NAIC NATIONAL MEETING FALL 2021

Date: 11/16/21

Virtual Meeting
(in lieu of meeting at the 2021 Fall National Meeting)

GROUP SOLVENCY ISSUES (E) WORKING GROUP
November 30, 2021
2:00 – 3:00 p.m. ET / 1:00 p.m. – 2:00 p.m. CT / Noon – 1:00 p.m. MT / 11:00am – Noon PT

ROLL CALL

Justin Schrader, Chair	Nebraska	John Turchi	Massachusetts
Jamie Walker, Vice Chair	Texas	Judy Weaver	Michigan
Susan Bernard/Kim Hudson	California	Debbie Doggett/Shannon Schmoeger	Missouri
Kathy Belfi	Connecticut	Diana Sherman	New Jersey
Charles Santana	Delaware	Margot Small	New York
Virginia Christy/Carolyn Morgan	Florida	Dale Bruggeman/Tim Biler	Ohio
Cindy Andersen/Susan Berry/Eric Moser	Illinois	Kimberly Rankin/Melissa Greiner	Pennsylvania
Roy Eft	Indiana	Doug Stolte	Virginia
Kim Cross	Iowa	Amy Malm	Wisconsin

NAIC Support Staff: Bruce Jenson/Ramon Calderon

AGENDA

1. Consider Adoption of its Summer National Meeting Minutes—*Justin Schrader (NE)* — Attachment A

2. Discuss Comments Received on the Re-Exposure of ComFrame Revisions to the NAIC's *Financial Analysis Handbook* (FAH)—*Justin Schrader (NE)*
   - Comment Matrix and Re-Exposed FAH Guidance — Attachment B
   - ACLI Comment Letter — Attachment B1
   - APCIA Comment Letter — Attachment B2

3. Receive an Update on Status of ComFrame Drafting Group Efforts—*Justin Schrader (NE)*

4. Receive an Update on International Association of Insurance Supervisors (IAIS) Group-Related Activities—*Justin Schrader (NE)*

5. Any Other Matters—*Justin Schrader (NE)*

6. Adjournment

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Draft: 8/10/21

Group Solvency Issues (E) Working Group
Virtual Meeting (*in lieu of meeting at the 2021 Summer National Meeting*)
August 4, 2021

The Group Solvency Issues (E) Working Group met Aug. 4, 2021. The following Working Group members participated: Justin Schrader, Chair (NE); Jamie Walker, Vice Chair (TX); Kim Hudson (CA); Kathy Belfi (CT); Charles Santana (DE); Virginia Christy (FL); Kim Cross (IA); Cindy Andersen, Susan Berry and Eric Moser (IL); Roy Eft (IN); John Turchi (MA); Judy Weaver (MI); Shannon Schmoeger (MO); Diana Sherman (NJ); Margot Small (NY); Dale Bruggeman (OH); Doug Stolte (VA); and Amy Malm (WI).

1. Discussed Proposed Revisions to the *Financial Analysis Handbook*

Mr. Schrader stated that the primary purpose of the meeting is to discuss comments received on the public exposure of proposed revisions to the NAIC's *Financial Analysis Handbook* (Handbook), which were developed by the ComFrame Financial Analysis Drafting Group. The proposed revisions are intended to incorporate elements of the International Association of Insurance Supervisors' (IAIS') Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) deemed appropriate for the U.S. system of solvency regulation.

Mr. Schrader stated that the proposed revisions were exposed for a 60-day public comment period and that five comment letters were received during the exposure. Mr. Schrader stated that the focus of the meeting will be to discuss the comments received at a high level, before asking the Drafting Group to consider the development of a revised draft in response to the comments received.

Robert Neill (American Council of Life Insurers—ACLI) provided an overview of the topics covered in the ACLI comment letter, which included concerns related to the scope of insurers that proposed procedures could be applied to, the appropriateness of placing guidance on determining the head of an internationally active insurance group (IAIG) in the Handbook, and concerns regarding references to IAIS Insurance Core Principles (ICPs) and application papers within the Handbook. In addition, Mr. Neill recommended that the Handbook language allow for more flexibility in approaches to governance, control, and risk management functions and expressed concerns over language referencing the IAIS' insurance capital standard (ICS).

In response to the scoping issue, Mr. Schrader stated that the Drafting Group thinks that the newly proposed procedures should not restrict the existing ability of state insurance regulators to conduct holding company analysis and examination procedures as they see fit in accordance with a risk-focused approach to financial surveillance. Therefore, while they are primarily intended for use in conducting analysis of IAIGs, the proposed language states that analysts can use judgment in determining whether the procedures should be applied to a broader range of insurance groups. Mr. Schrader also stated that the Drafting Group is likely open to working on some additional clarifying language in this area. Ms. Belfi stated her agreement with this approach and asked how the proposed procedures exceed existing authority to regulate large insurance groups that do not currently qualify as non-IAIGs.

Mr. Neill stated that although broad authority is available to state insurance regulators in overseeing holding company groups, statutes do not go into detail in describing the type of procedures to be performed. Mr. Neill stated that ACLI members think that the ComFrame elements were designed for IAIGs and to extend them to a broader group of companies could be exceeding the intent of existing legal authority. Mr. Schrader stated that the intent of the Drafting Group was not to blur the lines of regulation between IAIGs and non-IAIGs, but rather to preserve the existing ability of state insurance regulators to conduct holding company oversight as they deem appropriate. Therefore, the Drafting Group can consider clarifying language in this area.

Mr. Schrader stated that the intent of the Drafting Group behind including guidance on determining the head of the IAIG in the Handbook was to encourage state insurance regulators to consider applying the ComFrame considerations at a level below the ultimate controlling person, when appropriate. Mr. Schrader stated that the requirements and oversight outlined in the *Insurance Holding Company System Regulatory Act* (#440) generally apply at the ultimate controlling person or holding company registrant level. However, there may be situations in a conglomerate group where the insurance operations are overseen at a subsidiary or intermediate holding company level. Therefore, providing guidance to assist state insurance regulators in using discretion in determining the level of the group to focus on in conducting analysis procedures was deemed appropriate for inclusion in the Handbook. Ms. Belfi asked whether the guidance would preclude the state insurance regulator from conducting

procedures at the ultimate controlling person level if that was deemed necessary, and Mr. Schrader stated that it would not. Ms. Berry added that the assessment of the head of the IAIG should be revisited periodically and is the responsibility of the group-wide supervisor, in consultation with other supervisory college members. Mr. Neill stated that he would share this perspective with the ACLI members, but that the way that head of the IAIG is defined within ComFrame may not be a perfect fit for the U.S. system of insurance regulation and should, therefore, be carefully considered and evaluated to determine whether it is in accordance with Model #440.

Mr. Schrader stated his agreement with the need to allow for flexibility in approaches to governance, control, and risk management functions within the Handbook guidance and believes that this was the intent of the Drafting Group. However, he stated that the Drafting Group can consider some additional clarifying language in that area. Mr. Schrader stated that the Drafting Group's intent behind including references to the ICS in the Handbook was not to expect or require ICS reporting by IAIGs, but rather to encourage group-wide supervisor review and consideration if ICS reporting is being prepared on a voluntary basis by certain IAIGs during the monitoring period. Mr. Schrader stated that given the key role that the ICS plays within ComFrame guidance and the ongoing implementation in other jurisdictions, that Handbook guidance would be incomplete without some background information on ICS.

Steve Broadie (American Property Casualty Insurance Association—APCIA) stated that APCIA members endorse the comments made by the ACLI in this area and oppose references to the ICS in the Handbook as a tool for group capital assessment because it is developed for a different system of evaluating group solvency and based on a different accounting system. Mr. Schrader stated that as several IAIGs are currently filing an ICS with their group-wide supervisor during the monitoring period, those supervisors would be expected to review the filing, and the Handbook guidance should so indicate. Ms. Weaver stated that it may also be helpful for other state insurance regulators who are involved in supervising non-U.S. based IAIGs to have some background information on the ICS so that they can understand how it is being used in other jurisdictions. Keith Bell (Travelers) stated that part of the issue here is that the ICS is currently in a monitoring period and not really a regulatory standard for anyone yet. As such, the Handbook should only address the ICS when and if it becomes a regulatory requirement for U.S.-based groups. Mr. Schrader stated that it is obvious that various interested parties have strong feelings on this topic and encouraged the Drafting Group to review and consider the comments received.

Bob Ridgeway (America's Health Insurance Plans—AHIP) provided an overview of the comment in the AHIP letter, which focused on the scope of companies that the proposed procedures could be applied to. He stated that the new guidance cites Section 7.1 of Model #440 as the authority to conduct the procedures, and that section of the act relates specifically to the group-wide supervision of IAIGs. Therefore, the law does not grant state insurance regulators to apply these measures to non-IAIG groups. Mr. Schrader stated that Section 7.1 is primarily focused on the identification of IAIGs and outlining the role of a group-wide supervisor but does highlight certain areas of group governance and risk exposures that should be assessed by the group-wide supervisor. However, Mr. Schrader said he does not interpret that to mean that these same areas cannot be reviewed for other groups, just that they are required to be reviewed for IAIGs. Ms. Belfi stated that other sections of Model #440, including Section 6 on examinations, provide broad authority to conduct procedures as deemed appropriate for all insurance holding company systems. Therefore, Ms. Belfi stated that such authority would allow such procedures to be performed on a broader range of insurers. Mr. Schrader asked NAIC staff to seek the opinion of its legal division on the regulatory authority outlined in Model #440 to conduct monitoring procedures for holding company groups and to return and report the results to the Working Group.

