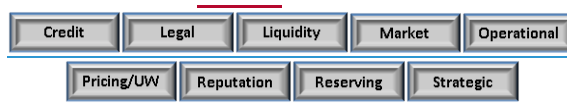
**EXAMPLE:**

"The **groupGroup**'s GCC of 201% in the current year was impacted by a decline in total available capital of \$X which is related to the **groupGroup**'s non-insurance operations in Bermuda and as well as the negative impact of market risks in the U.S. insurance legal entity ratio components, which based on further analysis has resulted from the recent financial market volatility".

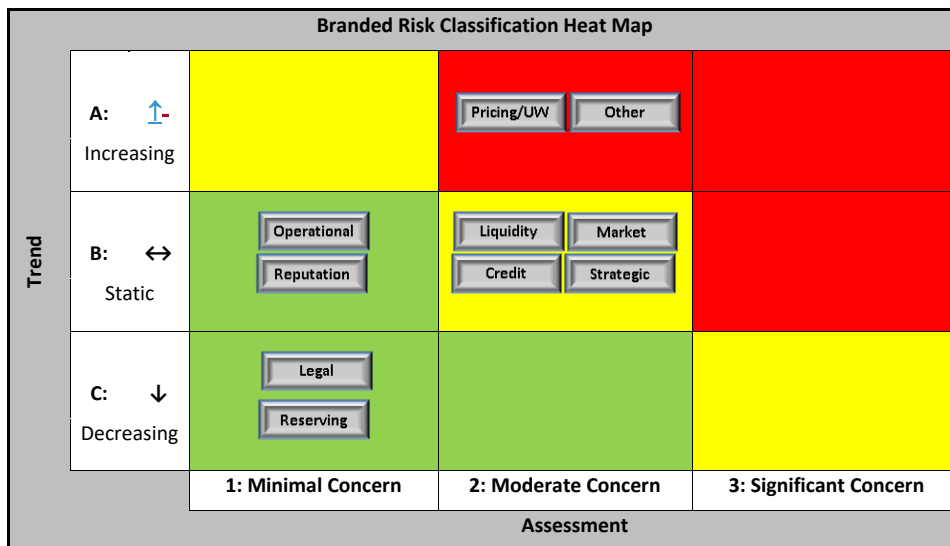
**Branded Risk Assessments**

Summarize your assessment of the branded risk classifications for the **groupGroup** based upon both quantitative (e.g., 5-year trending of key ratios) and qualitative information. An assessment of each significant individual risk component (including prospective risks) relevant to the classification should be provided by indicating either "minimal concern," "moderate concern," or "significant concern" as well as the direction in which the risk is trending. If no **significant-material** individual risk components are identified for a branded risk classification, documentation should be provided to support this conclusion. Consider the materiality and/or significance of each individual risk component in aggregating the overall assessment and overall trend, including positive considerations and mitigating factors, for each branded risk classification. Update the Branded Risk Classification Heat Map to illustrate your conclusions.

The following is an interactive map. Click and drag the risk classification to the appropriate section of the risk classification heat map after assessing the trend in each individual category.



**EXAMPLE:**



VI.C.1. Group-Wide Supervision – Group Profile Summary Example

**Credit:**

- Loan Portfolio** - ~~Based upon a review of consolidating financial statements, the~~ primary credit risk for the ~~group~~ Group appears to be in the banking segment. The banks have a significant amount invested in mortgages and automobile loans. Through discussions with the group wide supervisor, the Federal Reserve Bank, and a review of documentation they provided, it appears that the loans carry a moderate risk of default. However, current loans past due are less than 1% of loans receivable, indicating that the Group appears to manage its loan portfolio well.
- Insurer Investments** – Other investments are heavily concentrated in investment grade bonds associated with the insurance operations, which represent a minimal concern. We requested the ~~group~~ Group provide us with summary investment information for the ~~group~~ Group, which indicated that there were no material concentrations in non-investment grade bonds, equities, private securities or other types of invested assets. In addition, the ~~group~~ Group's ORSA Summary Report ~~assesses credit within its economic capital model. does not list credit as an area of material risk.~~ Because most of these assets are within the individual insurers, we also reviewed the legal entity insurer profile summaries and noted no significant concerns with either investments or reinsurance.

