NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: 11/11/21

FINANCIAL ANALYSIS SOLVENCY TOOLS (E) WORKING GROUP
Monday, November 15, 2021, 10:00 a.m. – 11:00 a.m. CT

ROLL CALL

Judy Weaver, Chair	Michigan	Lynn Beckner	Maryland
Patricia Gosselin, Vice Chair	New Hampshire	Debbie Doggett	Missouri
Sheila Travis	Alabama	Olga Dixon/Diana Sherman	New Jersey
Kurt Regner/David Lee	Arizona	Victor Agbu	New York
Michelle Lo	California	Dwight Radel/Tim Biler	Ohio
Kathy Belfi	Connecticut	Ryan Keeling	Oregon
Nathaniel Kevin Brown	District of Columbia	Kimberly Rankin	Pennsylvania
Helen McGhin/Carolyn Morgan	Florida	Jack Broccoli	Rhode Island
Eric Moser	Illinois	Amy Garcia	Texas
Roy Eft	Indiana	Kristin Forsberg	Wisconsin

NAIC Support Staff: Bruce Jenson/Andy Daleo/Jane Koenigsman/Ralph Villegas/Rodney Good/Bill Rivers

AGENDA

1. Consider Adoption of October 12, 2021, E-Vote Meeting Minutes – Judy Weaver (MI) Pg. 1
2. Discuss Comments on Liquidity Stress Test Guidance (FAH) – *Judy Weaver* Pg. 2
3. Discuss Group Capital Calculation Working Group FAH Guidance – Judy Weaver Pg. 6
4. Discuss Any Other Matters Brought Before the Working Group—*Judy Weaver (MI)*
5. Adjournment

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Draft: 10/12/21

Financial Analysis Solvency Tools (E) Working Group
E-Vote
October 12, 2021

The Financial Analysis Solvency Tools (E) Working Group of the Examination Oversight (E) Task Force conducted an e-vote that concluded Oct. 11, 2021. The following Working Group members participated: Patricia Gosselin, Vice Chair (NH); Kurt Regner (AZ); Michelle Lo (CA); Lynn Beckner (MD); Debbie Doggett (MO); John Sirovetz (NJ); Tim Biler (OH); Kimberly Rankin (PA); Jack Broccoli (RI); Amy Garcia (TX); and Kristin Forsberg (WI).

1. Adopted Exposed Revisions to the 2021/2022 *Financial Analysis Handbook*

The Working Group conducted an e-vote to consider adoption of the exposed revisions to the 2021/2022 *Financial Analysis Handbook*.

A majority of the Working Group members voted in favor of adopting the revisions. The motion passed.

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

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*************************TEXT EXCLUDED TO CONSERVE SPACE**********************************

Liquidity Stress Test

In 2021 the NAIC Executive Committee and Plenary adopted revisions to the *Insurance Holding Company System Model Act* (Model #440) that introduce a new filing requirement for a Liquidity Stress Test (LST). While insurer and insurer groups within the scope of the LST will submit required filings in 2021 under states' examination authority, states are beginning the process of adopting Model #440 amendments into state laws. Additional lead state and non-lead state guidance will be developed in future years as regulators gain experience reviewing the LST filing.

Scope Criteria and LST Framework

- The Scope Criteria for insurers or insurance groups required to perform and file the LST and the instructions for the filings are outlined in the *NAIC 2020 Liquidity Stress Test Framework* which is located on the Financial Stability (E) Task Force webpage of the NAIC's Website at: https://content.naic.org/cmte_e_financial_stability_tf.htm. Once an insurance group with two or more life insurers triggers the Scope Criteria for a specific year, then the LST is performed at the legal entity insurer level within the group. Results are aggregated at the group level.
- Property/Casualty and Health: Although the property/casualty and health insurers are not subject to the scope criteria in 2021, if a property/casualty or health legal entity insurer is deemed to pose material liquidity risk to a U.S. group that triggered the scope criteria in a future year, then the property/casualty and health legal entity insurer within the group will perform the LST.

Regulatory Goals of the LST per the *NAIC 2020 Liquidity Stress Test Framework*

The primary goal of the LST, and the specific stress scenarios utilized, are:

- First, for macroprudential uses – to allow the Financial Stability (E) Task Force to identify amounts of asset sales by insurers that could impact the markets under stressed environments. Thus, the selected stress scenarios are consciously focused on industry-wide stresses – those that can impact many insurers within a similar timeframe.
- Second, the liquidity stress testing is also meant to assist regulators in their micro prudential supervision, in the context of being helpful for domiciliary and lead state regulators to better understand liquidity stress testing programs at those legal entities insurers and insurance groups. The LST requires filing of reporting templates and other narrative disclosures referenced in the LST Framework to be submitted to the lead state by September 30.

Non-Lead State Reliance on the Lead State Analysis of LST

- The LST must be reviewed by the lead state and significant findings should be incorporated into the GPS branded risk assessments.
- To reduce duplication, non-lead domestic states may rely on the analysis work performed by the lead state.
- Because the LST is performed at a legal entity insurer level and aggregated on an insurance group level, if material risks and concerns are identified for a legal entity insurer, the lead state should communicate those concerns to the non-lead domestic state.
- While the LST filing may provide good insights into a legal entity insurer's assumptions, processes and worst case stress scenario results; a domestic state's assessment of liquidity risk for the legal entity insurer should not rely solely on the LST. It is acceptable that a legal entity insurer may have its own liquidity stress test scenarios and manage liquidity differently from what is reported for the LST.

*************************TEXT EXCLUDED TO CONSERVE SPACE********************************

11. Liquidity: Evaluate the insurance holding company's liquidity and document any negative trends and overall strength.

    Liquidity Risk—e.g., assessment of cash flow trends; cash and short-term investments held; indications of liquidity shortfalls reflected in quantitative ratios (i.e,. liquidity ratio); liquidity needs for high surrender activity impacted by economic changes; liquidity needs created by catastrophic events; liquidity requirements for future debt payments; available lines of credit; stress testing.

PROCEDURE #11 assists analysts in evaluating the liquidity of the group. Liquidity is important for any type of organization, but can be more important for others, including certain insurers or types of insurers who may have products or other aspects of their business plan that make them susceptible to immediate withdrawals. Having said that, most insurers' cash flows are predictable, and it is an area that insurance regulation or business practices already address, including asset/liability matching required for life/annuity writers and the maintenance of very liquid assets. But this procedure requires an analysis that can generally only be conducted through understanding information developed by the group, which may be available through the risk-focused examination or otherwise requested by analysts. Updated information may be best obtained in the periodic meeting with the group as discussed within Section VI.F. Own Risk and Solvency Assessment (ORSA) Procedures, unless the group is more susceptible to immediate withdrawals, in which case analysts may want to obtain/discuss the issue with the group sooner. Generally, issues impacting liquidity that are identified through holding company analysis should be presented within the Liquidity Risk classification of branded risk assessments.

12. Liquidity Stress Test (LST):

    a. If the insurance group is subject to the requirements to perform and file an LST, review and determine if any concerns or material risks exist regarding the liquidity of the insurance group or any of its insurance legal entities performing the LST.

    b. If concerns or material risks are identified, consider requesting further explanation from the insurance group about its liquidity risk management framework and internal liquidity stress tests.

PROCEDURE #12: The procedure instructs the analyst to review the results of the stress test scenarios included in the Liquidity Stress Test (LST) filing to supplement the assessment of the insurance group's overall liquidity. Because the LST is performed at a legal entity level and risks are aggregated for the group, assess if the results of the LST identifies material risks at the insurance legal entity that should be included in the analysis and/or communicated to the non-lead state domestic state insurance regulator.

The instructions for the LST filings are outlined in the *NAIC 2020 Liquidity Stress Test Framework* which is located on the Financial Stability (E) Task Force webpage of the NAIC's Website at: https://content.naic.org/cmte_e_financial_stability_tf.htm.

October 27, 2021

Judy Weaver, Chair
Financial Analysis Solvency Tools (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

By e-mail to Ralph Villegas at: RVillegas@NAIC.org

Re: Draft Financial Analysis Handbook Guidance on Liquidity Stress Test (LST) filings

Dear Ms. Weaver;

This submission is in response to the September 28, 2021, exposure by the Financial Analysis Solvency Tools (E) Working Group (FASTWG). The exposure relates to proposed guidance about Liquidity Stress Test (LST) filings that has been drafted for inclusion in the NAIC's Financial Analysis Handbook (FAH) for eventual use by financial analysts of state insurance departments.

We understand that the intended focus of LST filings is on life insurers or groups that have triggered the activity-based scope criteria which has been set forth in the *NAIC 2020 Liquidity Stress Test Framework.* Indeed, and as noted in the exposure, "….property/casualty and health insurers are not subject to the scope criteria in 2021…" However, the proposed text then says as follows: "…if a property/casualty or health legal entity insurer is deemed to pose material liquidity risk to a U.S. group that triggered the scope criteria in a future year, then the property/casualty and health legal entity insurer within the group will perform the LST."

While the text cited above refers to both health and property/casualty insurers, the following comments pertain specifically to health insurers and health plans, many of which are members of AHIP.

AHIP and its members find it difficult to foresee any plausible situation where a health insurer would "pose material liquidity risk to a U.S. group." The business model of health insurers is very much focused on generating and managing cash flows from insured individuals and groups that is then used almost immediately to pay claims. To illustrate, based on 2020 data for the health sector, of claims incurred during the full calendar year, less than two months of those incurred claims remained unpaid and in reserve liabilities at the end of the year.

Put differently, there is very little need for health plans to accumulate and hold invested assets other than to support surplus and to cover unanticipated or emerging risks. As a result, health plans do not participate to any material degree (if at all) in the type of activities that the LST scope criteria has targeted, i.e., fixed and indexed annuities, funding agreements, derivatives, securities lending, repurchase agreements, and borrowing of money.