Mr. Broadie provided an overview of the APCIA letter and stated that it covers many of the same topics that were already discussed by the ACLI. Mr. Broadie stated that he will cover three topics from the letter that have not yet been discussed. First, he stated that APCIA members are opposed to including references to the IAIS ICPs and Application Papers within the Handbook as this could be seen as incorporating all IAIS standards by reference, which would not be appropriate for the U.S. system. Second, Mr. Broadie stated that proposed language in the Handbook appears to expect a group-wide Corporate Governance Annual Statement or Own Risk and Solvency Assessment (ORSA) Summary Report to be filed by IAIGs, which could exceed the authority granted by the existing legislation in those areas. Finally, Mr. Broadie stated that several areas in the proposed Handbook guidance appear to expect IAIGs to have group-wide processes or functions that are too prescriptive and would not allow appropriate flexibility for various types of corporate structures.

Mr. Schrader stated that the intent behind placing references to IAIS ICPs and Application Papers in the Handbook was to highlight additional background information and reference material to analysts and was not an attempt to incorporate by reference. Mr. Schrader stated that the Drafting Group should develop language to clarify the intent in this regard. Regarding the second comment, Mr. Schrader stated that it will be necessary for the supervisor to obtain information on group practices in certain areas to conduct the assessments outlined in ComFrame. As such, the Handbook guidance states that logical sources

for this information would be the Corporate Governance Annual Disclosure and the ORSA Summary Report, if they are provided at the head of the IAIG level. However, the Handbook cannot and does not require filings to be made at that level, so it will be up to the group-wide supervisor to determine the best way to obtain the necessary information. Mr. Schrader also stated that this topic will likely be addressed in more detail as drafting work moves forward on the ORSA Guidance Manual, which will be discussed later in the agenda. Regarding the third comment, Mr. Schrader stated that the Drafting Group's intent was to provide flexibility in approaches to group governance and processes, but that additional language can be considered to make expectations clearer in this regard.

Joe Zolecki (Blue Cross and Blue Shield Association—BCBSA) stated his support for the comments made in the other letters and focused his comments on the scope issue. Mr. Zolecki stated that his members would encourage the deletion of language stating that the new procedures added to the Handbook could be performed in non-IAIG group analysis. However, if the Drafting Group's intent is to prepare companies that are approaching the IAIG threshold for that additional level of regulation, then the BCBSA comment letter has some specific language recommendations to address this issue. Mr. Schrader stated that the Drafting Group would review and consider this language in developing an updated draft.

Ms. Cross stated that Iowa had no additional comments to make on their letter. Mr. Schrader thanked the Iowa Department of Insurance (DOI) for its comments and stated that the Drafting Group will consider them in developing an updated draft.

2. Received an Update on Other Drafting Efforts

Mr. Schrader stated that two other drafting groups have begun meeting to develop proposed revisions to the NAIC's *Financial Condition Examiners Handbook* and ORSA Guidance Manual to incorporate ComFrame elements as deemed appropriate for the U.S. system of insurance regulation. Mr. Schrader stated that the intent of the Working Group will be to adopt the proposed ComFrame revisions to all three NAIC publications together as a package later this year once they have all been fully developed and vetted.

3. Discussed IAIS Consultation

Mr. Schrader stated the IAIS has released a revised *Application Paper on Supervisory Colleges* for public consultation. Feedback on this Application Paper is due to the IAIS by Aug. 24. This paper has been updated to reflect subsequent developments of IAIS supervisory materials, in particular revisions to ICP 3 (Information Sharing and Confidentiality Requirements) and ICP 25 (Supervisory Cooperation and Coordination), and the adoption of ComFrame.

Mr. Schrader encouraged Working Group members to review the revised Application Paper and provide comments to the International Insurance Relations (G) Committee for submission to the IAIS. Interested parties were also encouraged to review the revised Application Paper and submit their own comments to the IAIS.

Having no further business, the Group Solvency Issues (E) Working Group adjourned.

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Financial Analysis Handbook ComFrame Exposure - Comment Matrix

Commenter	#	Topic	How Addressed	FAH Reference
ACLI	1	Scope - Application of procedures to non-IAIGs	Drafting group worked with some interested parties (i.e. AHIP & BCBSA) to develop updated language indicating that similar procedures could be applicable to Non-IAIGs, but only in limited circumstances and only as a result of a risk-based and proportionate approach. Also added reference to Model #440 Section 6 authority, as well as language stating that regulators should not exceed their legal authority in conducting additional procedures. NAIC legal reviewed and approved the updated language.	VI-A Page 1
ACLI	1a	Scope - Regulator discretion in IAIG determination.	Drafting group updated language to state that the designation of an IAIG for a group that does not meet the full criteria would only be appropriate in limited circumstances and should only be undertaken if permitted under state law.	VI-B Page 1
ACLI	2	Scope and Head of IAIG guidance not covered in Model and should therefore not be in FAH	Drafting group prefers to keep guidance on determining the Scope and Head of the IAIG in the proposed FAH revisions as Model #440 authority extends to the Ultimate Controlling Person and includes all entities under common control. As such, the guidance to designate a Head of the IAIG wtihin that structure does not exceed existing authority and would only serve to narrow the focus of IAIG monitoring to a subgroup under the UCP if deemed appropriate.	No change See VI-B Pages 4-5
ACLI	3	Enable appropriate supervisor discretion and flexibility	Drafting group incorporated the suggested new paragraph on flexibility and an outcomes oriented approach.	VI-A Page 1
ACLI	3a	Enable appropriate supervisor discretion and flexibility	Drafting group incorporated the suggested wording to the discussion of "Other Responsibilities"	VI-B Page 6
ACLI	3b	Enable appropriate supervisor discretion and flexibility	Drafting group incorporated the suggested wording to the referenced paragraph	VI-B Page 7
ACLI	4	Limit ComFrame guidance to groups where U.S. is the GWS	The introductory section is intended to make it clear that the IAIG guidance only applies to groups where U.S. is the GWS and that the procedures are to be conducted by the GWS. However, to clarify further, the drafting group added "U.S. Based" in the headings of areas where specific IAIG procedures are outlined as recommended in the letter.	VI-C Page 22 VI-D Page 4 VI-E Page 12 VI-F Page 8 VI-J Page 18
ACLI	5	Eliminate references to the ICS	Drafting group did not agree with the recommendation to eliminate all references to the ICS, as it feels some background information on ICS can be beneficial to IAIG financial analysts. However, the drafting group did incorporate updates to the guidance to clarify that the focus of group capital review should be on GCC and ORSA information and that consideration of IAIS filings (i.e. Aggregation Method and/or ICS) should be for purposes of communication with other jurisdictions in supervisory college discussions.	VI-C Page 23 & 26 VI-J Page 19
ACLI	6	Ensure an outcomes based approach to group reviews	Drafting group incorporated all recommended language modifications, other than those indicating that multiple ORSA reports should continue to be acceptable for an IAIG and those that would eliminate references to "macroeconomic stresses" being addressed in ORSA. The drafting group notes that both of these issues will be addressed by the ORSA drafting group as it considers Guidance Manual changes and will await the results of that work before updating the language in the FAH on these topics.	VI-B Page 8 VI-B Page 9 VI-C Pages 24-27 VI-F Pages 8-9
ACLI	7	Clarify discretion and authority over Sup Colleges	Drafting group incorporated all suggested language changes.	VI-B Page 11 VI-J Pages 19-20
ACLI	8	Right size the work around fungibility and CG	Draftnig group incorporated all fungibility edits	VI-C Page 23
ACLI	8a	Right size the work around fungibility and CG	Drafting group incorporated all corporate governance edits, other than retaining one element of the first bullet due to the importance of the Head of the IAIG setting the "tone at the top"	VI-D Page 5
ACLI	9	Eliminate references to IAIG application papers	Retained references, but added clarifying language indicating that they're only used for background information and best practices. Also stated in the first reference (page 3) that they are not deemed authoritative if they are not directly incorporated into the chapter.	VI-J Pages 2-3 VI-J Pages 19-20
AHIP	1	Scope - Application of procedures to non-IAIGs	See discussion of ACLI comment 1 above	VI-A Page 1
APCIA	1	References to ComFrame and ICPs	Drafting group updated language throughout to indicate that ICPs and Application Papers are only referenced for background information and best practice purposes and are not authoritative. Also removed certain ComFrame references as deemed appropriate throughout.	Various See VI-B Page 4 for example
APCIA	2	Corresponding guidance in FCEH	As indicated on the last call, the Working Group's plan is to wait to finalize the FAH revisions until corresponding FCEH and ORSA Guidance Manual revisions are complete so that cross-references can be updated and work compared for consistency	N/A
APCIA	3	Integrated approach to IAIG Staffing	Drafting group noted that certain states are already employing a customized approach to IAIG staffing and have seen benefits in doing so. As such, the drafting group felt that the concept should be kept in the FAH, but softened and broadened to note that their could be other ways to customize IAIG surveillance staffing to match the nature and complexity of these groups.	VI-A Page 8