Overall: Credit risk is assessed as moderate and static driven by its loan portfolio from banking operations, as other insurance segment risks are minimal or immaterial to the overall Group.

Minimal Concern	Moderate Concern	Significant Concern	Trend
	Loan Portfolio		↔
<del>Reinsurance/Insurer investments</del>			↔
<b>Overall Credit Assessment: Moderate Concern</b>		<b>Overall Trend: ↔</b>	

**Legal:** No specific concerns identified through either review of the legal entity insurer profile summaries, results of recent coordinated exam, the ORSA Summary Report, other holding company filings, discussions with the Federal Reserve, communication with the FOREIGN SUPERVISOR of COMPANY 9, or any other sources.

- Claim Lawsuits** – The ~~group~~ Group is periodically involved in individual claim lawsuits, but frequency has trended downward and results are not historically significant.
- Regulatory Risk** – As a Group with US insurance, banking and financial services operations and international operations, regulatory risk associated with prospective regulatory changes and compliance costs are identified as a risk to the Group, but considered minimal at this time.

Overall: Due to the company's strong management of existing exposures to legal issues, the legal risk is assessed as minimal and declining.

Minimal Concern	Moderate Concern	Significant Concern	Trend
Claim lawsuits			↓
<u>Regulatory Risk (incl. Federal and International)</u>			↔

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

Overall Legal Assessment: <del>Not</del> Minimal Concern		Overall Trend: ↓	
<p><b>Liquidity:</b> As previously discussed, although the insurance assets are fairly conservative, and despite <del>finding identifying no insurer Profile Summaries of legal entities that identified liquidity as an issue</del> <u>specific liquidity concerns in the insurance segment</u>, this may be an area requiring greater focus at the <del>group</del> <u>Group</u> level moving forward.</p> <ul style="list-style-type: none"> <li>• <u>Liquidity of Banking Operations</u> – The Federal Reserve indicated that the banking operations were subject to liquidity strain under certain <u>conditions</u>. The banking operations passed the latest stress tests and demonstration solvency in all but the extreme scenario, however the specific conditions of the <u>scenario testing were not provided for the lead state’s review</u>.</li> <li>• <u>Liquidity Stresses</u> – The Group has a liquidity risk appetite statement and liquidity risk limits and determines if the current liquidity position is within the risk appetite and limit. Given in part the Group’s exposure to certain types of catastrophic risks as well as certain risks with its banking operations, the Group has in place a strategy to liquidate assets and access sources of contingency funding in times of stress.</li> </ul> <p><del>The analyst suggests as an area of focus during the next coordinated on-site examination, this contingency funding, specifically the \$XXM Federal Home Loan Bank (FHLB) letter of credit; as well as reviewing the current liquidity position compared to the risk limits; and reviewing the banking stress test scenario to better understand the entire Group’s liquidity management conditions, but did not provide specifics regarding those conditions or the results. In addition, although the ORSA Summary Report provides some information on the insurance operations liquidity management program, a greater understanding is needed given in part the group’s exposure to certain types of catastrophic risks as well as certain risks with its banking operations. We suggest this as an area of focus during the next coordinated on-site examination to better understand the entire group’s liquidity management.</del></p> <p><u>Overall: Liquidity risk is assessed as moderate and static due to liquidity strain at the non-insurance operations and contingency funding in place to address stress scenarios. Both will be considered for further assessment during a future examination.</u></p>			
Minimal Concern	Moderate Concern	Significant Concern	Trend
	<u>Liquidity of Banking operations</u>		↔
	<u>Liquidity Stresses (in a catCAT scenario or market fluctuations)</u>		↔
<del>Liquidity under normal conditions</del>			
Overall Liquidity Assessment: Moderate Concern		Overall Trend: ↔	

<p><b>Market:</b> <u>The Group is exposed to market risk with:</u></p> <ul style="list-style-type: none"> <li>• <u>Loan Portfolio</u> – Similar to credit risk, through discussions with the Federal Reserve, market risks related to the loan portfolio were identified, as these loans can be subject to market swings during certain economic conditions. Although general concerns were communicated in this area, specific concerns related to the company’s stress test results for various scenarios were not communicated.</li> </ul>
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VI.C.1. Group-Wide Supervision – Group Profile Summary Example