The LST scope criteria has identified those specific criteria as relevant to life insurers, has previously subjected them to testing, and has also included defined activity levels or dollar thresholds that would trigger an insurer or group being "in scope" for LST. That however is not the case for health insurers. Neither the exposure nor the *NAIC 2020 Liquidity Stress Test Framework* suggests any health-specific activities that could plausibly indicate liquidity stress of a health plan, much less indicate a level of such activity that might signal potentially material risk or subject either to testing. Consequently, an analyst's determination that a "health legal entity insurer is deemed to pose material liquidity risk to a U.S. group" would, by necessity, be arbitrary inasmuch as there would be no pertinent guidance in the Financial Analysis Handbook.

Accordingly, AHIP objects to the language proposed by the exposure that could "scope-in" health insurers if they are "deemed to pose material liquidity risk to a U.S. group."

If there are specific concerns that the FASTWG has about potential liquidity risks that health insurers might pose, AHIP would be glad to engage with members to address them. If we know what those concerns are, AHIP could suggest changes to the text that would provide criteria relevant to health plans and which would address those concerns. But as stated previously, and at the current time, AHIP and its members cannot foresee any plausible situation where a health insurer would "pose material liquidity risk to a U.S. group."

We thank you again for the opportunity to comment and for your consideration of our views. We look forward to discussing them with you and the Working Group members.

Sincerely,

Bob Ridgeway
Bridgeway@ahip.org
501-333-2621

Review of the Group Capital Calculation

Consideration of the Insurance Holding Company System Structure

As the lead state begins to review the annual Group Capital Calculation filing for a particular group, it is important for the lead state to do so with consideration of the existing knowledge of both the organizational structure of the group, including changes in the structure from year to year, but more importantly the overall activities of each of the entities in the group which otherwise have the potential to transmit material risk to the insurers within the group. While the GCC will provide additional quantitative information on the entities in the group, the actual activities of the entities are also important in determining the scope of application of the GCC. The lead state is responsible for determining if any of the entities in the holding company structure should be excluded from the calculation, resulting in a smaller "scope of application" for the entities included in the GCC ratio. The filing includes a column for the group to propose what should be excluded as well as an additional column for the final determination made by the lead state. In general, the determination of scope of the application is suggested by the group but made in consultation and agreement with the lead state. This exercise should be undertaken in a manner that yields a clearly documented rationale for excluding entities or subgroups of the larger group. The *Group Capital Calculation Instructions* describes the basis for making this determination and the calculation itself is structured to facilitate this determination, with the inclusion in Schedule 1 of financial data for all entities within the holding company. Related to exclusion from the calculation itself is review of data for cases in which subgroups are completely excluded from the larger group, particularly with regard to Schedule 1; the rationale for the exclusion(s) should be provided in the GPS. The concept is that this Schedule 1 data should be utilized by the lead state in conjunction with its existing knowledge of the group and its activities (obtained from the Schedule Y, ORSA, Forms B/C, Form F, the non-insurance grid, etc.), and therefore likely material risks, to make this determination. To the extent the entities included in Schedule 1 differ from the analyst's knowledge of the Group, further discussion and follow-up should be held with the group.

In the initial year(s) of a GCC filing, to help the analyst get comfortable with the Inventory and Schedule 1 process, consider the following:

- Gather appropriate background information for your group(s) (e.g., Group Profile Summary, ORSA, RBC Reports, Schedule Y)
- Determine that all Schedule Y entities are listed in schedule 1 or in the schedule BA list in the other information tab or that an entity's omission is understood / explained
- Evaluate requests for exclusion of non-insurance/non- financial entities without material risk to determine if you agree with exclusion.
- Confirm that all insurers and financial entities are de-stacked in the inventory tab.
- Determine if grouping has been properly applied.
- Evaluate the level of risk assigned by the filer to financial entities without regulatory capital requirements.
- On a sample basis, check that the numbers reported in Schedule 1 and Inventory Tab look reasonable, especially for the insurers. A sample check should be sufficient.

The holding company structure and activities should also be utilized by the lead state in determining how to understand the GCC ratio. More specifically, information on structure can help in understanding the flow of capital used by the group among entities within the holding company structure. Also, understanding the following can assist in evaluating the flow of capital resources:

- Domestic insurance operations
- International insurance operations
- Banking or other financial services operations subject to regulatory capital requirements

- Financial and non-financial operations not subject to regulatory capital requirements*

  *The GCC instructions provide examples of financial versus non-financial entities in this category. All financial entities should be included in the scope of application of the GCC. However, there can be a broad array of entities that could be considered financial. The lead state should document the rationale for cases in which it concludes that an entity that may be financial in nature can nonetheless be classified in the group's GCC filing as "non-financial" and thus excluded from the scope of the group for the GCC.

The GCC is intended to be used as an input into the GPS. The expectation is that the GCC summary section will help to document a high-level summary of the analyst's take away of the GCC, as well as the Strategic branded risk. The manner in which the analyst determines what else should be documented beyond the GCC Summary and the Strategic branded risk should be based upon the following steps, since these steps contemplate the previously mentioned concept that the existing evaluation of the financial condition should be used in evaluating the depth of review of the GCC.

The GCC is a new analytical tool for use by regulators and it will take a number of years before there is both (1) sufficient data for any given group to provide the trend identification ultimately anticipated for the GCC; and (2) experience by regulators with its use. Analysts should be mindful that any stated threshold in the following procedures is for analysis purposes only and DOES NOT constitute a trigger for regulatory action. Rather, the stated threshold should be used as an opportunity for an analyst to understand issues and concerns that may be emerging and address them with the group, if needed. Nonetheless, the following procedure steps provide analysts with a framework to consider the GCC results in conjunction with other data and tools at their disposal, and to begin to gain and benefit from experience in utilizing the GCC as a new analytical tool.

- Procedure Step 1 suggests that a review of the components of the GCC is appropriate when the GCC ratio is trending downward.
- When Procedure Step 1 identifies the need to look further, Procedure Step 2 suggests determining, at a high level, the drivers of any decreases in the total available capital pursuant to the GCC. While there are numerous benefits of the GCC over consolidated approaches, the ability to drill down on the drivers is one of the more significant and is consistent with the states' approach to not just looking at capital, but to the drivers of capital issues.
- When Procedure Step 1 identifies the need to look further, Procedure Step 3 suggests determining, at a high level, the driver of any increases in operating leverage, which is typically what drives insurance capital requirements up, be it asset risk/leverage or writings leverage. Similar to drivers of capital decreases, the GCC has detailed information on financial figures and ratios that can be used to isolate the issues.
- When either Procedure Step 2 or Step 3 identify the need to understand the situation better, Procedure Step 4 is similar in that it utilizes detailed information on capital allocation patterns used by the group over time that are necessary for the analyst to understand if there are any future negative trends in the GCC.
- When Procedure Steps 2, 3 and 4 together identify the need to understand the situation better, Procedure Steps 5, helps understand the steps the group/company is already taking or plans to take in order to address the issues they feel are appropriate, if any, considering existing capitalization levels may drive the group's evaluation and therefore when steps may not be necessary. The guidance provided in these procedures is not intended to be exhaustive, but rather should give the analyst a starting point in better understanding the various issues.
- The guidance in these procedures is not intended to be exhaustive, but rather should give the analyst a starting point in better understanding the various issues.
- If the analyst determines after completing any of the above procedures (steps), that no further work is deemed necessary to fully document their understanding of the material risks of the group observable from the GCC (as well as the required information to be included in all GPS from the GCC), the rational for this

determination should be documented by the analyst in any workpapers deemed appropriate by the state In making this determination, it should be reiterated these procedures are not intended to be used in a checklist manner and judgement based upon and existing understanding of the group and existing information on the group obtained from the Form F, ORSA, or any other source is certainly part of that decision.

Procedure Step 1-Understand the Adequacy of Group Capital

1. **Determine if the group capital position presents a risk its insurance subsidiaries based upon its recent trends and/or current measures in the GCC ratio.**

	Branded Risk	*Benchmark*
a. Has there been a decrease in the GCC ratio over last two or more years? If "yes", determine the cause(s) of the decline.	ST	a. <-10% (this is not a point change)
b. Has there been a decrease in the GCC Total Available Capital from prior year? If "yes", determine the cause(s) of the decline.	ST	<-10%
c. Has there been a negative trend in the GCC ratio over the past five years suggesting an overall pattern of declining capital?	ST	N/A

If the answer to any of the above questions is "yes", but it is obvious that the negative trend is caused by something such as a restriction on the allowable debt, or a change in a corporate tax rate, or some other factor external to the group's operations, note as such but do not proceed to step 2. In addition, if it is obvious that the negative trend is clearly driven from one entity in the group, understand the cause and document as such but do not proceed to step 2. However, in all other cases if the answer to any of the above questions is "yes", the analyst should proceed with procedure step 2, understanding decreases in total GCC available capital and/or procedure step 3, understanding increases in leverage to determine the cause(s) of the negative trends.

Procedures Step 2-Understand Decreases in Total Available Capital

2. **Determine the source(s) of decreases in the GCC ratio or the GCC Total Available Capital**

Recognizing that not all declines in capital ratios are necessarily “negative”, i.e., they may be the result of sound capital management and ERM to more efficiently utilize capital, approved changes in the scope of application, or changes in underlying authority requirements, the intent of step 2 (and step 3) is to determine the actual source of the negative issues. In most cases, this equates to pinpointing the legal entity(ies) driving any negative trends. The analyst should proceed to steps 4 and 5, to understand more fully the actions the group, or the legal entity(ies) driving the negative trends, are already taking or plan to take to address the issues identified in step 2 that the group believes is needed. However, the analyst may already have a deep understanding of any such plans, and as a result, in some cases, it is possible that no further follow-up with the group will be necessary and that the lead state should simply update the GPS to be certain the main understanding of the issues is known to all of the regulators utilizing the GPS.