Commenter	#	Topic	How Addressed	FAH Reference
APCIA	4	Expanding regulatory authority through FAH - CGAD	Drafting group modified the language to indicate that information "similar to" what is provided in a CGAD might be needed to assess governance practices at the head of the IAIG level. However, the guidance leaves it up to the discretion of the GWS to determine what additional information (if any) is necessary to complete an assessment at this level. The drafting group notes that the authority provided in Section 7.1 of Model #440 allows for additional reporting to be required at the group level as deemed necessary to fulfill the role of GWS.	VI-D Page 2 VI-E Page 12
APCIA	4a	Expanding regulatory authority through FAH - ORSA	As noted above, the draftin group discussed the fact that a separate ORSA drafting group will be discussing ComFrame implementation efforts relevant to the ORSA Summary Report and Guidance Manual. As such, this drafting group will await the results of that work before updating the language in the FAH on this topic.	VI-B Page 9 VI-E Page 12
APCIA	5	Coordinated exams of IAIGs	The drafting group's intent in using "coordinated group exam" throughout was to stress the importance of coordination of U.S. domestic states in conducting group exams, not to create an expectation that IAIG exams should regularly coordinate with and involve international supervisors. However, the drafting group understands how this could cause confusion and have therefore updated language to remove "coordinated" in references to exam work and add "in certain circumstances" to caveat the frequency of expected coordination with international supervisors in exam activities.	VI-B Page 10 VI-C Pages 23-25
APCIA	6	Eliminate references to the ICS	See response to ACLI comment 5 above	VI-C Page 23 & 26 VI-J Page 19
APCIA	7	Internal control-related matters	Drafting group removed direct reference to ComFrame, as recommended. In regards to the other comments , the analyst is expected to defer to exam assessments of control functions, in accordance with existing functional responsibilities. The Exam drafting group is expected to develop guidance in this area and determine how reliance on existing regulatory requirements (i.e., SOX or MAR) should be incorporated into the process. As such, this drafting group will await the results of that work before updating the language in the FAH on this topic.	VI-C Page 23
APCIA	8	Group-wide controls	The drafting group incorporated the suggested language on different models of governance. In addition, the drafting group removed references to "group-wide" functions throughout the guidance to allow the analyst more flexibility in determining whether the nature, extent and level of processes are sufficient in light of the group structure and risks.	VI-A Pages 1-2 VI-C Pages 23-27
APCIA	9	Responsibilities of states	The drafting group notes that the existing guidance makes it clear that IAIG procedures added to FAH are for use by the group-wide supervisor. Additional references were added throughout the guidance to clarify that IAIG procedures are to be conducted by the GWS for "U.S. based groups", as discussed under ACLI comment 4 above. No additional changes deemed necessary.	See VI-A Page 1 and Various Other References
APCIA	10	Information sharing portal	The drafting group retained the concept of an information sharing portal in the FAH as such a tool is being used by multiple states and is generally more secure than email exchange, but added new language to stress the importance of controls and confidentiality protections in establishing information sharing portals.	VI-J Page 10
BCBSA	1	Scope - Application of procedures to non-IAIGs	See discussion of ACLI comment 1 above	VI-A Page 1
Iowa	1	Capitalization of lead state	The drafting group attempted to identify and correct all capitalization issues throughout (i.e., lead state, group-wide supervisor, etc.). However, the final version will be subject to third party formatting and grammar review prior to publication.	Various
Iowa	2 & 3	Group ORSA language	The drafting group notes that the referenced language is taken directly from the ORSA Guidance Manual. The drafting group proposed some minor edits to clarify expectations, but will need the ORSA drafting group to review and agree so that the language between the two publications can be consistent.	VI-B Page 9
Iowa	4	Overseeing supervisory colleges	The drafting group decided to remove the sentence in question as it is confusting and doesn't appear to provide value to the FAH.	VI-B Page 11
Iowa	5-7	References to ComFrame, ICPs and Application Papers	See discussion of ACLI comment 9 and APCIA comment 1 above. The drafting group updated language to clearly state that references are for background information and best practice suggestions only and not authoritative.	Various

Introduction

The framework for group-wide supervision within the state-based system of regulation is set forth in the *Insurance Holding Company System Regulatory Act* (#440), the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450), the *Model Law on Examinations* (#390) and other NAIC tools. These NAIC models and tools, along with individual state laws and regulations establish the guidance for the analysis of insurance holding company systems. This includes a risk-focused approach to group ~~regulation~~ supervision where specific risks that are germane to most insurance holding company structures are addressed directly through regulation, while other more broad-based risks are addressed in the supervision review process.

Throughout this document, the term "regulation" is used to describe statutory provisions required under state laws, state regulations, or similar requirements. Also throughout this document, the term "supervision" and "supervisory process" is used to describe the process(es) of monitoring the financial condition of the insurance group, or what is commonly referred to as the analysis process/function or examination process/function. This terminology is used to help clarify those risks addressed through statute or regulation versus those risks addressed through supervision. ~~This distinction is also made because in other countries, it is not uncommon for the "regulations" to be established by policymakers that are not "day-to-day" supervisors that monitor the financial condition of the insurer and insurance group. In the U.S., the state insurance departments draft proposed legislation and are responsible for "day-to-day" supervision.~~

State insurance regulators believe that group-wide supervision is key to helping fulfill the regulatory mission cited in the *United States Insurance Solvency Framework* (U.S. Solvency Framework), which states: "To protect the interests of the policyholder and those who rely on the insurance coverage provided to the policyholder first and foremost, while also facilitating an effective and efficient market place for insurance products." The state-based system uses both regulation and supervision to fulfill this regulatory mission, but is focused more on the supervision process for group-wide supervision as that lends itself to a more balanced approach between free markets and solvency protection. The supervision review process is flexible as to the nature, scale and complexity of the risks presented to the group. Plus, the supervision review process is flexible in dealing with risk exposure, risk concentration and the interrelationships of risks among entities within the group. However, there are situations where specific statutory authority and regulations are deemed more appropriate.

IAIG: For internationally active insurance groups (IAIGs) where a state insurance regulator is acting as the group-wide supervisor (see VI.B for criteria and definitions), it may be necessary to address additional areas regarding group-wide activities and risks. Such areas are ~~outlined in~~largely consistent with the International Association of Insurance Supervisors' (IAIS) *Common Framework for the Supervision of Internationally Active Insurance Groups* (ComFrame) and have been incorporated throughout this chapter as deemed appropriate by state insurance regulators. While such considerations and procedures are applicable to insurance groups identified as IAIGs (see state adoption of Model #440 Section 7.1), ~~they~~similar procedures applicable under the state's adoption of Model #440 Section 6 may also be appropriate for use in the supervision of other large insurance groups that do not ~~yet~~ meet the IAIG criteria. ~~As such, analysts should use judgment in determining whether the IAIG considerations and procedures should be applied to a broader range of insurance groups~~ In assessing any such application, analysts must not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group.

Likewise, because ComFrame is to be applied flexibly and proportionately, not every additional area of IAIG supervision will apply to each IAIG or will apply in the same way or to the same extent. Group-wide supervisors have the flexibility to tailor implementation of supervisory requirements and application of insurance supervision. ComFrame is not a one-size-fits-all approach to IAIG supervision as the goal is to achieve the outcomes set forth in ComFrame. IAIGs have different models of governance (e.g., more centralized, or more decentralized). ComFrame does not favor any particular governance model and is intended to apply to all models. The organization of an IAIG can be structured in various ways as long as the outcomes are achieved. Proportionate application, which is called for in IAIS guidance, involves using a variety of supervisory techniques

and practices tailored to the insurer. The techniques and practices applied should not go beyond what is necessary in order to achieve the intended outcomes of the IAIS' Insurance Core Principles and ComFrame.

The following are excerpts from the NAIC models that help set forth the authority for the group-wide supervision framework.

Authority Related to the Supervision Review Process

Supervision review Model #440: (bolding and underlining used for emphasis).

Section 6. Examination

A. Power of Commissioner…the commissioner shall have the **power to examine any insurer registered under Section 4 and its affiliates to ascertain the financial condition of the insurer,** including the enterprise risk to the insurer by the ultimate controlling party, or by any entity or combination of entities within the insurance holding company system, or by the insurance holding company system on a consolidated basis.

Section 1. Definitions

F. "Enterprise Risk." "Enterprise risk" shall mean any activity, circumstance, event or series of events involving one or more affiliates of an insurer that, if not remedied promptly, **is likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole,** including, but not limited to, anything that would cause the insurer's Risk-Based Capital to fall into company action level as set forth in [insert cross reference to appropriate section of Risk-Based Capital (RBC) Model Act] or would cause the insurer to be in hazardous financial condition [insert cross reference to appropriate section of Model Regulation to define standards and commissioner's authority over companies deemed to be in hazardous financial condition].