- Insurance Portfolio** – Despite the relatively conservative investment portfolio, the Company identified through stress tests specifically reviewing the capital effects for interest rate changes/levels on the insurer’s portfolio in its ORSA that market risk was an area where a moderate risk, or at least a moderate amount of capital, may be needed to absorb certain specific economic conditions. However, based on discussions with management, despite the use of various types of derivatives to reduce such risks, the company indicates that its cost-benefit analysis suggests that further hedging is not used to manage this extreme tail risk that has a somewhat low probability. Further review of such need not be performed until the next five-year examination.
- Geopolitical Risk** – The most recent Form F report provided by COMPANY 1 indicated that The Group is exposed to geopolitical risk and uncertainty related to its investment in COMPANY 9, which is an alien reinsurer operating in Country XX. As the stability of Country XX’s government has been weakened due to recent protests related to government corruption, the Group’s investment in COMPANY 9 is of some concern. However, as the Group’s total investment in COMPANY 9 (\$547 million at Dec. 31, 20XX) represents less than 3% of overall capital and surplus, the situation warrants only a moderate concern at this time.

Commented [JK2]: Moved here from Other risk, as it is proposed to eliminate the Other risk category from the example.

**Overall:** Based on the above, market risk is assessed as moderate and static attributed to both the insurance and non-insurance segments as the economic market remains volatile.

Minimal Concern	Moderate Concern	Significant Concern	Trend
	Loan Portfolio		↔
	Insurance Portfolio		↔
	<u>Geopolitical risk (COMPANY 9)</u>		↔
Overall Market Assessment: Moderate Concern		Overall Trend: ↔	

Operational:

- Earnings** – Consolidated GROUP reported net income of \$2,128 million in the current year compared to \$2,637 million in the prior year. In the current year, GROUP P/C companies experienced significant catastrophe events, which included tornadoes, floods, hail, wildfires, earthquakes and hurricanes. However, even with the heightened number of catastrophes faced by the group, the overall financial results were favorable and group capital, per the ORSA Summary Report according to the Group, appears to be well above target even under adverse conditions. The group is not structured like most companies and its overall approach is geared towards its policyholders.

**Holding Company Debt** – While the group’s holding company has issued debt to fund operations, the group’s interest coverage ratio (provided below) shows that the group is not overly reliant on cash flow from the insurance entities to cover the holding company debt. ~~CY PY PY1 PY2 PY3~~

~~Interest Coverage 4.5X 4.4X 4.4X 2.2X 5.2X~~

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

- Internal Control Documentation – ~~However, a~~ Although the last examination revealed that governance risk was low, certain internal control processes were not clearly documented. The ~~group~~ Group indicated that it was in the process of working with its internal audit department to enhance its documentation. Through discussions with the Federal Reserve, it appears that the ~~group~~ Group has recently developed additional documentation around internal controls. These activities will be verified during the next onsite examination.
- Cybersecurity – The Group identified cyberattack as a key risk with moderate concern due to the number of entities, IT platforms, lines of business, and counties that the insurer operates within. Therefore, the company has purchased a cyber policy for \$5 million. The analyst will recommend the exam team confirm and review the provisions of the policy. Additionally, the Group’s stress testing shows that the insurer’s capital could absorb a moderate cyber event with reinsurance and controls that are in place. However, stress testing also shows that a combination event with both a cyber attack and an underwriting (CAT) event would require the insurer to obtain additional capital to absorb.

Overall: Operational risk is assessed as minimal and static at this time due to strong profitability, slightly offset by potential risks noted within documentation of internal controls and cybersecurity.

Minimal Concern	Moderate Concern	Significant Concern	Trend
<del>Earnings &amp; Group Capital</del>			↔
<del>Holding Company Debt</del>			
	Internal control documentation		↓
	<u>Cybersecurity</u>		↓
Overall Operational Assessment: <del>No</del> /Minimal Concern		Overall Trend: ↔	

**Pricing/Underwriting:** Our review of pricing/underwriting risk focused on the insurers within the organization, as similar risks in the banking segment were evaluated as an element of credit risk.