	Branded Risk	*Benchmark*
a. Review the ratio of available capital to calculated capital from each of the reported entities and compare to the same ratio from the prior year. Determine which entities may have led to the negative trends.		<-10%
b. If the change in the GCC is not driven from a legal entity, and instead the change in allowable debt, note as such.	ST	N/A
c. Review the levels of profitability for each of the reported entities in the GCC in the current and prior years (as reported in the GCC) to determine if there are particular entities showing losses or signs of material decreasing profitability which may eventually lead to future decreases in the GCC ratio or total available capital.	OP, PR/UW	<-10%
d. For each of the reported entities showing either 1) a meaningful decrease in the GCC due to a decrease in the total available capital, or 2) material negative profitability trends, request information that identifies the issues by inquiring of the legal entity regulator first or the group itself (e.g., non-insurance company), if applicable.	OP, PR/UW, ST	N/A
e. If due to pricing or underwriting issues, understand if the issues are the result of known pricing policies that are currently being modified or if the business is in runoff, whether new product lines, or geographic or other concentrations, volume/growth business strain, or other issues. When considering pricing that is being modified, include those products for which the price is adjusted through crediting rates.	PR/UW	N/A
f. If due to reserve issues, understand the reserve development trends, whether reserve and pricing adjustments have been made as well as changes in business strategy apart from those products.	RV, ST	N/A

g. If due to market risk issues—i.e., capital losses—understand not only why the losses occurred, but the likely near-term impact given current and likely prospective economic conditions. Market issues include not only changes in equity prices, but also impact/exposure to interest rates and other rates such as foreign currency exchange rates or rates on various hedging products used by the group.	MK, CR	N/A
h. If due to strategic issues such as planned growth, planned decline in writings or changes in the investment strategy, utilize the business plan from the Form F to better understand the anticipated changes and how the actual changes compare. Understanding the variance from the business plan is important in assessing the ongoing risk either in projected future profitability or in some cases the investments.	ST, PR/UW, OP	N/A
i. If due to negative reputational issues, for example, have adversely impacted new business or retention of existing business, understand the issues more closely, whether potential ongoing changes in stock prices or financial strength ratings that may further impact market perception, or what the group is doing to address the potential future impact be it sales projections or access to the capital markets.	RP	N/A
j. If due to credit losses, understand the current and future concentration in credit risks, be it investments, reinsurance, or other source of credit losses.	CR, MK	N/A
k. If due to operational issues, such as extremely large catastrophe events, IT or cybersecurity events or relationships, understand the current and prospective impact.	OP, ST	N/A
l. If due to legal losses, understand the underlying issues and degree of potential future legal losses.	LG	N/A
m. If due to non-insurance reported entities in the group, understand the relationship of the non-insurance operations to the insurance entities and the potential impact to the insurance operations (i.e., intercompany agreements, services, capital needs, etc.).	ST, OP	N/A

Procedure Step 3-Understand Increases in Operating Leverage

3. **Determine the source(s) of any decreases in the GCC ratio due to increases in leverage**

Like step 2, the intent of step 3 is to determine the actual source of the negative issues. The difference between step 3 and step 2 is simply the types of issues. Step 2 is focused on issues that have resulted in negative capital trends. Step 3; however, is focused on the issues that impact the risk being considered in the GCC. In most cases that risk is either from the asset side or from the liability side where in both cases there has been an increase in such risk that has not been offset by a corresponding or equal increase in capital. In general, this is referred to as operating leverage, where this risk can manifest itself either through increased insurance writings (e.g., the ratio of premiums to capital or liabilities to capital), or through increased assets that also carry risk. The expectation is

that other regulated entities also have capital requirements that increase as these different types of risks increase, similar to how the NAIC RBC considers different types of products and assets that carry more risk. It is also possible to have increased leverage outside of the insurance companies and other regulated entities. However, similar to other items noted in this document, such increases do not necessary represent negative trends; the analyst should further understand the drivers of such. In most cases, this equates to pinpointing the legal entity(ies) driving any negative trends. Similar to step 2, using an understanding of items in Procedure Step 4, to understand more fully the actions the group, or the legal entity(ies) driving the negative trends already being taken or planned to be taken by the group to address the issues identified in step 2 that the group believes is needed.

	Branded Risk	*Benchmark*
a. Review the ratio of available capital to calculated capital from each of the reported entities and compare to the same ratio from the prior year. Determine which entities may have led to the negative trends based upon corresponding increases in leverage (e.g., writings/capital ratios or liability to capital ratios).	MK, CR, RV, ST, OP, RP	<-10%
b. Review the levels of operating leverage for each of the reported entities in the GCC as well as the same for the prior years as reported in the GCC to determine if there are particular entities showing signs of increasing operating leverage which may lead to future decreases in the GCC ratio or total available capital.	MK, CR, RV, ST, OP, RP	<-10%
c. For each of the reported entities contributing to a meaningful decrease in the GCC due to an increase in operating leverage, request information that identifies the issues by inquiring first from the legal entity regulator or the group itself (e.g., non-insurance company), if applicable.	MK, CR, RV, ST, OP, RP	N/A
d. If operating leverage has increased, consider if growth may have resulted from underpriced products or a change in underwriting. Specifically inquire to determine if pricing was reduced to increase sales, or whether the growth is in new product lines or new geographic focus where the group may not have expertise. When considering pricing being modified, include those products that the price is adjusted through crediting rates.	PR/UW, OP, ST	N/A
e. If operating leverage has increased, consider if reserving risk has also increased, through potential underpricing that ultimately manifests itself into reserve adjustments. To do so, obtain current profitability information on the products leading to the increased leverage.	RV	N/A
f. If operating leverage has increased, obtain current information on the asset mix to be certain that there is a corresponding decrease in riskier assets to mitigate the otherwise likely increase in market and credit risk.	CR, MK	N/A

The analyst should proceed to steps 4 and 5 to understand more fully the actions by the group, or the legal entity(ies) driving the negative rend, are already taking or plan to take to address the issues identified in step 3, if that is not already clear from the information obtained in step 3. However, in some cases, it is possible that no further follow up with the group will be necessary, and that the lead state should simply update the GPS.

Procedure Step 4-Understand the Capital Allocation Patterns

4. **Determine the capital allocation patterns to determine if some entities may put pressure on other legal entities.**

Steps 2 and 3 are critical in understanding the issues faced by the group and in identifying the source of negative trends; and while additional follow up with the group is expected, before proceeding to Step 5, the lead state should understand the historical capital allocation patterns within the group and the future capital allocation actions that may be needed by the group if negative trends continue. The GCC includes data on historical capital allocation patterns (e.g., contributed capital received/paid or dividends received/paid), which help to illustrate which entities have historically needed more capital and which entities have capital that they have provided other entities in the group. While these patterns do not necessarily repeat themselves from one period to the next, there is often consistency in terms of entities that need capital or have excess capital, which may or may not be driven by losses, or by a change in strategy (e.g., increased writings at one company over another) by the group. These trends can also assist in discussions with the group about where capital may come from as a result of a future unexpected material event. Where similar information is also disclosed in Form F, the detail in the GCC may confirm what is already known by the analyst in this area and in some cases may provide greater detail.

	Branded Risk	*Benchmark*
a. Review the underlying data from the GCC Analytics tab to determine the historical capital allocation patterns within the group and summarize the result of this analysis.	ST	N/A
b. Using this data, as well as any recent information on net losses, or likely expected funding, determine if there may be an impact on the capital available to the insurance entities (either through the likelihood of higher dividends or through less capital being available for infusions)	OP, ST	N/A

Procedure Step 5-Consider the Need for Company Discussions for Reductions in Risk

5. **Determine the group's plans for addressing source(s) of any meaningful decreases in the GCC ratio or total GCC available capital. Please note, in some cases, the plan may be as simple as actions designed by the group to reverse a single negative trend.**

Steps 5 is designed to assist in understanding the group's plans for addressing any meaningful decreases in the GCC ratio or total available capital that were not intended by the group (i.e., that are not the results of capital management so as to efficiently utilize capital while still maintaining sufficient levels for Enterprise Risk Management needs). The specific plans of the group may or may not fully address all the issues but to the extent the group believes they have addressed what is needed, ultimately what is most important is that such information and the regulators plan for evaluating and monitoring the situation is known to the other regulators. There is a multitude of possibilities, and this guidance is not intended to address all of those. This includes the possible actions by the group and its legal entities. This also includes the possible actions to be taken by the regulators of the individual legal entities, which may include regulators choosing to put their legal entity into supervision, conservation, or some other form of receivership (which, by necessity and intent, would presumably be done based upon existing legal entity authority since there is no authority provided under the GCC). Similar to other areas, where similar information is also disclosed in Form F, further information may already be known in this area.

	Branded Risk	*Benchmark*
a. Obtain a copy of the group's most recent business plan and compare it to the prior year plan for variances. (See Additional Procedures below for additional follow-up analysis)	ST	N/A
b. Request information from the group on how it intends to address the issues or negative trends (those that are not planned or due to approved changes to the GCC scope of application or the result of changes in underlying legal entity capital requirements) identified in Steps 1-3. More specifically, determine how the group intends to decrease risk, and by what means.	ST	N/A
c. Based on information received in 5.b., determine the group's capacity to reduce risks or raise additional capital.	ST	N/A
d. Where the remaining capital is adequate, document the findings in the GPS (or another document) and make available to the supervisory college and or domestic states with the presumption no further action is deemed necessary.	ST	N/A
e. Consider whether the collective information suggests that any of the U.S. legal entity regulators should deem the legal entity to be in a "Hazardous Financial Condition" and take appropriate action to address based upon the facts and circumstances and the provisions of the state's law (similar to NAIC Model 385).	N/A	N/A
f. Where appropriate, consider holding a meeting of the supervisory college or of all the domestic states to fully understand the group's plans. Where appropriate, require the group to present its plans to the supervisory college or all the domestic states.	N/A	N/A
g. Where appropriate, determine if the plans proposed by the group are considered inadequate by any of the legal entity regulators, and more specifically if any are considering taking action over their applicable legal entity. If this is the case, hold a meeting of the supervisory college or of all the domestic states to provide this information.	N/A	N/A
h. Where appropriate, consider holding a broader meeting of all impacted jurisdictions in which the group is selling insurance. Where appropriate, require the group to present its plans to all such regulators and for the regulators to announce their plans.	N/A	N/A

Purpose of the Group Capital Calculation (GCC) in Holding Company Analysis

The following information is intended to provide background and context concerning the issues/considerations for analysts when utilizing the NAIC Group Capital Calculation (GCC) for an insurance holding company group (hereafter referred to as "group") completing the GCC where required. The GCC is a tool to quantitatively understand the group's capital and the mathematically calculated risks within the group. The GCC framework is built on the RBC model; however, while RBC, as a capital requirement, has triggers in states' laws to take formal actions, the GCC is not designed for that purpose and is instead designed as an analytical tool.