Section 7.1. Group-wide Supervision of Internationally Active Insurance Groups

A. If the commissioner is the group-wide supervisor for an internationally active insurance group, **the commissioner is authorized to engage in any of the following group-wide supervision activities**:

(1) Assess the enterprise risks within the internationally active insurance group to ensure that:

(a) The material financial condition and liquidity risks to the members of the internationally active insurance group that are engaged in the business of insurance are identified by management, and

(b) Reasonable and effective mitigation measures are in place;

(2) **Request, from any member of an internationally active insurance group subject to the commissioner's supervision, information necessary and appropriate to assess enterprise risk**, including, but not limited to, information about the members of the internationally active insurance group regarding:

(a) Governance, risk assessment and management,

(b) Capital adequacy, and

(c) Material intercompany transactions;

(3) Coordinate and, through the authority of the regulatory officials of the jurisdictions where members of the internationally active insurance group are domiciled, **compel development and implementation of reasonable measures designed to ensure that the internationally active insurance group is able to timely recognize and mitigate enterprise risks** to members of such internationally active insurance group that are engaged in the business of insurance;

(4) Communicate with other state, federal and international regulatory agencies for members within the internationally active insurance group and share relevant information subject to the confidentiality provisions of Section 8, through supervisory colleges as set forth in Section 7 or otherwise;

(5) Enter into agreements with or obtain documentation from any insurer registered under Section 4, any member of the internationally active insurance group, and any other state, federal and international regulatory agencies for members of the internationally active insurance group, providing the basis for or otherwise clarifying the commissioner's role as group-wide supervisor, including provisions for resolving disputes with other regulatory officials. Such agreements or documentation shall not serve as evidence in any proceeding that any insurer or person within an insurance holding company system not domiciled or incorporated in this state is doing business in this state or is otherwise subject to jurisdiction in this state; and

(6) Other group-wide supervision activities, consistent with the authorities and purposes enumerated above, as considered necessary by the commissioner.

Model #390:

Section 1. Purpose

…The purpose of this Act is to provide an effective and efficient system for examining the activities, operations, financial condition and affairs of all persons transacting the business of insurance in this state and all persons otherwise subject to the jurisdiction of the commissioner. **The provisions of the Act are intended to enable the commissioner to adopt a flexible system of examinations** that directs resources as may be deemed appropriate and necessary for the administration of the insurance and insurance related laws of this state.

Section 3. Authority, Scope and Scheduling of Examinations

A. The commissioner or any of the commissioner's examiners **may conduct an examination under this Act of any company as often as the commissioner in his or her sole discretion deems appropriate…**

Scope of Group Regulation

The Model #440 defines the scope of group-wide regulation ~~in the states~~ through various means including defining specific important terms such as the insurance holding company system, an affiliate, and control. These are important terms as they are used to define the scope of the group being the ultimate controlling person or entity, and all of its direct and indirectly controlled subsidiaries, and therefore subject to the requirements of the Model #440~~, which is in turn subject to group-wide supervision~~. It is important to note that these definitions also consider the extent to which there is either direct or indirect participation in the group, influence and contractual obligations that suggest there is control or influence over the group. Consequently, group-wide regulation and supervision includes all insurers, all operating and non-operating holding companies, non-regulated entities and special-purpose entities. It also includes other regulated entities such as banks, utilities or securities companies. In all cases, the lead state would need to understand all such entities and the risks that such entities pose to the insurer or group as a whole. However, with respect to the other regulated entities, Section VI.C. – Insurance Holding Company System Analysis Guidance (Lead State) of this Handbook discusses that the lead state's role is to establish a plan for communicating and coordinating with ~~the functional~~other regulators as well as other supervisors (e.g., international insurance regulators), if significant events, material concerns, adverse financial condition or prospective risks are identified.

Multi-Jurisdictional/Functional Cooperation

The scope of group-wide regulation under Model #440 is clearly meant to apply to all entities within the controlled group; it also makes an equally important distinction regarding authority. Under the U.S. group supervision approach, the lead state is responsible for understanding all the risks posed by the regulated and non-regulated entities within the group, but it does not have authority over the other regulated entities within the group. For many years, state insurance regulators have developed different methods of cooperating with each other in an effort to maximize the effectiveness of regulation while respecting the authority that each state has to protect the policyholders in their state. The states have worked together in a multitude of ways to provide these benefits. One of the best examples of cooperation is state participation in the NAIC's Financial

Analysis (E) Working Group (commonly referred to as "FAWG"). The Working Group's primary role is to identify insurance companies and groups of national significance that are, or may be, financially troubled, and determine whether appropriate regulatory action is being taken, and if not, what action should be taken. This group of state regulators meets and holds conference calls throughout the year. This peer review process is an essential part of the state-based system of insurance regulation in that it reinforces the communication and cooperation that is necessary to regulate insurers and insurance groups.

IAIG: In addition, Model #440 provides definitions for Internationally Active Insurance Group (IAIG) and group-wide supervisor, which allow state insurance regulators to fulfill roles ~~outlined in~~consistent with ComFrame for cooperation across international jurisdictions in supervising IAIGs. See additional information in VI.B.

Supervision Review Process (Risk-focused Financial Surveillance Process)

States use specific procedures in carrying out the risk-focused financial surveillance process. Many of these procedures are focused on monitoring of the insurance legal entity and group. The legal entity regulation is performed in order to have a bottom-up view of the group, whereas the holding company analysis uses the top down approach. The NAIC has developed procedures for carrying out the risk-focused surveillance process, and such procedures are documented in this Handbook and in the Financial Condition Examiners Handbook. The following summarizes some of these requirements. For more specific information, see Section VI.B Roles and Responsibilities of the Group-Wide Supervisor/Lead State of this Handbook.

Communication: All domestic states are ~~expected~~ encouraged to communicate any significant findings or concerns they have up to the lead state for consideration in the comprehensive holding company analysis. In addition, lead states of IAIGs are expected to communicate any significant findings or concerns to the group-wide supervisor (if different than the lead state) through the use of supervisory colleges, crisis management groups or other means necessary to address any enterprise-wide concerns that arise. Domestic and lead states should not take regulatory action or place sanctions on an insurance legal entity or key individual within a broader holding-company system without first communicating with the lead state and/or group-wide supervisor.

~~The NAIC has developed procedures for carrying out the risk-focused surveillance process, and such procedures are documented in this Handbook and in the *Financial Condition Examiners Handbook*. The following summarizes some of these requirements. For more specific information, see Section VI.B Roles and Responsibilities of the Group-Wide Supervisor/Lead State of this Handbook.~~

Financial Analysis Handbook and Role of the Analyst

As part of the risk-focused surveillance approach, the financial analyst role is to provide continuous off-site monitoring of a group's financial condition, monitor internal/external changes relating to all aspects of the insurer and work with examination staff to review specific risks through an on-site examination. The holding company analysis procedures are designed to determine what risks exist at the holding company. Every holding company system is reviewed in order to derive an overall assessment that highlights areas where a more detailed analysis may be necessary. The procedures are intended to be used at the discretion of analysts depending upon the sophistication, complexity and overall financial position of the holding company system, as well as the degree of interdependence and interconnectivity within the holding company system. Also, consistent with the risk-focused surveillance approach, analysts should have a firm understanding of the following branded risk categories for each group:

- **Credit (CR)—**Amounts actually collected or collectible are less than those contractually due or payments are not remitted on a timely basis.
- **Legal (LG)—**Non-conformance with laws, rules, regulations, prescribed practices or ethical standards in any jurisdiction in which the entity operates will result in a disruption in business and financial loss.

- **Liquidity (LQ)—**Inability to meet contractual obligations as they become due because of an inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.
- **Market (MK)—**Movement in market rates or prices, such as interest rates, foreign exchange rates or equity prices adversely affects the reported and/or market value of investments.
- **Operational (OP)—**The risk of financial loss resulting from inadequate or failed internal processes, personnel and systems, as well as unforeseen external events.
- **Pricing/Underwriting (PR/UW)—**Pricing and underwriting practices are inadequate to provide for risks assumed.
- **Reputational (RP)—**Negative publicity, whether true or not, causes a decline in the customer base, costly litigation and/or revenue reductions.
- **Reserving (RV)—**Actual losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.
- **Strategic (ST)—**Inability to implement appropriate business plans, to make decisions, to allocate resources or to adapt to changes in the business environment will adversely affect competitive position and financial condition.

Analysts should also consider any prospective risk to the group. A prospective risk is a residual risk that affects future operations or conditions for the group. These prospective risks ~~arise due to~~can be identified through assessments of company management and/or operations or risks associated with future business plans. Common types of such risks for insurers may include~~,~~ underwriting strategy, investment~~s~~ strategy, ~~claims,~~ and reinsurance strategy and diversification/concentration. However, other risks from non-insurers can also include off-balance sheet exposures and other risks driven by the business model of that non-insurer. The analyst's understanding of the above nine risk classifications includes an assessment of the level of that risk and the ability of the entity to appropriately manage the risk during the current period and prospectively. The assessment of these nine risk classifications both currently and prospectively should be part of the quantitative and qualitative analysis completed within the holding company analysis. ~~All groups have prospective risks. The *Financial Condition Examiners Handbook* provides guidance on prospective risks within Section 3—Examination Repositories.~~

The overall risk-focused surveillance process requires a significant amount of communication and coordination between the analysis and examination function to be effective. Analysts should identify and document all material current and prospective solvency risks and communicate those risks to the respective examiners for periodic onsite inspection.