~~Per review of the legal entity Insurer Profile Summaries, Company 6 was identified as having a concentration of catastrophe risk in one state, which was identified as a significant concern by State Y. However, after review of the ORSA Summary Report, and after significant discussions with management, we determined that CAT risk for the entire group as a whole was moderate.~~

- Auto/Home Underwriting & Pricing – Underwriting performance within the auto and homeowner’s lines of business remain within expectations for premium revenue growth and earnings groupwide. However, expansion and the shift to more property lines (Auto and Homeowners), may result in higher pricing risks going forward.
- CAT Risk – ~~Company 6 has a concentration of catastrophe risk in one state, which was identified as a significant concern by State Y. However, after further review–, and detailed discussions with management, we determined that CAT risk for the entire Group as a whole was moderate. Additionally,~~ ~~‡~~ The Company has taken steps in the current year to minimize this risk further by creating a separate legal structure to reduce this risk through the issuance of insurance linked securities, ~~–as discussed in the Group’s Form F filing. We suggest that a~~ Although this is a risk mitigator, a target exam is

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

~~recommended to review~~ the details of the structure ~~should be examined more closely during a targeted exam as soon as possible and that regulators and we will continue to~~ monitor this activity closely as it could represent a significant concern if not structured effectively.

- ~~WC Underwriting & Pricing – Also, the~~ **WC Underwriting & Pricing** – ~~the~~ **group** Group’s workers’ compensation (WC) line of business appears to contain some risk for the ~~group~~ Group, where despite relatively strong historical performance, we’re noticing an industry trend of decreasing prices. As this line of business represents more than 25% of the ~~group~~ Group’s total gross written premiums, we believe a detailed review of national underwriting procedures and current pricing on workers’ compensation may be appropriate during the next onsite exam (scheduled for two years from now).

**Overall:** Pricing/underwriting risk is assessed as moderate and increasing due to uncertainties in the changing product focus and expansion, as well as potential for pricing trends to impact the WC line of business, which is material to the Group.

Minimal Concern	Moderate Concern	Significant Concern	Trend
Auto/home underwriting & pricing			↔
	CAT risk		↔
	WC underwriting and pricing		↑
		Insurance linked securities	
<b>Overall Pricing/Underwriting Assessment: Moderate Concern</b>		<b>Overall Trend: ↑</b>	

**Reputation:** No ~~significant issues~~ ~~material risks~~ were identified. The Group appears to monitor its reputation and strong financial strength and credit ratings on a regular basis, ~~as described in its ORSA Summary Report.~~

**Overall:** Reputation risk is assessed as minimal and static due to the Group’s historically strong reputation, ratings, and demonstration of strong corporate governance in managing its reputational risk, despite the challenging insurance markets.

Minimal Concern	Moderate Concern	Significant Concern	Trend
<del>Overall reputation</del>			
<b>Overall Reputation Assessment: <del>No</del> Minimal Concern</b>		<b>Overall Trend: ↔</b>	

**Reserving:** Our review of reserving risk focuses on the insurance segment of the Group, as the risk associated with bank lending activities are addressed in Credit.

- Adequacy of Reserves and Leverage** – The ~~group~~ Group sets P&C reserves at a level slightly above the actuary’s central estimate ~~continues to~~ and maintains a ~~relatively~~ conservative ratio of reserves to equity of 78% although ~~this ratio~~ has been trending slightly negative.
- Loss Development** – This is offset by a slight shift in the insurer’s exposure from less casualty business to more property business and is the primary driver for the change. ~~Although the group sets P&C reserves slightly above the actuary’s central estimate, it reported unfavorable prior year reserve development, following three consecutive years of favorable development (see graphic below). This~~

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

unfavorable development stemmed from reserve strengthening in the auto liability line, driven by industry-wide trends of increased claims severity attributed to social inflation. The Group maintains internal actuarial expertise but has limited experience in some of the new markets they are operating in. However, as shown in the insurer's ORSA Summary Report, the insurance group sets aside economic capital to cover a one-in-500-year event in addition to other amounts set aside for other risks.