Background Information

In 2008, the NAIC Solvency Modernization Initiative (SMI) began to consider whether there were any lessons learned from the financial crisis that would cause the solvency framework to be modified. The NAIC determined that changes should be made in the area of group supervision, starting with the new annual requirement for the Lead State of each group operating in the U.S. to complete a written holding company analysis. Since that time, other changes to state laws have been made to further enhance group supervision (e.g., Form F, ORSA, and Corporate Governance reporting). All of these new tools are inputs into the previously mentioned holding company analysis, which is now summarized into a consistent tool used by all states that is known as the Group Profile Summary (GPS).

Benefits of the GCC & Methods to Achieve Them

The Group Capital Calculation Instructions describes the background, intent, and calculation for the GCC in detail. As stated in the Group Capital Calculation Instructions, the GCC and related reporting provides more transparency about a group's structure and related risks to insurance regulators and makes those risks more identifiable and more easily quantified. In this regard, this tool is intended to assist regulators in better understanding the risks that the non-insurance entities may pose to the group and ultimately regulated insurance entities, how capital is distributed across an entire group, and whether and to what degree insurance companies' capital may be put at risk from the operations of non-insurance entities, potentially undermining the insurance company's financial condition. An analyst is not expected to understand non-insurance industries represented within the group but is expected to understand through this calculation if a non-regulated entity could place pressure on or provide relief to a regulated entity.

The manner in which the GCC achieves some of these intentions varies. For example, with regard to understanding how capital is distributed across an entire group, this can be seen in two ways. One is by viewing the Tab titled "Input 4-Analytics" for the display of the "Ratio of Actual to Required Capital". The other is by viewing the same Tab for the display of "Required Capital" in a separate column. The degree of capital movement can also be seen in the "Input 4-Analytics" tab, with the display of the columns as follows: 1) Capital Contributions Received/(Paid); 2) Net Income. While one year of information can provide insights, a better understanding will be obtainable after further years of the GCC are reported within the template. Once five years of data are displayed in this "Input 4-Analytics" tab, it will allow the analyst to better understand the financial condition of the group as a whole as well as the risks posed by non-insurance entities in the group. Of course, such conclusions can only be made once the analyst sees the data and understands from the group what is occurring that is leading to such figures.

Recognizing that legal entity supervision and related tools (e.g., RBC) are the primary means to address inadequate capital, the GCC may provide an additional early warning signal to regulators regarding risks or activities of non-insurers within the group that may pose material risk to the insurance operations. This early warning signal can be seen with the trending of the financial information in the “Input 4-Analytics” tab as well as through the application of sensitivity analysis in the Input 5 Tab and inclusion of other relevant information in the Input 6 Tab. However, the analyst should also understand that other qualitative tools, such as the Form F, are capable of also providing early warning signals if properly reported by the group. In addition, since most holding company systems may have a larger percentage of their operations in the insurance businesses, the insurance trends for the U.S. insurers in the group should already be known and made available to the lead-state by the legal entity regulator(s) of the insurer(s). However, in the context of added policyholder protection, this may largely come into play with respect to the added quantitative data about non-insurers.

The GCC is an additional reporting requirement with important confidentiality protections built into the legal authority to require such reporting. State insurance regulators already have broad authority to take action when an insurer is financially distressed, and the GCC is designed to provide regulators with further insights to allow them to make informed decisions on both the need for action, and the type of action to take as to the regulated entity, or additional requests for information from other entities. That said, the GCC and its related provisions in the NAIC’s Model Holding Company Act and corresponding regulation are not designed or otherwise intended for regulators to take regulatory action based on the reported level of a group’s GCC. Regulators will use other existing tools and authorities to take action, primarily at the legal entity level.

While the new information from the GCC may offer new insights, it is equally important to understand that it will be up to the analyst to work with the insurance group to actually understand what is leading to the figures reported in the GCC, and from that perspective, especially in the early years of the GCC, it will require learning by both the analyst and the group to really be able to utilize the GCC in a manner as suggested in these introductory paragraphs.

Other Considerations When Considering Such Benefits

Unforeseen events and economic conditions (e.g., pandemic, recession, etc.) may also create stresses on a group, reinforcing the value of the quantitative data included in the GCC. Some stresses are similar to those experienced during the financial crisis and others are more unique. However, because the GCC is based upon a methodology that gets its inputs from individual legal entities, the capital calculated for each legal entity certainly can only capture the allowed capital resources of the legal entities in the group. While such an aggregation-based methodology is an appropriate group-level capital measure, until experience is gained with the GCC, it is not known how the GCC will behave in response to business cycles and various risk events, in part because it only recognizes limited diversification benefits among entities in the group except for the diversification embedded in existing entity specific regulatory capital requirements. And while the GCC is not meant to be used in a way that compares groups to each other, it is also true that it is unknown how it will behave across groups, peers and even sectors. This is true because of its limited diversification benefit, the differences between group types (mutual v. stock holding company), grouping of entities, and scope of entities included in the calculation. It is also true because application of jurisdictional accounting principles and use of scalars could have an impact on this as well via the foreign insurer profile of the group. The quantitative data collected in the GCC will evolve as state insurance regulators and groups increase their understanding of the impact on available capital and calculated capital.

The following guidance on the GCC is intended to be utilized in a manner that allows the GCC to enhance group-wide financial analysis and to be used as an additional input into the GPS. The GCC provides the quantification of risk within the group and when combined with the information from the ORSA on the amount of capital needed to run the company's current business model and related risk appetite, puts the regulator in a much better position to understand the available capital and calculated capital within a group, as well as the financial condition of the group. Both are complementary tools to each other. The ORSA provides management's internal approach to capital management and an understanding of the economics of the group. The GCC provides a standard model that can better enable the analyst to understand where the entire group stands with respect to existing legal entity requirements as well as broad measures of risk for non-insurers. Analysts should be mindful of the differences between the ORSA and the GCC. For example, in the case of a group with predominantly U.S. operations, the GCC will largely be based on the standard model/RBC of the U.S. subsidiaries. However, the ORSA is not constrained by a standard model and will reflect management's internal approach to capital management and may utilize or benefit from an economic capital model, other internal models, stress testing and other means. As a result, while the GCC is an additional input into the GPS, it may provide data and signals that don't align with the risk measures within the ORSA.

Overall Theme of Remaining Guidance

The previous information describes the purpose for considering the GCC within the context of the state's holding company analysis and corresponding GPS. In general, the remainder of this guidance provides more depth to the specific information to be included in the GPS, and provides the analyst with a basic understanding of the GCC including why the entities included within the GCC may be a subset of those entities that are within the holding company structure; whether the trends within the GCC suggests questions should be raised with the group's management; whether the underlying data suggests trends exist that should likewise be raised with the group or with the respective legal entity's supervisor; whether the information in the GCC filing is generally aligned with other information available to the analyst, and if not, why not, and whether that evidences other questions or concerns that should be addressed, or how they may already have been resolved. Notably, the purpose of the GCC is NOT to trigger regulatory action. Thus, even though the GCC is intended as a group-wide measure and provides insights as to capital adequacy and risks across the group, any regulatory action would have to result from other information made available to the regulator and based on legislative authority.

Utilization of the Group Capital Calculation in the Lead State's Responsibilities

The lead state is responsible for completing the holding company analysis and documenting a summary of that analysis in the GPS. The depth and frequency of the holding company analysis will depend on the characteristics (i.e., sophistication, complexity, financial strength) of the insurance holding company (group) system (or parts thereof), and the existing or potential issues and problems found during review of the insurance holding company filings.

Similarly, in the analysis of the GCC, the depth of the review in the "five-step process" and specific inquiries will vary based on each group's unique situation. For example, in some groups, very little if any work (inquiries of the group) will be done after the first step due to generally positive trends of the ratio over time. In other groups, the analyst may need to proceed through each of the five steps. Exactly how the analyst proceeds through the guidance will be dictated by a multitude of factors and requires judgement and as a result, the steps and subprocedures should not be used as checklist, but rather as a guide in how to utilize the GCC to increase the analyst's understanding of the group.

GCC Construction That Also Impact its Utilization and Review

Some decision points may be addressed prior to the submission of a GCC template. These include: the scope of application (e.g., whether segments of the holding company system (group) should be excluded for financial conglomerates); whether a limited filing will be allowed (as permitted in Model Law #440 and Model Regulation #450); and whether subgroup reporting (as defined in the GCC instructions) of a foreign insurance group will be required. In general, the analytics provided by the GCC will be similar for all entities included in the template. See the Primer on the Group Capital Calculation Formula) at the end of this section to better understand these points.

These factors are also a consideration in determining the depth of the analysis of the GCC and subsequent correspondence with the group. Refer to chapter VI.B. Roles and Responsibilities of Group-wide Supervisor/Lead State for details on responsibilities for completing the GPS.

The utilization of the GCC can be summarized as an additional input into the GPS. More specifically, once the analyst completes their review of the GCC and trend of the ratio, a summary should be incorporated into the GPS to help support the assessment of strategic risk.

Documentation of Review of the GCC in the Group Profile Summary (GPS)

The purpose of these procedures is to explain how to document the GCC into the GPS. The following provides an example of a GCC Summary that represents the minimum expected input of the GCC into the GPS, with new information reported within the Strategic branded risk classification. The other purpose of this section is to determine if more follow-up with the group should be performed and, if so, to assess the information obtained from that additional review. The following is intended to assist in documenting the analyst's understanding of the group's GCC in the GPS.