Communication across functions is also discussed in more detail below (see Coordination in Risk-Focused Surveillance), as well as in Section I.A Department Organization and Communication of this Handbook.

At the conclusion of the basic holding company analysis performed on all groups, the lead state is required to document an overall summary and conclusion regarding the financial condition of the group, including its strengths and weaknesses and any risks identified. This summary and conclusion should be provided in the Group Profile Summary (GPS) that is maintained and updated on a regular basis. See the VI.B. for discussion of the GPS.

Financial Examination Assessment

Communication and/or coordination with other regulators are crucial when considering the financial condition of a group. There are various risks that the lead state may want to examine more closely through an on-site examination. The most common of such risks, or potential risk mitigators, is that which is derived from the group's governance and risk management practices. Both of these are reviewed during a full-scope examination. This information is then communicated and shared with analysts, the lead state and other regulators as

necessary. The lead state should also consider whether these areas, or components of each, should be examined more periodically. There may be several other areas where the lead state may want to consider a targeted exam with respect to the group. In considering such a targeted review, it is important to consider both the flexibility envisioned within the Model #390 for such reviews, as well as the work conducted during a full-scope examination.

The fundamental purposes of a full-scope financial condition examination report are: 1) to assess the financial condition of the company; and 2) to set forth findings of fact (together with citations of pertinent laws, regulations and rules) with regard to any material adverse findings disclosed by the examination. The report on examination is structured and written to communicate to regulatory officials' examination findings of regulatory importance. Management letter comments are considered to be examination work papers and can be used to present results and observations noted during the examination. As it relates to groups, most of the examination work completed on a group basis is not expected to result in a report of examination, but rather is intended to communicate any concerns noted ~~with respect to the limited area of focus within the limited scope examination~~internally. In most cases, the work completed will merely inform analysts and other state regulators as it pertains to a particular area. However, to the extent the examiner witnesses practices that are noteworthy, and for which there is a need to pursue a change in such practices, a management letter may be produced. Such a management letter provides an opportunity to alert management that, if left uncorrected could ultimately lead to financial concerns.

Management letter comments generally contain the following information:

- A concise statement of the problem found
- The factors that caused or created the problem
- The materiality of the problem and its effect or potential effect on the financial statements
- The financial condition of the group
- The examiner's recommendation to the group regarding what should be done to correct the problem.

The effectiveness of the financial examination process is enhanced if effective follow-up procedures have been established by the lead state. Periodically, after a financial examination report or management letter comment has been issued, inquiries should be made to the group to determine the extent to which corrective actions have been taken on report recommendations and findings. Because the examiners have usually moved on to another examination, many states use the financial analysts to perform this function. A lack of satisfactory corrective action by the group may be cause for further action.

The concept of risk in the risk-focused examination encompasses not only risk as of the examination date, but risks that extend or commence during the time in which the examination was conducted, and risks that are anticipated to arise or extend past the point of completion of the examination.

The risk-focused examination anticipates that risk assessment may extend through all seven phases of the examination.

- **Phase 1** – Understand the Company and Identify Key Functional Activities to be reviewed—This involves researching key business processes and business units.
- **Phase 2** – Identify and Assess Inherent Risk in Activities—These risks include credit, market, pricing/underwriting, reserving, liquidity, operational, legal, strategic and reputational.
- **Phase 3** – Identify and Evaluate Risk Mitigation Strategies/Controls—These strategies/controls include management oversight, policies and procedures, risk measurement, control monitoring, and compliance with laws.
- **Phase 4** – Determine Residual Risk—Once this risk is determined, the examiner can determine where to focus resources most effectively.

- **Phase 5** – Establish/Conduct Detail Examination Procedures—Upon completion of risk assessment, determine nature and extent of detail examination procedures to be performed.
- **Phase 6** – Update Prioritization and Supervisory Plan—Incorporate the material findings of the risk assessment and examination in the determination of the prioritization and supervisory plan.
- **Phase 7** – Draft Examination Report and Management Letter—Incorporate into the examination report and management letter the results and observations noted during the examination.

The goals of the risk-focused examinations can also apply to group-wide supervision and are as follows:

- Assessing the quality and reliability of corporate governance to identify, assess and manage the risk environment facing the insurer in order to identify current or prospective solvency risk areas. By understanding the corporate governance structure and assessing the "tone at the top," the examiner will obtain information on the quality of guidance and oversight provided by the board of directors and the effectiveness of management, including the code of conduct established in cooperation with the board.
- Assessing the risks that a company's surplus is materially misstated.

The procedures above are performed for purposes of completing a full-scope examination on an insurance legal entity. However, procedures related to governance and risk management ~~are~~ can be performed at the group level when appropriate (See Section VI.B. for further discussion). In addition, for all other procedures, the states coordinate the examination of multiple insurance legal entities wherever possible. This typically involves identifying the systems that are common among members of the insurance group and only subjecting those common systems to one examination. This requires coordination among all domestic states and then further coordination in actually testing the particular system so that all domestic states can rely upon such work for their legal entity examinations.

Communication between analysts and examiners in preparation of an examination should include a thorough discussion of key risks, current and prospective. This communication and coordination may be best accomplished not only through written documentation but through face-to-face interaction. For example, the examiners and analysts ~~could~~ should meet for pre-examination planning, conduct follow-up meetings/calls to discuss analysis of subsequent filings and finally meet at the end of the examination whereby examiners can communicate examination findings to analysts that in turn may help analysts focus on their next review.

IAIG: In addition to the general governance and risk management considerations and the targeted procedures related to specific concerns incorporated into financial examinations, there are additional considerations highlighted in ComFrame that may be appropriate for incorporation into ongoing IAIG financial exams led by the group-wide supervisor. These considerations generally relate to ComFrame elements that are more effectively evaluated through on-site examination activities, such as the effectiveness of corporate governance, risk management and internal control frameworks in place at the ~~H~~head of the IAIG. For more information on IAIG examination considerations, please see section XXX of the NAIC's *Financial Condition Examiners Handbook*.

Coordination in Risk-Focused Surveillance

Most, but not all state insurance departments follow a staffing model whereby separate units are responsible for off-site financial analysis and on-site financial examination activities. Such a staffing model can lead to challenges in supervising insurance groups, if state departments do not emphasize the importance of communication and coordination across units. In some cases, financial examination activities are outsourced to third parties, which can lead to additional complications. To encourage effective coordination and communication across units, state insurance departments use the common language of branded risk classifications (see discussion above) to identify and assess insurance company risk exposures and incorporate this language into meetings and reports shared across units (i.e., GPS, ORSA Lead State Summary, Exam Summary Review Memorandum). In addition, formal meetings and ongoing communication between the two units (if separate) are required during the planning, fieldwork and wrap-up stages of each financial examination

to ensure effective coordination. Similar requirements are also in place to promote communication and coordination between analysis/examination staff and any subject matter experts (i.e., actuaries, investment specialists, IT specialists, reinsurance specialists) that are supporting financial surveillance efforts.

IAIG: Given the level of complexity of many IAIGs and the critical need to ensure effective coordination in supervision, state insurance departments are encouraged to consider the benefits of ~~a more integrated approach~~customized approaches to financial surveillance staffing for IAIGs. For example, ~~I~~in some jurisdictions, both domestically and internationally, group-wide supervisors ~~are moving towards~~utilize a team-based approach to IAIG supervision whereby financial analysts, financial examiners, department supervisors and specialists (internal or external) are integrated into a single unit for purposes of group supervision. Such an approach can promote the use of a more well-rounded and integrated team of supervisors with different backgrounds and skillsets in reviewing group regulatory reporting, holding periodic meetings with the group, conducting group risk assessments, performing on-site inspections of group functions and leading ongoing supervisory college sessions. However, there may be other approaches to financial surveillance staffing that can be applied to address the nature and complexity of IAIGs. As such, state insurance departments acting as group-wide supervisors for IAIGs are encouraged to consider the benefits of more customized approaches ~~moving towards a team-based, integrated approach~~ to staffing in this area.