	CY	PY	PY1	PY2	PY3
Two Year Develop	<del>8</del> 12.0%	-10.0%	-10.4%	-5.6%	1.1%
Loss & LAE/C&S	<del>77</del> 79.8%	76.28%	<del>—</del> 75.82%	73.7%	71.9%

- Life Insurance Reserve Adequacy of Ceded Business - The Company cedes a material portion of life insurance to its affiliated captive insurer. As noted above, during the Dec. 31, 20XX, coordinated examination, it was determined that the group maintains sufficient reserves, collateral and surplus to support the captive reinsurance structure. Per the domiciliary state IPS, the 20XX Actuarial Opinion and RAAIS has been reviewed and no concerns were identified since the last exam.

Overall: The Group continues to maintain a conservative reserve leverage position and has a history of favorable development, although expansion into new property markets may become a challenge. At this point, reserving risk is assessed as minimal and increasing overall.

Minimal Concern	Moderate Concern	Significant Concern	Trend
<u>Adequacy of Reserves and Leverage</u>			↔
Loss development			↔
<u>Life Insurance Reserve Adequacy of Ceded Business</u>			↔
Overall Reserving Assessment: <del>No</del> /Minimal Concern		Overall Trend: ↔	

**Strategic:** The primary risks for the Group are divided into insurance and banking segments.

- Competition (Insurance) – The Group has proven risk mitigation strategies in the insurance companies and has managed those risks well. However, the ~~group~~Group is facing new competition in a number of its primary insurance markets as competitors seek to duplicate the ~~group~~Group's strong financial performance. While the ~~group~~Group appears to be aware of the increased competition and responding to the emerging threats in this area, these threats bear monitoring as a moderate concern.
- Group Capital and Capital Modeling – COMPANY 1 uses an internally developed economic capital model to determine the required capital to absorb unexpected losses in the 12 months arising from the following key risks: insurance, market, catastrophe and credit. Additionally, strategic risk and operational risk are quantified outside the economic capital model. The aggregate required capital is then compared to the available capital to determine the solvency position of the company. The required capital and available capital are projected and stressed over the next three years to assess

VI.C.1. Group-Wide Supervision – Group Profile Summary Example

the ability of the company to remain solvent over the duration of the business plan. The projections and stress tests demonstrate the ability of the company to remain solvent under all but very extreme scenarios.

~~In addition, as discussed above, the one area of risk that is not easy to get a handle on at the group level is its liquidity risk.~~

- ~~The ORSA Summary report discusses some aspects (insurance focused) of ERM but it is not sufficiently detailed to assess. See above suggestion regarding liquidity.~~ The group's GCC is assessed as low-risk and stable and is a positive consideration in the overall assessment of strategic risk. The GCC has generally been reasonable and consistent over the past five years as illustrated in the following table. Additionally, refer to the GCC summary for further details.

	CY	PY	PY1	PY2	PY3
<b>GCC Ratio</b>	201%	207%	163%	202%	197%

- Liquidity Strategy – One area of risk that has not been easy to assess at the Group level is its liquidity planning and strategy (see LQ Risk for more information). Additional discussions on this topic are recommended during the next meeting with management.

- Holding Company Debt – While the Group's holding company has issued debt to fund operations, the Group's interest coverage ratio (provided below) shows that the Group is not overly reliant on cash flow from the insurance entities to cover the holding company debt.

	CY	PY	PY1	PY2	PY3
<b>Interest Coverage</b>	4.5X	4.4X	4.4X	2.2X	5.2X

Overall: Strategic risk is assessed as moderate and static driven primarily to the competitive nature of the Group's lines of business, but offset by a strong capital position.

Minimal Concern	Moderate Concern	Significant Concern	Trend
<del>Overall strategic planning</del>			
<u>Holding Company Debt</u>			↔
	Competition		↑
	Liquidity strategy		↔
<del>Group Capital Calculation and Capital Modeling</del>			↔
<b>Overall Strategic Assessment: Moderate Concern</b>		<b>Overall Trend: ↔</b>	

**Commented [JK3]:** Moved from OP risk to ST risk. An aligning edit will be made to FAH pg. 599 (chapter VI.C) to reflect debt is recommended to be documented within ST risk.