Group Capital Calculation (GCC) Summary

Summarize your assessment of the GCC both quantitatively and qualitatively, including any such items as may not be applicable to a branded risk category. For example, it may be appropriate to indicate "*The review of the group's GCC indicated the scope of the application is consistent with the lead state's determination*" and if possible, to summarize succinctly, 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"*. It may also be appropriate to identify key drivers of risks for the group within the GCC that are discussed later in the branded risk categories, as those risks supplement existing risk assessments derived from holding company analysis or are new risks that warrant further review. "*The group's GCC of 201% in the current year was impacted by a decline in Total Available Capital of $X which is related to group'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 Assessment

Strategic: *The group's Group Capital Calculation 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*
GCC Ratio	*201%*	*207%*	*163%*	*202%*	*197%*

GCC Summary and Strategic Branded Risk Documentation:

The above information documented in a summary section of the GPS and into the strategic branded risk classification is expected to be the primary type of information that is always documented into the GPS. The GCC provides a capital measurement of the group and, consistent with the branded risk categories, should be reported in the strategic risk section. Similar to how RBC for an individual insurance entity is helpful in allowing the analyst to better understand other potential issues, given capital represents a relative measure of cushion for adverse risks, the GCC (and its inclusion in the GPS) helps regulators to understand the same, relative to a group. While the GCC is not a capital requirement, with specified ladders of intervention, each of the insurance legal entity figures are relative to individual company requirements, and therefore the GCC can provide a relative measure of risks in terms of the minimum capital levels of the insurers.

Other Branded Risk Documentation:

To the extent the GCC ratio is trending negatively, or GCC available capital is decreasing, the analyst may choose to include more information in the strategic branded risk section of the GPS that summarizes any key drivers of such findings if they did not fall into one of the branded risk categories. Those drivers of the change might be documented in other specific branded risk categories, for example Pricing/Underwriting if driven by group-wide weak insurance underwriting, or reserving if the group-wide drivers were reserve deficiencies, etc. References to other branded risk categories may also be appropriate. However, this may not always occur or be possible for the analyst to pinpoint given the multitude of risks within any insurer's regulatory capital requirement formulas.

This guidance is simply meant to suggest that if the GCC does in fact appear to show particular trends that are noteworthy on specific risks , further documentation into that (applicable) branded risk may be appropriate.

A determination for when documentation of risks from the GCC into other branded risk categories may be appropriate is driven by whether any of the thresholds in Procedures 1 were met, and by the rest of the GCC information as described in Procedures 2-4. 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's financial condition, or are specific to a branded risk category as stated.

Other Considerations:
In addition to the broad guidance provided herein on the documentation of the GCC in the GPS, the analyst should also understand the following more general points that could impact the GCC result for a particular group. Judgement is required when considering these points:

- Asset-liability accounting or economic mismatches may lead to volatility within components of the GCC ratio, and potentially in the GCC ratio as a whole. For instance, if an entity is in a market-based regime, and if economic risks are unhedged, the entity's solvency ratio may fluctuate with economic conditions. As another example, if an insurance entity's liabilities are subject to U.S. RBC and statutory valuations, and if associated hedging is subject to a market-based valuation, volatility may result due to accounting mismatches. The factors that create volatility will be significantly influenced by the accounting standards used in each applicable regime.
- Regime changes may lead to noticeable changes in the GCC ratio that are not necessarily reflective of changes in the entity's underlying business. Regime changes can include changes in valuation, risk-based capital, available capital, tax rates, or the use/discontinuation of permitted or prescribed practices. In some jurisdictions a regime change could involve the use/discontinuation of an "internal model" or "partial internal model," which is a tailored set of risk charges and/or risk correlations and is intended to align insurer and regulatory perspectives of risk and capital.
- The GCC provides a means for analysts to identify non-insurance operations outside of the insurance group and to determine the extent of risk they may pose to the insures within the group. However, in doing so, analysts should understand that findings from review of Forms B, D and F might be equally valuable in these situations.
- When understanding capital requirements for non-insurer financial entities that are not subject to regulatory capital requirements, consideration should be given to the appropriateness of the GCC's capital charge for a specific entity's financial operations (e.g., an entity conducting a large volume or large dollar of complex transactions but with little net revenue or equity).
- When understanding capital requirements for non-insurer / non-financial entities, consideration should be given to the appropriateness of the level of risk assigned to specific entities.

Detailed Observation Documentation:
More detailed observations shall be documented separately from the GPS and in a form not dictated by this handbook. As in all holding company analysis, the level of documentation is determined by the lead state insurance department and is dependent on the characteristics and complexity of the group and its risks. These detailed observations generally need to only note the drivers of trends and/or actions being taken by the group to mitigate risks. In some cases, these points can be easily summarized into the GPS. In other cases they are too

detailed and should be documented instead within a separate document not dictated in form by this handbook. The analysts should not spend time documenting either subtle changes within the GCC or individual company movements that do not create a trend at the group level or identify a growing weakness in the group. However, judgment is required to make this determination. For example, a 10% (not point change) decrease in an RBC ratio of one of the smaller insurers within the group generally would not be documented. By contrast, a 10% decrease (not point change) in an RBC ratio in one of the larger insurers in the group that causes, either alone or jointly with other insurers, a 10% decrease in the GCC should be noted. However, it should be understood also that this 10% threshold is not intended to be a used as a “bright-line.” In fact it is possible the 10% is not necessarily indicative of any negative trends at all. This could be the case when for example there was a change in the regulatory capital requirement. Therefore, again, judgement is required in making these determinations and this, as well as other thresholds used in this guidance, are not meant to be bright lines. As the GCC is used more, both by the individual analyst and by the various states, using judgement around these thresholds is expected to become easier as the judgement is informed by experience.

Specific Procedures for Completing Review and Understanding of the GCC

The following procedures should be used by the analyst in their review and documentation of results of the GCC. However, if the analyst determines after completing any of the above procedures (steps), that no further work is deemed necessary to fully document the material risks of the group observable from the GCC (as well as the required information to be included in the GPS from the GCC), this should be documented by the analyst in any workpapers deemed appropriate by the state along with the general reasons supporting that conclusion. In making this determination, it should be reiterated these procedures are not intended to be used in a checklist manner and judgement based upon existing information on the group obtained from the Form F, ORSA, or any other source is certainly part of that decision.

Procedures Step 1

The purpose of procedures 1 is to assess the GCC level, and to identify the drivers of any changes in the GCC, in order to summarize and to document that overall assessment in the GPS and its strategic risk category, which is the minimum expected input of the GCC into the GPS. However, the analyst should understand that in the early years of the GCC, a limited amount of prior year(s) comparative data will be available, therefore requiring more judgement in determining if or where further analysis is warranted. Such judgement may need to be based upon various factors, including but not limited to other known information regarding the applicable group obtained from other sources (ORSA, Form F, Form B, etc.).

Procedure 1 is also intended to help the analyst determine if more follow-up review work should be performed. However, if the answer to any of the questions in 1 is “yes”, the analyst should proceed with step 2, understanding decreases in total available capital and/or step 3, understanding increases in leverage to determine the cause(s) of the negative trends. In the example provided above, the trends are positive with no decreases in the base ratio except in PY1; presumably the analyst may have performed some level of inquiry to the holding company to understand the driver of the drop.

Procedures Step 2a-2m

Unlike step 1, the intent of step 2 (and 3) is to determine the actual source of the negative issues and where they should be documented in the GPS. Procedure 2a is specifically focused on identifying the category of legal entities (and subsequently the individual legal entities) that might be driving the issues by looking at the ratio of actual-to-required capital for the legal entity insurers over the available years reported. The following sample of

a table from the GCC calculation completed by the group from the data in Schedule 1 can be helpful in determining the source of the issues.

Insurance Capital Table Template Groupings		Ratio of Actual to Required Capital				
		2025	2025	2023	2022	2021
		[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX		

Procedure 2b recognizes that the GCC does allow some debt to be included in capital up to a predetermined limit and can drive the overall GCC ratio. The following sample table taken from the GCC calculation using the data in Schedule 1 can be helpful in making this determination. Cases where debt is issued to address risk- driven reductions in the GCC ratio may not offset those reductions. This data metric may not be available in the case of a “limited filing”.

Debt/Equity Table Template Groupings		Debt/Equity ($)				
		2025	2024	2023	2022	2021
		[1]	[2]	[3]	[4]	[5]
Total	[8]	XXXX	XXXX	XXXX	0	0

Procedure 2c recognizes that profitability (e.g. net income/net loss) is generally one of the biggest drivers of changes in capital and utilizing the following table from the GCC can assist in identifying if there are entities reporting net losses that may be driving the decreases in capital. The following table taken from the GCC using the data in Schedule 1 can be helpful in determining the source of the issues.

Income & Leverage Table Template Groupings		Net Income ($)					Return on Capital				
		2025	2024	2023	2022	2021	2025	2024	2023	2022	2021
		[1]	[2]	[3]	[4]	[5]	[1]	[2]	[3]	[4]	[5]
US Ins	[1]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Non-US Ins	[2]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Non-Financial Entities	[3]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bank	[4]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Asset Manager	[5]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Other Financial w/Capital Requirement	[6]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Financial Entities w/o Capital Requirements	[7]										
Total	[8]	XXXX	XXXX	XXXX	0	0	XXXX	XXXX	XXXX		

If the source of the issues is the insurers, the following sample from a table from the GCC using the data in Schedule 1 can be helpful in determining the source of the issues among the insurers.

Core Insurance Table 1 Template Groupings		Net Income ($)					Return on Capital				
		2025	2024	2023	2022	2021	2025	2024	2023	2022	2021
		[1]	[2]	[3]	[4]	[5]	[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

Procedure 2d is focused on requesting more specific information from the legal entity regulator or the group to better identify the source of the issue(s). Procedures 2e-2l simply contemplates that if the source of the issues can be identified into one of the branded risk categories, it should be documented in the detailed workpapers and into the appropriate branded risk category of the GPS. However, it is recognized that the source of issues may be in multiple branded risk categories, in which case documentation of each of the sources into the detailed workpapers is still appropriate. However, documentation into one of the single branded risk categories of the GPS is only appropriate if that risk category is a material driver of the negative trends. Procedure 2m is intended to identify if the source of the issues is related to non-insurance operations. The GCC is intended to provide for more consistent analysis of risks to an insurer that may originate from non-insurance entities within the holding company system.