Other Holding Company Specific Risks Addressed Directly in Regulation

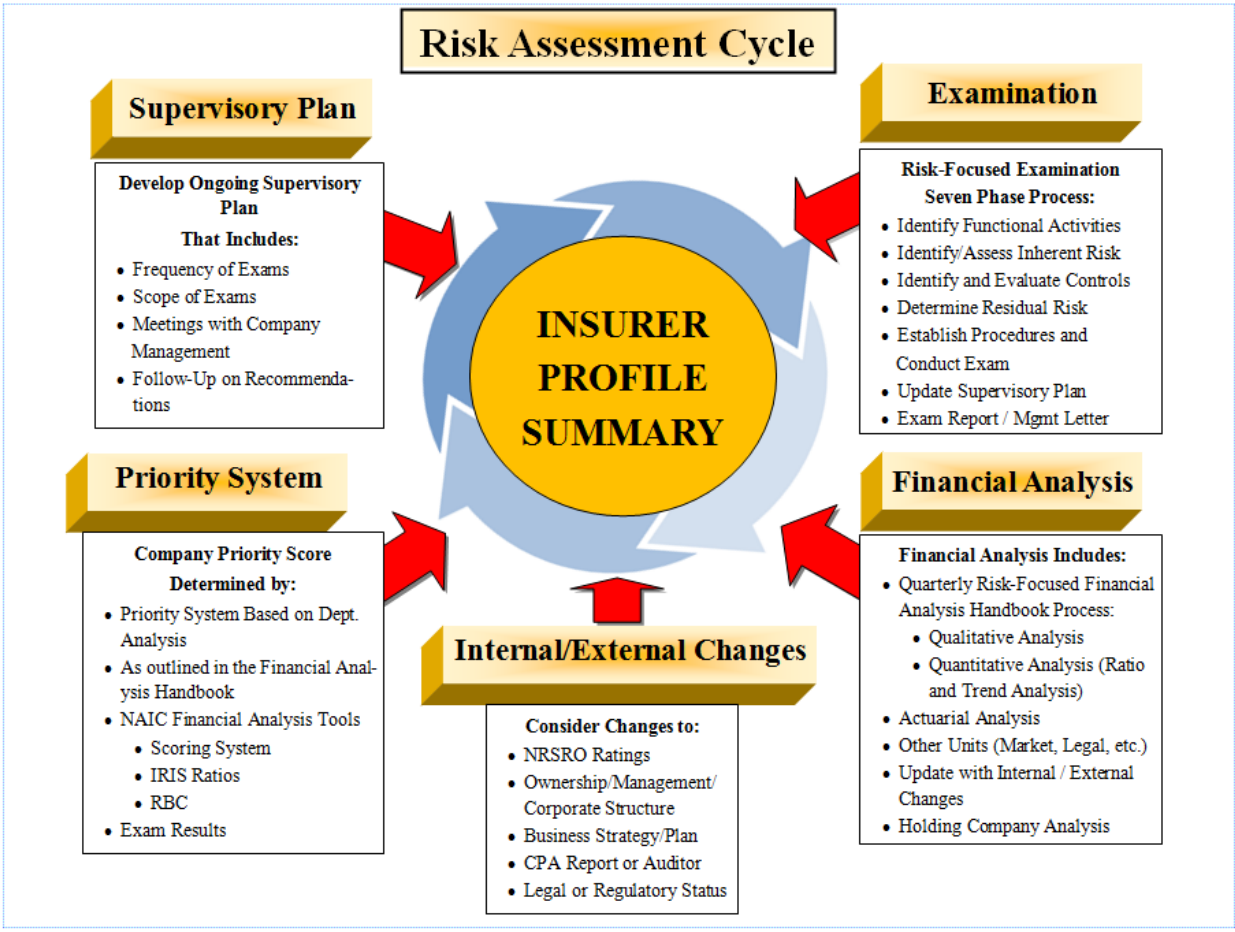
State insurance regulators have consistently reviewed and monitored groups through the Form B, Form D required filings, required dividend distributions and Form A acquisition. Insurers are required to submit Form D filings for management agreements, service contracts, tax allocation agreements, guarantees, loans and all cost-sharing arrangements. All such contracts must be submitted for regulatory approval to avoid the possibility of management moving cash out of the regulated entity, which is a risk that the business model for the insurance industry is susceptible to. It also includes reinsurance agreements, where there are similar opportunities and where there must be a regulatory review of such agreements to ascertain that risk transfer has occurred within the contract. The fact is that intragroup transactions and exposures are subject to potential abuse and state insurance regulators have addressed these risks directly in this way. Also, subject to review under Model #440 are "extraordinary dividends" and change in control, since again these transactions have the potential to pose risk to the insurance group and the insurer and its policyholders.

Lead State Summary

The Lead State Summary Report is located in iSite+, within Summary Reports, and provides a listing of all insurance groups and the companies within each group. The purpose of the report is to improve communication between regulators regarding group examinations. It can be sorted on a particular group code or group name to determine the lead state for that group or by state to view all of the insurance groups for which that state is the lead. The report also contains contact information for the department's analyst and chief analyst for a particular insurance group and other information such as premiums, assets and latest exam information. States should actively update its contact information throughout the year as changes occur.

Within the Lead State Summary Report the user can view the Domestic Report, which displays each group that includes an insurer domiciled in the state selected by the user. The Consolidated Domicile Data report displays consolidated data (direct and gross premiums written and percentage distribution and net admitted assets) by state within each group. For more information on the lead state refer to VI.B.

The following diagram illustrates the risk assessment cycle:



Introduction and Overview

The previous section introduced the U.S. group supervision framework. This included references to the NAIC model laws, including respective state laws and regulations that help set forth the framework, followed by a discussion of the supervision review process. As previously discussed, in the U.S., the supervisory review process consists primarily of off-site and on-site monitoring activities. This section will discuss the roles and responsibilities of the group-wide supervisor/lead state.

For purpose of this Handbook, the terms "group-wide supervisor" and "lead state" are used somewhat interchangeable, but with greater use of the term lead state. This is due to the fact that the states have used the term lead state for years, however there are some instances where both would exist, and therefore it is important to understand that distinction. The lead state is generally considered to be the one state that "takes the lead" with respect to conducting group-wide supervision within the U.S. solvency system. The concept of the lead state and determining the lead state is discussed more in the following section. A U.S.-based company that only conducts business in the U.S., unless the group also has banking or similar functions, would result in the lead state being the group-wide supervisor. In the case of an international-based company, the group-wide supervisor would typically be a foreign-based regulator. (See Section VI.J. Supervisory Colleges Guidance, regarding international supervisory colleges). Ideally, when a foreign-based group-wide supervisor is involved, the U.S. lead state regulator should be able to defer some of his or her responsibilities to the foreign-based group-wide supervisor. However, it is possible that the U.S. lead state may not be able to obtain group-wide information from the foreign-based group-wide supervisor, and, therefore, the U.S. lead state regulator may need to complete a portion of the group-wide analysis.

Before discussing the roles and responsibilities of the lead state/group-wide supervisor further, the following is defined:

> **Group-wide supervision** – The process of promoting effective and coordinated supervision of an insurance group on a group-wide basis, including coordinating the input of insurance legal entity supervisors, as a supplement to insurance legal entity supervision.~~monitoring the financial condition of the group which implicitly includes determining, through a coordinated process with other functional regulators, the extent to which additional information is appropriate and then determining the extent to which additional action is appropriate.~~

The process for monitoring the financial condition of a group is similar to monitoring a specific insurer in that it requires the use of basic financial information, coupled with the ability to gather additional information produced by management. The information produced by the group's management that is generally considered to be the most helpful is that which is associated with managing the group's risks, or more specifically those risks that may ultimately have financial implications on the financial condition of the group, ~~or put differently,~~including prospective risks. During this supervision review process, the regulators role is to understand the various risks faced by the group and how the group is managing such risks.

One of the primary reasons for determining a lead state/group-wide supervisor is to increase the efficiencies and effectiveness of group supervision. The state-based system framework for group supervision is centered on the *Insurance Holding Company System Regulatory Act* (#440), which provides, among other things, that every domestic state within the insurance group should have the ability to evaluate the group and its potential impact on the domestic insurer. The use of a lead state or group-wide supervisor has the benefit of retaining this authority but sets up a system in which states regularly defer this authority to a key regulator. However, even if domestic regulators are not technically required to defer this authority~~ to the lead state~~, this deferral is considered a best practice that should be used in virtually all cases, with few exceptions. This has the effect of increasing efficiency and effectiveness of group regulation.

Lead State/Group-Wide Supervision Concept

The operations of an insurance company often are not limited to one state. When multiple states are involved in monitoring the activities or approving the transactions of a company or insurance holding company system, it is prudent to coordinate regulatory efforts.

These coordinated activities should include:

- The establishment of procedures to communicate information regarding troubled insurers with other state insurance departments
- The participation on joint examinations of insurers, when appropriate
- The assignment of specific regulatory tasks to respective state insurance departments and/or other jurisdictions in order to achieve efficiency and effectiveness in regulatory efforts and to share personnel resources and expertise
- In the case of troubled or potentially troubled insurance groups, ~~T~~the establishment of a task force or crisis management group consisting of personnel from various state insurance departments and/or international jurisdictions to carry out coordinated activities
- Coordination and communication of insurance holding company system analysis

If significant concerns are identified related to the IAIG's current or prospective solvency, whether due to legal entity or group-wide risks, the group-wide supervisor should determine whether additional supervisory measures as outlined in Model #440 should be implemented. Model #440 provides the group-wide supervisor the authority to obtain the information necessary and appropriate to assess enterprise risk. In addition, Model #440 provides for coordination, through the authority of the regulatory officials of the jurisdictions where members of the IAIG are domiciled, ~~the authority for the group-wide supervisor~~ to compel the development and implementation of reasonable measures designed to ensure that the IAIG is able to timely recognize and mitigate enterprise risks to members of the IAIG that are engaged in the business of insurance.