## VI.C.1. Group-Wide Supervision – Group Profile Summary Example

~~Other: The most recent Form F report provided by COMPANY 1 indicated that the group is exposed to geopolitical risk and uncertainty related to its investment in COMPANY 9, which is an alien reinsurer operating in Country XX. As the stability of Country XX's government has been weakened due to recent protests related to government corruption, the group's investment in COMPANY 9 is of some concern. However, as the group's total investment in COMPANY 9 (\$547 million at Dec. 31, 20XX) represents less than 3% of overall capital and surplus, the situation warrants only a moderate concern at this time.~~

Minimal Concern	Moderate Concern	Significant Concern	Trend
	Geopolitical risk (COMPANY 9)		-
<b>Overall Strategic Assessment: Moderate Concern</b>		<b>Overall Trend: -</b>	

## Overall Conclusion

This section should include the analyst's overall conclusion as to the [groupGroup](#)'s financial condition, discuss key strengths that potentially mitigate the risks assessed above, and highlight any key weaknesses or material concerns the analyst may have with the [groupGroup](#)'s operations going forward. [Include a discussion on the interconnections within the holding company Group that have a significant impact on the insurance segment.](#) Include any [material](#) actions that ~~may~~ have been taken [by the lead state or other jurisdictions](#) (e.g., significant holding company transactions, prior or planned meetings with management, ~~and~~ referrals to/from other divisions, [and communications with other regulatory jurisdictions](#), etc.).

**EXAMPLE:**

*Based on the branded risk assessments provided above as well as the company's financial results reported in recent periods, the [groupGroup](#) appears to be financially stable with no major sources of potential contagion risk to the insurance entities identified. However, some of the key weaknesses and material concerns facing the [groupGroup](#) include increased competition, geopolitical risk to operations in Country XX, overall liquidity planning and the Group's pricing/underwriting of workers' compensation business. These concerns are somewhat offset by company strengths including a conservative investment portfolio, strong reputation and history of strong financial performance. [While the Group has issued new holding company debt, the risk of dependence upon cash flows from the subsidiaries, including the insurance operations, to make payments is minimal at this time.](#) The department meets annually with [groupGroup](#) leadership with the next meeting scheduled for the first quarter of 20XX to discuss annual results. During the meeting, the department plans to ask about the impact of increased competition on the [groupGroup](#) as well as liquidity planning.*

[The company has in place a capital support agreement with each of the U.S. insurance entities in which it will be responsible for ensuring that each of the insurance entities has sufficient capital and liquid assets to pay claims. The Company will also maintain capital at a level that ensures a minimum U.S. RBC level of ##.##% ACL for both life and property operations.](#)

## Supervisory Plan

List any specifically identified items that require further action and/or monitoring by the analyst or specific testing by the examiner. In addition, indicate if the [groupGroup](#) is or should be subject to any enhanced monitoring, such as monthly reporting, meetings with the department, a targeted examination, or a more frequent exam cycle. Note if any regulatory actions have recently been taken.

**EXAMPLE:**

## VI.C.1. Group-Wide Supervision – Group Profile Summary Example

Analysis Follow Up

- Discuss the ~~group~~Group's strategy to address increased competition in several of its primary markets as part of the next annual meeting [scheduled for DATE], supervisory college [scheduled for DATE] and/or holding company analysis.
- Monitor the situation in Country XX to consider its impact on the ~~group~~Group's investment in COMPANY 9.
- Discuss any significant negative developments with the ~~group~~Group's executives.
- Discuss liquidity planning and strategy during the next scheduled meeting with management (see also exam considerations).

Examination Follow-UpInterim Target Examination

- Perform a targeted examination on the ~~group~~Group's newly developed insurance linked securities in order to understand all aspects of the program including its interaction with other forms of projection, limits, the monitoring used by the company, etc.