Procedures Step 3a-3f

Procedure 3a is specifically focused on identifying the category of legal entities (and subsequently the individual legal entities) that might be driving the issues by looking at indicators of leverage, e.g., leverage ratios, where this risk may manifest itself either though increased writings or exposure, or through increased balances relative to capital and surplus. The following sample of a table from the GCC calculation using the data in Schedule 1 can be helpful in determining the source of the issues.

Insurance Leverage Table		**Net Premium Written ($)**					**Liabilities ($)/Capital & Surplus**				
Template Groupings		**2025**	**2024**	**2023**	**2022**	**2021**	**2025**	**2024**	**2023**	**2022**	**2021**
		[1]	[2]	[3]	[4]	[5]	[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

Hong Kong - Life	[18]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Hong Kong - Non-Life	[19]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Singapore - All	[20]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Chinese Taipei - All	[21]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Africa - Life	[22]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Africa - Composite	[23]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Africa - Non-Life	[24]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Mexico	[25]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
China	[26]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Korea	[27]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Malaysia	[28]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Chile	[29]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Brazil	[30]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
India	[31]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Other Regime	[32]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
TOTAL	[33]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

Procedure 3b is more forward-looking by suggesting the analyst look at the same leverage ratios used in 3a to determine if the trends might continue and lead to further decreases in the GCC ratio. Procedure 3c simply requests the analyst use the leverage information to target questions to the group to better identify the drivers. Procedure 3d-3f are all questions designed to help the analyst consider whether the changes in leverage will lead to greater underwriting risk, reserving risk, or market and credit risk. Procedures 3d-3f provide general inquiries for additional information for the analyst. However, these inquiries may also appropriately provide a basis for the analyst to hold conversations with the group on the same topics to understand how the group views these topics and how the group is managing and monitoring these risks. For groups filing an ORSA, see also documentation within the ORSA report for additional information on the identified risks and the group's monitoring of risks, as well as consistency of the discussion with management and management's observations in the ORSA Summary report.

Procedures Step 4a-4b. Procedure 4a is intended to help the lead state understand the historical capital allocation patterns or the likely future needed capital allocation patterns by simply documenting those in the detail analysis workpapers. This includes, for example, noting that there is consistency in the entities generating net income and distributing it further through the group, and in some cases may require distribution through other insurers, which in the US often requires approval if considered extraordinary. Procedure 4a is intended to utilize that knowledge, along with other planned actions of the group, to understand whether problems with repaying debt or other obligations in the group could occur. The intent is to be in a better position for discussions with the group on where the group may expect capital to come from to support future expected activity or future unexpected material events. The following sample of tables from the GCC calculation using data in Schedule 1 can be helpful in determining the source of the issues.

Insurance Capital Table		**Capital Contributions $ Received/(Paid)**				
Template Groupings		**20254**	**2024**	**2023**	**2022**	**2021**
		[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX		

RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX		

Insurance Capital Table Template Groupings		Intragroup Dividends $ Received/(Paid)				
		2025	2024	2023	2022	2021
		[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX		

Procedures Step 5a-5h. Procedures 5a-5h are designed for those uncommon situations where the group believes they need to reduce risk because raising capital may be unlikely (see appendix for further discussion on that topic). Before performing this procedure, Procedure Step 2 (Evaluating Decreases in Total Capital) and Procedure Step 3 (Evaluating Increases in Operating Leverage) will have already been performed to determine whether capital is decreasing, or operating leverage is increasing. As such, after considering information that may already be available to the regulator on the business plan, Procedure 5b is largely focused on better understanding directly from the group the group's reaction to the apparent negative trends. The analyst should understand that some of these trends may have already been known, through for example the ORSA review and discussions

of the ORSA by the lead state. In fact, the key takeaways may already be documented in the GPS and therefore the remaining procedures in this section may be irrelevant and could be skipped if recently considered and understood. In addition, such trends from Procedure Steps 2 and 3 may suggest no additional information is necessary. It is for this reason that the first procedure is focused on the group's existing business plan as it is possible these trends may have been expected. Further, Procedure 5a is based on the belief that reducing risk by the group may have been previously incorporated into the group's latest business plan, which may have been obtained from the Annual Form F Filing.

Procedure 5b on the other hand contemplates that the manner to address any unexpected negative trends may not have been incorporated into the latest business plan and thus further contemplates that the analyst speaks with the group or identified insurer causing the negative trend to understand how the issue is to be addressed. However, it should be recognized that some trends that may appear to be "negative", e.g., a decline in the reported GCC, may actually be the result of a conscious decision by the group to more efficiently deploy capital while remaining at sufficient levels from an ERM perspective. This procedure is not meant to suggest action **must** be taken by a regulator, but only to help the analyst **understand** whether a trend is in fact "negative" or not, and if so, what the group has already decided or plans on doing to address the issue, if any, and appropriately document. Some of what the group is currently doing may already be known by the lead state, either through the ORSA, the Form F, or a periodic meeting with the group that some states conduct annually. However, the procedure provides an opportunity for the analyst to ensure they understand the drivers and what if anything the group is already doing to address the underlying issues as the group thinks is appropriate. To be clear, increases in operating leverage are often planned, and often come with expected future actions by the group, such as capital injections or future transactions that may reduce risk. On the other hand, decreases in capital sometimes are not expected, and may not result in immediate action, , but it is possible that they may lead the group to contemplate future actions to take. Therefore, these discussions would allow these potential actions to be better understood by the analyst and documented.

Procedure 5c contemplates assessing if the group has the ability and resources to either reduce its risks or to raise additional capital. See the section below for further Considerations of the Group's Capacity to Raise Capital. This procedure is not intended to suggest the analyst has the capacity to make this determination on their own, but rather to question the reasonableness of the possibility. Further, the GCC and related provisions in the NAIC's Model Holding Company Act and corresponding regulation are not designed or otherwise intended for regulators to take regulatory action based on the reported level of a group's GCC; regulators will use other existing tools and authorities to take action, primarily at the legal entity level.

Procedure 5d contemplates that the group or legal entity may believe no action is necessary because it believes current capital is adequate to meet its business plan, which is more likely to be the case when a one-time reduction of capital as opposed to a growth in leverage that may continue. Procedure 5e is for the rare situation where the legal entity insurers have been strained or face impending pressure contemplated within NAIC Model 385–*Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition* that would suggest one or more of the insurers may be in a hazardous financial condition. Procedure 5f is designed to suggest the analyst bring the collective supervisors of the legal entity insurers together for a supervisory college to fully understand what is occurring and the identified legal entity's plans for addressing the underlying issues. Procedure 5g is an extension of Procedure 5f as it contemplates the regulators discussing whether the proposed actions from the legal entity(ies) in the group is adequate. This action could represent something either informally done before an insurer is in a regulatory action level, or formally once an insurer is in a regulatory action level. Procedure 5h is similar to the other actions contemplated

within a supervisory college or, for example, to address a troubled insurance company under Accreditation requirements regarding communication with other states.

Additional Procedures – Business Plans

While there is a multitude of possibilities which are beyond the scope of this guidance to address, the following provides some of the related issues that may be helpful to the analyst to consider.

Group's Business Plan (or collective legal entities):

Planning Process:

- Understand the overall planning process (who is involved, how frequently it occurs, etc.) and how the overall initiatives are determined
- Understand the estimate of the impact of the proposed actions on financial results
- Review the plan's assumptions for reasonableness. Consider the likelihood of variations in the assumptions and the resulting impact on the future financial results
    - Consider subcategories of changes including:
        - Overall potential changes in investment strategy
        - Overall potential changes in underwriting strategy or risk concentrations
        - Overall impact on financing matters (e.g., debt, requirements, etc.)
        - Overall impact on derivatives to mitigate economic conditions
        - Overall changes in governance or risk management procedures
        - Increased ceded reinsurance transactions (common approach to reducing risk/increasing surplus):
            - Details regarding the revised strategy
            - Specifics on types of coverage such as assumption reinsurance, loss portfolio transfers
            - Transfer of risk considerations

Variances to Projections:

- Consider the history of explanations regarding variances in projected financial results and the insurer's actual results. If analysts determine the goals of the business plan are not attainable and/or projections are unreasonable, a revised business plan may be requested.
- Identify any internal or external issues not considered in the plan that may affect future financial results. Examples of such issues include the following: 1) the existence of competitors to limit future sales levels; 2) recent state legislation restricting the company's product designs; or 3) the loss of key marketing personnel.

Evaluating a Business Plan:

Analysts should consider further detail where necessary in evaluating the proposed revised business plan but also monitor, on a periodic basis, the insurer's progress in achieving the initiatives included in the group's plan. Assuming that the analyst has determined that a decline in the GCC is material and to considered a negative event, i.e., it was not the result of capital management and planning to more efficiently utilize capital while staying within sound levels to achieve ERM objectives, the goal of the plan would then be to address the underlying causes that led to the issues and an improvement in subsequent GCC ratio results. Detail considerations for improving the plan may include the following (where considered inadequate):

- Trending comparative measures of targeted risk exposures including (where applicable):
    - Asset mix by detailed types
    - Credit risk by detailed types
    - Business writings/ratios by detailed product
- Impacts on financing items:
    - Projected cash flow movements for ongoing principal and interest payments on debt
    - Impact on debt interest coverage ratio, other debt covenants, rating agency ratings
    - Discussion of impact on parental guarantees and/or capital maintenance agreements
    - Expected source and form of liquidity should guarantees be called upon
- Impact of reasonable possible stress scenarios
- How the individual legal entities' capital will be maintained at required levels

Consultation with Other Regulators

- Consult with members of the supervisory college (if applicable) or other domestic states for input in evaluating the revised business plan

Considerations Regarding Ability of the Entities in the Group to Raise Capital

The following is designed simply as a reminder of considerations the lead state would contemplate when discussing the group system response to the issues identified in this section. More specifically, in most situations a group will first consider ways to reduce risk. In limited situations, it may consider trying to raise additional capital. While this is typically not an option for a group that is currently not performing as it anticipated, in some situations alternative sources of capital may be raised if the holders of the newly issued equity securities are given rights that are attractive to the holder. In addition, in some cases the group may have the ability to issue other forms of capital (e.g., debt), which can be used to inject into the insurance subsidiaries. While these facts are not unique to the utilization of the group capital calculation, they are worth a reminder along with relevant other related details.