The concept of lead state/group-wide supervision is not intended to relinquish the authority of any state or jurisdiction, nor is it intended to increase any state or jurisdiction's statutory authority or to put any state or jurisdiction at a disadvantage. It is intended to facilitate efficiencies when one state coordinates the regulatory processes of all states and/or jurisdictions involved. Nevertheless, the lead state/group-wide supervisor should coordinate with non-lead states and/or other jurisdictions on all regulatory items that affect the group, or multiple legal entities contained in the group, to make it clear which state is responsible for activities and reduce regulatory duplication.

Procedures for Determining the Lead State

Insurance holding company systems with more than one U.S. insurance legal entity are deemed U.S. insurance groups and assigned NAIC group codes (see section VI.K for more information on group code assignment). For U.S. insurance groups with insurance entities domiciled in more than one U.S. state/jurisdiction, a lead state is selected to oversee the group. The ultimate decision of who should function as the lead state is up to the domestic state insurance regulators of the group where a majority of such domestic states must agree to the decision. However, in practice, it has generally occurred through a consensus decision. The determination of a lead state is affected by the following factors:

- The state with the insurer/affiliate with largest direct written premiums
- Domiciliary state/country of top-tiered insurance company in an insurance holding company system
- Physical location of the main corporate offices or largest operational offices of the group
- Knowledge in distinct areas of various business attributes and structures
- Affiliated arrangements or reinsurance agreements

- Lead state must be accredited by the NAIC

The Lead State Report is located in iSite+, within Summary Reports, and provides an up-to-date listing of all insurance groups and the companies within each group. The purpose of the report is to improve coordination and communication between regulators. The report also contains current contact information for the state's assigned insurance company analyst and the state's chief analyst which is maintained by state department staff. Within the Lead State Report the user can view the Domestic Report which displays each group that includes an insurer domiciled in the state selected by the user. The Consolidated Domicile Data Report displays consolidated data (direct and gross premiums written and percentage distribution and net admitted assets) by state within each group.

Procedures for Identifying an IAIG

U.S. based insurance holding company systems that operate internationally are designated Internationally Active Insurance Groups (IAIGs) if they meet the following criteria included in Model #440:

1. Premiums written in at least three countries;
2. The percentage of gross premiums written outside the United States is at least ten percent (10%) of the insurance holding company system's total gross written premiums; and
3. Based on a three-year rolling average, the total assets of the insurance holding company system are at least fifty billion dollars ($50,000,000,000) or the total gross written premiums of the insurance holding company system are at least ten billion dollars ($10,000,000,000).

Any involved supervisor of an insurance group operating internationally may prompt the process of identifying an IAIG. If no group-wide supervisor has been determined (see discussion on determination below), the supervisor most demonstrating the characteristics of a group-wide supervisor should lead the identification process and invite other involved supervisors to participate. The scope of an insurance group should be determined before considering whether the criteria for determining whether the group is an IAIG are met. If there is already a supervisory college for a group, it should be used to facilitate the determination as to whether the group is an IAIG.

In addition to the primary criteria for use in identifying an IAIG, although not explicitly addressed in Model #440, ~~ComFrame guidance states that~~in limited circumstances it may be appropriate for the group-wide supervisor ~~may~~to utilize discretion to determine that a group is not an IAIG even if it meets the criteria or that a group is an IAIG even if it does not meet the criteria, if permitted under state law~~, in limited circumstances~~. If discretion is used, then the reasons for exercising such discretion should be based on verifiable and documented quantitative and qualitative information. Examples of situations where it may be appropriate to determine that a group is an IAIG, even if it does not currently meet the criteria include but are not limited to:

- Growth/expansion or acquisition plans of the group
- Significant off-balance sheet assets
- Situations where a temporary event or fluctuation causes the group to fall below thresholds

Examples of situations where it may be appropriate to determine that a group is not an IAIG even though it currently meets the criteria include but are not limited to:

- Planned contraction or disposal of business
- Situations where an unusual event or fluctuation causes the group to temporarily exceed thresholds
- Situations where the group's business outside the U.S. exceeds 10% in aggregate but its business in any one foreign jurisdiction is negligible

The group-wide supervisor should regularly review its decision to determine whether the group continues to meet the criteria and invite other involved supervisors to participate in that process. At a minimum, the group-

wide supervisor should review its decision once every three years and whenever a significant change or event occurs that impacts the group.

Model #440 states that prior to issuing a determination that an internationally active insurance group is subject to group-wide supervision, the commissioner shall notify the insurer and the ultimate controlling person within the IAIG providing reasons for that decision. The IAIG shall have not less than thirty (30) days to provide the commissioner with additional information pertinent to the pending determination. The commissioner shall publish on the state's website the identity of IAIGs that the commissioner has determined are subject to group-wide supervision.

Procedures for Determining the Group-wide Supervisor

Model #440 defines group-wide supervisor as the regulatory official authorized to engage in conducting and coordinating group-wide supervision activities who is determined or acknowledged by the commissioner to have sufficient significant contacts with the internationally active insurance group. Model #440 requires a single group-wide supervisor to be identified for ~~all~~any IAIGs operating in the U.S., which could either be a state insurance regulator (most likely the lead state in the case of a U.S. based insurance groups~~)~~ or a regulatory official from another jurisdiction, based on individual facts and circumstances. The following factors are considered when making the group-wide supervisor determination:

1. The jurisdiction of domicile of the insurers within the internationally active insurance group that hold the largest share of the group's written premiums, assets or liabilities;
2. The jurisdiction of domicile of the top-tiered insurer(s) in the insurance holding company system of the internationally active insurance group;
3. The location of the executive offices or largest operational offices of the internationally active insurance group;
4. Whether another regulatory official is acting or is seeking to act as the group-wide supervisor under a regulatory system that the commissioner determines to be:
    a. Substantially similar to the system of regulation provided under the laws of this state, or
    b. Otherwise sufficient in terms of providing for group-wide supervision, enterprise risk analysis, and cooperation with other regulatory officials; and
5. Whether another regulatory official acting or seeking to act as the group-wide supervisor provides the commissioner with reasonably reciprocal recognition and cooperation.

Procedures for Identifying the Scope and Head of the IAIG

In conducting group-wide supervision of an IAIG, it is important for the group-wide supervisor to work with other involved supervisors to identify all the legal entities that are part of the insurance group.

The determination of both the scope and head of the IAIG is significant to group supervision as review procedures and risk assessments ~~performed under ComFrame~~ are conducted at this level. Therefore, the group-wide supervisor should carefully consider this guidance, as well as additional best practice considerations outlined in Insurance Core Principle 23 – Group Wide Supervision, in making determinations regarding the scope and the head of the IAIG. However, IAIS materials are not deemed authoritative and should not be viewed as official NAIC guidance if they are not directly incorporated into this chapter. ~~In addition, t~~The group-wide supervisor should provide the supervisory college with the main reasons and judgements it made when identifying the ~~H~~head of the IAIG and obtain concurrence from other college members, when possible.

To determine the scope and head of an insurance group, supervisors should:

- First identify all insurance legal entities within the corporate structure. Model #440 provides the authority to collect all information necessary to determine scope and head of the IAIG.
- Second, identify all entities which have control over those insurance legal entities, as defined in Model #440. As noted in Model #440, control is generally presumed to exist based on 10% or more ownership (direct or indirect) of voting securities but can also take operational control factors into consideration.
    - If this results in only one entity being identified with control over all the insurance legal entities, this entity is the head of the insurance group.
    - However, if there is more than one entity with control over all the insurance legal entities, supervisors should identify the head of the insurance group such as the entity which has the greatest level of control over the insurance business by considering the following factors:
        - The proportion of the insurance business relative to other businesses it controls;
        - The degree of operational control; and
        - The degree of shareholder control.

Head of IAIG vs. UCP: The ~~H~~head of the IAIG is not necessarily synonymous with the Ultimate Controlling Person of the holding company system, which is the top-tier company or individual with control over and responsibility for all entities within the holding company system that is not controlled by any other person. As holding company systems may include various business segments and intermediate holding companies, it is the responsibility of the group-wide supervisor, in consultation with other involved supervisors, to identify the entity most responsible for direct supervision of the insurance operations of the group.

Non-Insurance Legal Entities: In determining the scope and head of the IAIG, the group-wide supervisor should consider whether non-insurance legal entities within the group pose risk to the insurance operations. In making this determination, the group-wide supervisor should evaluate whether there is a linkage between the insurance operations and the noninsurance legal entity (other than an investment in or from the non-insurance legal entities) that could adversely affect the insurance operations; and a lack of adequate safeguards, including additional capital, to mitigate risks arising from any such linkages. If so, such non-insurance entities should be included within the scope of the IAIG and the group-wide supervisor should take this into consideration in identifying the head of the IAIG.

Subsidiary as Head of IAIG: Where a legal entity controls all insurance legal entities within the group and non-insurance legal entities which pose risks to the insurance operations, the group-wide supervisor has discretion to identify a subsidiary of that entity as the ~~H~~head of the IAIG if: prudential supervision is exercised by another financial sector supervisor over that entity; and the group-wide supervisor can rely on the other financial sector supervisor to provide sufficient information concerning risk that this entity and the legal entities it controls pose to the insurance operations.