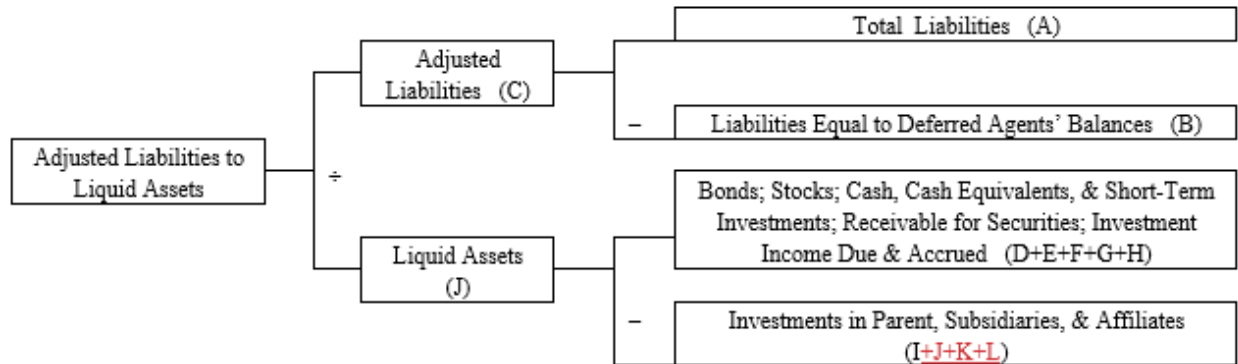
Next Coordinated Examination

- The next coordinated examination is scheduled for the period ending Dec. 31, 20xx. The following are recommended areas of focus
- ~~Increase the focus on a~~National underwriting procedures and current pricing on workers' compensation during the next coordinated examination.
- ~~Increase the focus on the e~~Entire ~~group~~Group's (including banking) liquidity management program, ~~during the next coordinated examination.~~
  - Specifically review the liquidity risk appetite statement and liquidity risk limits to determine if the current liquidity position is within the risk appetite and review documentation of the insurer's control of monitoring limits.
  - Verify the existence of the FHLB letter of credit for contingency funding since it is the primary source of additional funding during a stress event. R
  - Review the banking stress testing scenarios to determine the impact of the scenarios to liquidity.
- Review of the economic capital model including the CAT model component that calculates the risk exposures by peril.
  - Assess if the insurer approves the appropriateness of the model(s) framework and ensures that all key risks are assessed either in the model or under a separate assessment.
- Reinsurance given the Group indicates it is the primary control of the Group's catastrophic risk.
  - Review the reinsurance program as outlined in the reinsurance interrogatory tower consider how aggregated/modeled loss exposures are utilized by the company to reach reinsurance decisions in the context of overall reinsurance strategy.
  - Review the probable maximum loss (PML) for catastrophe perils and compare them to the catastrophic reinsurance structure that has been selected.

## Financial Analysis Solvency Tools (E) Working Group

Recommendation to change IRIS ratio 9 (Adjusted Liabilities to Liquid Assets) to pull affiliated preferred and common stocks from *Schedule D – Part 6 – Section 1 (page E17)* instead of *Five-Year Historical Data (page 17)* as Five-Year Historical Data includes non-admitted amounts.

### P/C LIQUIDITY RATIO 9 – ADJUSTED LIABILITIES TO LIQUID ASSETS



A. Total Liabilities	Page 3, Line 28, Column 1	_____
B. Liabilities Equal to Deferred Agents' Balances	Page 2, Line 15.2, Column 3	_____
C. Adjusted Liabilities = (A-B)		_____
D. Bonds	Page 2, Line 1, Column 3	_____
E. Stocks, Preferred & Common	Page 2, Line 2.1 + 2.2, Column 3	_____
F. Cash, Cash Equivalents & Short-Term Investments	Page 2, Line 5, Column 3	_____
G. Receivable for Securities	Page 2, Line 9, Column 3	_____
H. Investment Income Due & Accrued	Page 2, Line 14, Column 3	_____
I. <del>Investments in Parent, Subsidiaries, &amp; Affiliates</del> Affiliated Investments – Bonds	Page 17, Line 42 + 43 + 44 + 45, Column 1	_____
J. <del>Affiliated Investments – Preferred Stocks</del>	Page E17, Line 0999999, Col. 6-8	_____
K. <del>Affiliated Investments – Common Stocks</del>	Page E17, Line 1899999, Col. 6-8	_____
L. <del>Affiliated Investments – Short-Term Investments</del>	Page E18, Line 7699999999, Col. 6	_____
<del>MJ</del> . Liquid Assets = (D+E+F+G+H-I-J-K-L)		_____

Result = 100 \* (C / MJ) \_\_\_\_\_ %  
 • If J is zero or negative, result is 999.

### Impact of the Proposed Changes on 2024 IRIS Results

Number of unusual values w/ no change	<b>428</b>
Number of unusual values w/ change	<b>423</b>

Pt Change in Ratio	# of Companies (Cumulative)
<= -10	8
<= -5	16
< 0	101