New Equity Considerations

Public Holding Company

While no two groups are the same, issuing public stock may be limited for the reasons previously identified. In addition, regulators are reminded that a public holding company may be obligated to pay dividends in order to maintain expectations of their shareholders, making the reduction of risk a more viable action under the circumstances.

Private Holding Company

While no two groups are alike, a private company has some of the same characteristics as a public company in terms of owners' expectations, but usually such expectations differ from a public company, and it may be more feasible for a private company given their access to specific individuals that may have a higher interest in additional capital rights.

Mutual Insurance Company

A mutual insurer is limited in terms of its access to capital because it cannot issue new stock but can issue surplus notes.

Mutual Holding Company

Because mutual holding companies have characteristics of both public companies and mutual companies, there are implications of how such a structure affects its operations.

Non-profit Health Company

Insurers that are non-profits are generally charitable organizations and it is not uncommon for some types of insurers, particularly those that provide health insurance, to have some history as a non-profit. It may be helpful to understand these types of dynamics when considering a group structure.

Fraternal Associations

Regulators often find similarities between a fraternal benefit society and a mutual insurer because both can be limited in terms of their ability to raise additional funds but can issue surplus notes. If allowed within state law and the charter, the fraternal could assess members or adjust members policy values.

Reciprocal Exchanges

Regulators often find similarities between reciprocal exchanges and fraternal benefit societies and mutual insurers because they can be limited in terms of their ability to raise additional funds. Although this is a general consideration for the regulator when evaluating the group system, there is generally much more that must be understood because in some cases, the reciprocal may be able to assess policies that can serve a similar purpose as raising capital.

New Debt Considerations

Through discussions with the group, understand the potential impact of any new debt on the group system, including specifically the extent of future additional reliance on the insurance operations and whether those insurers have the capacity for such. Also consider an updated review of the following:

- Total debt service requirements.

- Revenue streams expected to be utilized to service the debt.
- Any new guarantees for the benefit of affiliates.
- Any new pledge of assets for the benefit of affiliates.
- Any new contingent liabilities on behalf of affiliates.

General Holding Company Considerations

International Holding Company Structure

This section is applicable only to those international groups that are required to complete the GCC, which may be relatively few considering many international holding companies have a non-US groupwide supervisor and are exempt from the GCC. Those foreign groups that are required to complete the GCC will generally file a “subgroup” GCC that includes insurance entities that are part of the group’s U.S. operations. In those situations, the analysts should understand the structure to determine if it has any impact on this analysis. Analysts should direct any regulatory concerns to the appropriate organization contact to ensure a prompt reply or resolution. In some organizations, the appropriate organization contact will often be associated with the U.S. insurance operations, while in others, an advisory board may have been established to communicate with regulators.

Capital / Operational Commitment to U.S. Operations

Some holding companies may consider their U.S. insurance enterprises non-core and may be less invested in their ongoing business operations or financial support. Analysts should be aware of a holding company’s stated commitment to ensure the continued stability of U.S. insurance operations. This commitment may include a written or verbal parental guarantee.

Primer on the Group Capital Calculation Formula

The National Association of Insurance Commissioners (NAIC) began development of the Group Capital Calculation (GCC) in late 2015 following extensive deliberation on potential measurement models and methodologies. The GCC uses a bottom-up aggregation approach, accounting for all available capital/financial resources, and the required regulatory capital based on the measurement of assets and liabilities of the various corporate entities, including insurers, other financial entities, and non-financial businesses.

The GCC Aggregation Methodology
As illustrated in the sample tables above, the proposed GCC is an aggregation or grouping of the available financial resources and calculated capital of all legal entities that potentially could pose material risk to the insurers in the group. The GCC allows some discretion in determining what entities under common control but outside of the defined Insurance Group may be excluded from the scope of application in the GCC. When reviewing a group's choice of entities to be excluded from application of the GCC, the following points should be considered:

- The regulatory evaluation should be based on the criteria for material risk (e.g., structural separation, no history of cross subsidies, or other criteria as defined in the GCC instructions).
- Group requests for reducing the scope of application of the base GCC should be based on supporting information and a rationale provided by the proup.
- Information on excluded entities should be made available upon request from the analyst.

The GCC includes the following types of entities (listed with the general approach of calculated capital toward each).

U.S. Insurers – The available capital of U.S. domiciled insurers is determined by statutory accounting principles (SAP) as defined by state law and the NAIC Accounting Practices and Procedures Manual, which defines assets, liabilities, and net available capital/financial resources, sometimes referred to as policyholder surplus. The calculated capital for these insurers is subject to state law that requires these insurers to maintain minimum capital based on the applicable NAIC Risk-Based Capital formula at 200% x Authorized Control Level .

Non-U.S. insurers – Similar to the available capital and calculated required capital of U.S. insurers, the available and calculated capital of non-U.S. insurers is determined by reference to the home jurisdiction's basis of accounting and capital requirements converted to U.S. dollars. While most non-U.S. jurisdictions do not possess the same level of industry specific technical guidance as included in the NAIC Accounting Practices and Procedures Manual, all jurisdictions have established accounting standards that insurers are required to follow to determine available capital/financial resources. In some cases, this represents local Generally Accepted Accounting Principles (GAAP), which may or may not be consistent with International Financial Reporting Standards (IFRS).

DRAFTING NOTE: While the GCC utilizes the available capital and home jurisdictions' capital requirement, for jurisdictions where data is available, the use of appropriate scalars is currently being explored to produce more comparable measures for risk which can be aggregated into the group-wide measure. One such scaling methodology is included as part of a sensitivity analysis in the GCC template. That scalar methodology uses aggregated data from the U.S. and other jurisdictions at the first intervention level to recognize that (for

example) state regulators often have much higher reserve requirements, incorporating amounts that are required to be carried as capital in other jurisdictions. For jurisdictions where the data is not available, the full jurisdictional requirement at the first intervention level is used.

U.S. Insurers Not Subject to RBC – Some types of U.S. insurers are not subject to an RBC formula (e.g., Financial Guaranty Insurers, Title Insurers). For these entities, the available capital/financial resources are determined by reference to state law and the NAIC Accounting Practices and Procedures Manual. However, since an RBC formula does not exist, calculated capital is determined by reference to the minimum capital requirements set out in state law (or 300% of reserves for Title insurers). For U.S. captive insurers, available capital is determined based upon the states accounting requirements, but the calculated capital is required to be calculated using the applicable RBC formula even if RBC does not apply to that entity in its state of domicile.

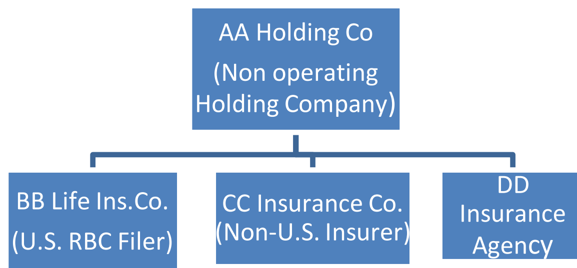
Banking or Other Financial Service Operations Subject to Regulatory Capital Requirements – Non-insurers such as banks are subject to their own regulatory valuation methods (typically GAAP with tiering of available capital) and their own regulatory capital requirements (e.g., OCC, Federal Reserve, FDIC, or other requirements for banks). These regulatory values are used for the GCC.

- Financial and non-financial operations not subject to regulatory capital requirements – In general, financial entities (as defined in the GCC Instructions) are subject to a higher capital charge in the GCC than the non-financial entities. However, the GCC does require available capital/financial resources and calculated capital to be gathered for all such entities that pose a material risk to insurers. In both cases the GCC will utilize the valuation used by such legal entities (typically U.S. GAAP) and a calculated capital based upon a risk factor. All entities within the defined insurance group (definition included in GCC Instructions) must be included
- All financial entities (definition included in GCC Instructions) must be included
- The level of risk (low / medium / high) and associated capital calculation assigned to a financial entity will be selected by the group and evaluated by the lead -state reviewer
- Non-financial entities that are subsidiaries of U.S. insurers, foreign insurers, or banks where a capital charge for the non-financial entity is included in the regulated Parent's capital formula will remain with the Parent and will not be inventoried. Regulators already have access to the financials of these entities if needed (if causing unrealized losses within the insurer).

Eliminations

The GCC uses an aggregation and elimination approach, where each of the above legal entities' available capital/financial resources and calculated capital are combined, then eliminations are utilized to prevent any double counting of available capital/financial resources or calculated capital. The following example illustrates the use of eliminations for both available capital/financial resources and calculated capital. However, in practice the GCC only requires the foreign insurers and other financial entities owned by an insurance company to be "de-stacked" so if AA Holding Company was a U.S. insurer (e.g., AA Insurance Company) the capital required and calculated capital for DD Insurance Agency as a nonfinancial entity would remain in the values of AA Insurance Company and not be de-stacked.

EE Insurance Group (EEIG)



EEIG Financial Information

Entity	Total Available Capital	Minimum Regulatory Capital
AA Holding Company	50.0 million	0[2]
BB Life Insurance Company	30.0 million	3.0 million[3]
CC Insurance Company	6.0 million[1]	1.6 million[3]
DD Insurance Agency	2.0 million[1]	0[2]

[1] For Non-RBC filers this is regulatory available capital or stockholder equity
[2] There is no regulatory capital for these entities when owned by a non-regulated entity. Calculated Capital is added @ 10.5% x stand-alone ARC
[3] Authorized Control Level (ACL) RBC or Prescribed Capital Requirement for non-U.S. insurers

Calculation of ARC

Entity	TAC	Less: Subs' TAC	Adjusted TAC
AA Holding Co.	50.0M	(38.0M)[1]	12.0M
BB Life Insurance Co.	30.0M	0	30.0M
CC Insurance Co.	6.0M	0	6.0M
DD Ins. Agency	2.0M	0	2.0M
ARC (EEIG Group Total)			**50.0M**

[1] Amount of TAC for Subs as follows: (30.0M + 6.0M + 2.0M)

Calculation of MRC

Entity	ACL or Calculated Capital[1]	Less: Subs' Calculated Capital	Adjusted Calculated Capital	Multiply by 2.0[3]	MRC
AA Holding Co.	6.07M	(4.81M)[2]	1.26M	NA	1.26M
BB Life Ins. Co.	3.0M	0	3.0M	6.0M	6.0M
CC Insurance Co.	1.6M	0	1.60M	NA	1.6M
DD Ins. Agency	0.21M	0	.21M	NA	0.21M
MRC Total					**9.07M**

[1] Estimated post covariance factor of 10.5% @ CAL x ARC per GCC added for AA Holding Co. and DD Ins. Agency
[2] Amount of Calculated Capital for Subs as follows: (3.0M +1.6M + .21M)
[3] Applies to U.S. insurer only to increase level to Company Action Level (CAL) RBC

In the above example, available capital/financial resources are referred to as available regulatory capital (ARC) and total authorized capital (TAC1) and minimum calculated capital is referred to as minimum regulatory capital (MRC) and authorized control level (ACL2). The GCC will allow non-insurance / non-financial entities owned by RBC filers in the group to remain within the available capital and calculated capital of the parent, so no eliminations are required for these entities. As shown, since AA Holding Company owns each of the other business entities in the organizational chart, $38 million (which is the amount of available capital/financial resources in the subsidiaries of AA) is eliminated from the TAC column since accounting methods include those as an asset on AA Insurance Company's balance sheet. Also, the GCC includes capital calculations for AA Holding Company and DD Insurance Agency as part of the MRC in addition to the regulatory capital already included for the insurance subsidiaries. The MRC of the subsidiaries is eliminated from the parent's (AA Holding Company) calculated capital. Therefore, in this example $4.81 million of calculated capital is eliminated from the MRC. Finally, the MRC of U.S. insurance subsidiary is multiplied by 2 in order to reflect Company Action Level (CAL) RBC as required in the GCC.

[1] Terminology used in RBC for available capital/financial resources
[2] Terminology used in RBC for calculated regulatory capital

Debt-It is important to note that the available capital used in deriving the GCC recognizes a portion of the group's senior and hybrid debt as capital. This allowance recognizes that debt that is not already recognized as available capital/financial resources under all known accounting principles (SAP, U.S. GAAP or IFRS) may have some value to the group under the U.S. insurance regulatory requirements where debt proceeds are contributed down to the insurance companies and where extraordinary dividends must be approved by the state. Qualifying debt along with limitations thereon are described in the GCC instructions as is the calculation for the additional available capital. In addition to looking at the group's debt leverage, consideration should be given to how the allowance for additional capital from debt interacts with changes in available capital and capital requirements from year to year. The impact of procyclical changes in the allowance for debt as capital should be assessed.

Other Information Included in the GCC

The GCC includes selected financial information (net income, premiums, liabilities, debt, etc.) that is captured in Schedule 1 and in the "Analytics" tabs of the GCC, which is meant to be used to help isolate potential strengths and weaknesses of the group and more specifically where such exist among the entities in the group. Some important information related to other features in the GCC also should be considered and are discussed below. Schedule 1, a simplified version of the Inventory Tab, and most analytics are required in the case of a limited filing. However, data is not required for the capital instruments, sensitivity analysis and other information tabs in a limited filing.

Grouping - The GCC separately allows certain financial entities (e.g., asset managers) and non-financial entities included in the GCC to have their values and capital calculation combined (grouped) for more efficient reporting and analysis. Although the GCC instructions set parameters for such grouping, the general expectation is that regulators will work with each applicable GCC filer in determining where grouping is and is not appropriate outside of what is allowed within the GCC Instructions. Grouping should be viewed in the context of materiality. A single entity conducting a given activity may not be material, but when all entities conducting the same activity are combined, they may then be material.

Excluded entities – The GCC provides two mechanisms for the exclusion of non-financial entities in Schedule 1 and in the Inventory Tab at the discretion of the lead state. State regulators should consider whether any of the information collected in the GCC template , should be collected for an entity or group of similar entities that would otherwise be excluded from the GCC ratio calculation. Regulators should separately monitor increases in the level of activity of an "excluded" entity or group of similar entities for purposes of materiality and potential subsequent inclusion in the GCC.

Sensitivity analysis – A tab devoted to sensitivity analysis is included in the GCC. These informational items provide the regulator with impact of discretion in excluding listed entities and alternative perspectives on risk charges for non-financial entities and foreign insurers. Monitoring of these items can help the regulator identify areas where the GCC may be improved, or capital calculations adjusted in the future. One item included in the sensitivity analysis is a "sensitivity test" that increases the overall calibration of the calculated capital in the GCC from its normal 200% x ACL RBC calibration to 300% x ACL RBC.

Accounting Adjustments - The impact of accounting adjustments and related detailed information is collected in the GCC template in the Inventory Tab and in the Other Information Tab respectively. Such adjustments can be material during the de-stacking process. For example, a consolidated holding company may include GAAP values for entities that would otherwise be valued under regulatory accounting rules (e.g., Statutory Accounting Principles - SAP) on a stand-alone basis. When the regulated entity is de-stacked the difference between the GAAP values and SAP values will be removed from the group's available capital. These "lost" values can result in a material reduction in the inventoried available capital compared to consolidated available capital. Understanding

the impact and the components of this adjustment can help the regulator when considering the impact of issuing new debt or when evaluating the allowance for debt as capital calculated in the GCC template.

Intangible Assets – Acquisitions, mergers and reorganization often can create significant intangible assets at a holding company level or possibly at an operating company (other than a regulated entity) level. The GCC template collects information on intangible assets held by inventoried entities in the Other Information Tab. The available capital associated with the value of entities whose assets are materially comprised of intangible assets should be evaluated in the context of fungible resources and in assessing the adequacy of the capital calculation assessed on such entities.

Dividend pass-thru (gross view of dividends) – Schedule 1D collects information on dividends paid and received within the group. It also includes a column that indicates whether dividends were declared but not yet paid, as well as cases where dividends received where retained or "passed through" to another affiliate or paid out in dividends to shareholders. This information will assist the regulator in evaluating the movement of capital within the group to fund strategic insurance and non-insurance operations or activities (e.g., expansion of activities) or to fund entity specific capital shortfalls. It also provides a window to capital leaving the group (e.g., debt repayment, stock repurchase, or dividends to shareholders).

Considerations When Exempting Groups

As stated elsewhere within this guidance, the GCC and its related provisions in the NAICs Model Holding Company Act and corresponding regulation are not designed or otherwise intended for regulators to take regulatory action based on the reported level of a group's GCC. Rather, the GCC is intended to be a tool to better understand the risks of the group, mostly through the trending of the financial information in the "Input 4-Analytics" tab. However, specific to the provisions of the NAICs Model Holding Company Act and corresponding regulation, the Group Capital Calculation (E) Working Group did believe that the GCC might be more helpful for some groups and not as much for others when it developed criteria within the Act and the regulation for exemptions. On this point, the Working Group believed that in general the GCC would be more helpful for those groups that had 1) non-U.S. insurers within the group; 2) a bank within the group, or 3) a more material degree of non-insurers. Specific to the point regarding non-U.S. insurers or banks, the GCC is based upon the premise that the most relevant measure of capital is the actual legal entity requirements of capital from the applicable regulator. On this point, the required capital, as well as the trending of information on these particular legal entities might be the most valuable, particularly if the relative operations and assets of these entities compared to the U.S. RBC filers is material. Similarly, while the calculated capital on the non-insurance entities may not be as relevant as required capital on regulated insurers or banks, if the operations and assets of non-insurers relative to those of US RBC filers are material, the GCC may provide greater value to such types of groups.

To these points, the NAICs Model Holding Company Act and corresponding regulation contain possible exemptions for groups that have less than $1 billion in premium and that do not possess any of the three characteristics just described. The possible exemptions exist after the GCC has been filed once, because without seeing the completed GCC at least once for a group, it may be difficult for the lead-state to determine if the GCC has value. However, it should also be understood that these three criteria of non-U.S. insurer, bank, or non-material non-insurers are not the only situations where the GCC would be valuable to the lead-state. As a reminder, all states are required to assess the sufficiency of capital within the holding company structure; prior to the GCC, this was done using various methods (e.g., debt to equity ratios, interest coverage ratios, existing RBC ratios and relative size of insurance). The GCC is expected to enhance a state's ability to make this assessment more easily, . Therefore, in deciding if a group should be exempted, the lead-state will need to consider a number of factors, including how easily it can make this assessment without the GCC. For small groups where the U.S. RBC operations and assets are much larger than the non-insurance operations, it is likely the GCC would provide a smaller degree of value and exempting from the GCC may be appropriate. However, the analyst should also consider the fact that

the simpler the holding company structure, the more easily the GCC can be completed. Specifically, given all of the data included in the GCC is existing data and therefore readily available to the company, a smaller and simple structured group should be able to accumulate into the GCC template in a short period of time. Also worth considering is that if such operations are contained within a number of different U.S. insurers where it is difficult to determine the degree of double counting of capital, the GCC may provide more value. To be clear, these are not the only situations where the GCC might be helpful even with a relatively small group. This is because the value may come from figures the GCC requires that the state may have otherwise not been aware of. Specifically, the GCC may identify non-RBC filers who may be experiencing some level of financial difficulties. This possible identification of information the lead-state was not otherwise aware of is the primary reason the Working Group suggested the GCC be filed once before deciding on whether a group should be exempted. While the NAIC Accreditation program may not require a state to have such authority to have the GCC filed once before exempting, this background information provided herein is intended to encourage the state to consider such possibilities before deciding on exempting a group, particularly since it may be difficult to stop an exemption in a given year once it's provided. In summary, as with everything else described in this documentation, the GCC requires judgement on behalf of the analyst and the lead-state which is based upon multiple factors including the lead-state's existing knowledge of the group. The same applies when considering whether a group should be exempt.