Lead State or Group Wide Supervisor Roles and Responsibilities

The following identifies the roles and responsibilities, or procedures that should be performed by the lead state or group-wide supervisor as it relates to supervision of insurance groups. It also includes a short summary of the purpose of each of these duties. Most of these are further detailed in the remaining parts of this section of this Handbook.

Communication and Coordination

Two of the main responsibilities of the lead state are:

1) to establish communication with other identified states, federal regulators and international regulators, including establishing points of contact, and,
2) to determine the amount of interest in participating in the multi-jurisdictional coordination. It also includes establishing lines of communication and serving as the regulatory contact with top management of the group.

~~However, what is~~The most important role of ~~is that~~ the lead state is to act~~s~~ as a communicator of ~~such~~ group risk assessment information to other domestic states and then acts as a coordinator with the other states in determining what, if any, further action is appropriate regarding the domestic insurers in the group or the group as a whole. By serving in this role, the lead state can coordinate and add efficiency to the states' requests for group-level information. This approach helps to prevent regulatory gaps and, more importantly, efficiently detect problems earlier. In addition, this approach also helps to reduce duplication of regulatory requests with non-lead states only making additional regulatory requests of an insurer's domestic entity(ies) located in that non-lead state. Inquiries seeking group-level information or information concerning entities domiciled in another state or jurisdiction should be coordinated by, and made by, the lead state. Non-lead states should generally not pursue such inquiries directly with the group parent or indirectly through queries channeled via a domestic. To increase the effectiveness of this concept, it may be helpful for the lead state to find a means to make sure that each group for which it is the lead is aware that it is, in fact, the lead state for that group. This may include directing it to certain information or through some other communication.

Confidentiality of Information. Maintaining confidentiality of all information is of utmost importance and as such implementing confidentiality agreements with all regulators is imperative. The lead state is responsible for communicating and coordinating the procedures as to how information will be shared among each other. Verbal or written briefings that are arranged by the lead state, in conjunction with company management, have been the most effective.

Other Responsibilities. The lead state will have many procedures assigned to it, which includes determining and documenting: 1) the depth of and approach to the insurance holding company analysis; 2) the assessment of the group's governance and enterprise risk; 3) questions addressed in a periodic meeting with the group; 4) targeted examination procedures; and 5) the extent to which there are any market conduct risks.

Participating States. In addition to the importance of ~~L~~lead ~~S~~state or group-wide supervisor communication and coordination, it is also important for domestic (~~N~~non-~~L~~lead) states to communicate and coordinate effectively regarding the group. Of particular importance is that a domestic state notifies the ~~L~~lead ~~S~~state and/or group-wide supervisor prior to taking any regulatory action or placing sanctions on an insurance legal entity or key individual within a broader holding-company system. This type of proactive communication can ensure that regulators are effectively coordinating and not undermining each other's efforts in conducting group/legal entity supervision.

Holding Company Analysis and the Group Profile Summary (GPS)

NAIC Model #440, which has been adopted by all the states, establishes the platform for holding company analysis. One of the most important aspects of the holding company analysis is the requirement for the lead state to understand the entire insurance holding company system. As previously noted, the holding company system includes the ultimate controlling person or entity, as well as all of its direct and indirectly controlled subsidiaries. There are various things that must be considered in gaining this understanding, including documenting the nature and function of all non-insurance legal entities within the holding company system. The primary purpose of gaining such an understanding is determining the risks and risk concentrations that each entity may pose to the insurer and the group as a whole.

Another important aspect of the holding company analysis is the analysis of the financial condition of the insurance holding company system. This specifically includes evaluating and assessing how four different areas

i.e., profitability, leverage, liquidity and overall financial condition - impact its exposure to the nine branded risk classifications. Although much of this analysis can be driven by aggregating risks identified in the legal entity analysis (including a review of the Insurer Profile Summary (IPS)) and by reviewing the group's financial statements submitted as part of the registration statement or filed with the U.S. Securities and Exchange Commission (SEC), the analysis may also require further discussion with management of the group. See Section VI.H. – Periodic Meeting with the Group Procedures for further guidance.

Completing the holding company analysis as detailed in Section VI.C. Insurance Holding Company System Analysis Guidance (Lead State) is one of the roles of the lead state. This analysis is intended to be completed by the lead state only. However, as discussed elsewhere in this Handbook, all domestic states are responsible for documenting the impact that the holding company group could have on the domestic insurer, which requires a basic level of understanding of the group's risks.

Group Profile Summary (GPS). All results of holding company analysis are to be documented in the GPS for purposes of presenting a comprehensive view of the current and prospective risks facing the holding company group as well as the ongoing regulatory plan (or supervisory plan) to ensure effective supervision. A separate supervisory plan document may also be utilized to outline more detailed steps to ensure effective supervision for high-priority or potentially troubled insurers within the group, as necessary. The purpose of the GPS also is to serve as the primary communication tool between the lead state and other regulators that provides consistency between the states. The GPS is intended to serve as a "living document" to "house" summaries of information from legal entity IPSs that are material to the group, such as coordinated risk-focused examinations, financial analysis, internal and external changes, supervisory plans, and other group information. Completing and distributing the GPS to other regulators on a timely basis is the sole responsibility of the lead state.

Analysts are involved in all phases of the risk-focused surveillance approach. There should be a continuous exchange of information between examiners and analysts to ensure that all members of the department are properly informed of solvency issues related to the group. Analysts should work with the examination staff to update the GPS.

IAIG: In performing holding company analysis and maintaining a GPS for IAIGs, the group-wide supervisor should ensure that both the scope and head of the IAIG are clearly defined and described within analysis documentation. In addition, key ~~ComFrame~~ considerations relevant to IAIGs are highlighted throughout to ensure that they are adequately addressed and incorporated, as appropriate, into holding company analysis processes and the GPS to meet the expectations of other involved international supervisors.

Corporate Governance Risks

The *Model Regulation to Define Standards and Commissioners Authority for Companies Deemed to be in Hazardous Financial Condition* (#385) specifically indicates that if an officer, director, or any other person who directly or indirectly controls the operation of the insurer, fails to possess and demonstrate the competence, fitness and reputation deemed necessary to serve the insurer in such position, the insurer can be deemed to be a company that is in a hazardous financial condition. Clearly, this inclusion recognizes that such a situation is a risk to a policyholder. For this reason, Model #385 specifically provides the supervisor with the authority to issue and order that insurer to correct corporate governance practice deficiencies, and adopt and use governance practices acceptable to the commissioner.

The NAIC has incorporated into its *Annual Financial Reporting Model Regulation* (#205) specific governance requirements as it pertains to insurers audit committees. Most notably, the regulation requires an increasing amount of independent audit committee members as the premium increases. The calculation of this independence requirement may be provided to the audit committee on an aggregate basis for insurers in the insurance holding company system. However, specific reporting is limited and instead governance is assessed with information gathered during the examination and analysis process.

The *Corporate Governance Annual Disclosure Model Act* (#305) and the *Corporate Governance Annual Disclosure Model Regulation* (#306) provide the analyst with annual reporting from insurers on their corporate governance practices. While there is flexibility in determining the level at which governance information is reported in the annual filing, the insurer or insurance group is encouraged to make the CGAD disclosures at the level at which the risk appetite is determined, or at which the earnings, capital, liquidity, operations, and reputation of the insurer are overseen collectively and at which the supervision of those factors are coordinated and exercised, or the level at which legal liability for failure of general corporate governance duties would be placed. ~~As such, this filing is often made at the group level and may assist the analyst in reviewing and assessing governance practices at that level.~~

Assessing the corporate governance of the group is one of the roles of the lead state and group-wide supervisor and conclusions regarding this assessment should be incorporated in holding company analysis documentation and the GPS. ~~ComFrame highlights c~~Certain elements of governance that should be reviewed and assessed at the head of the IAIG level~~, which~~ are discussed in more detail at VI.D.

Enterprise Risk Management (ERM) Risks

As part of the risk-focused surveillance system, analysts and examiners identify and assess the inherent risk in the branded risk categories using their authority under the *Model Law on Examinations* (#390) and specific state laws and regulations. Analysts, although more commonly the examiner, also identifies and evaluates risk mitigation strategies/controls to assess the risk management environment of the group and will consider that in determining the overall supervisory plan. Larger scale insurers and insurance groups are subject to all of the requirements of the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505). This model requires among other things, the maintenance of a risk management framework to assist with identifying, assessing, monitoring, managing and reporting on its material and relevant risks. It also requires the completion of an Own Risk and Solvency Assessment (ORSA) no less than annually, but also at any time when there are significant changes to the risk profile of the insurer or the insurance group. The ORSA is the insurer/group's internal assessment appropriate to its nature, scale and complexity addressing the material and relevant risks associated with an insurer's current business plan and the sufficiency of capital resources to support those risks.

The ORSA has two primary goals:

1. To foster an effective level of ERM, through which each insurer or insurance group identifies, assesses, monitors and reports on its material and relevant risks, using techniques that are appropriate to the nature, scale and complexity of the insurer's risks, in a manner that is adequate to support risk and capital decisions.
2. To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

If a U.S. state insurance commissioner is the global group-wide supervisor of an IAIG, the U.S. state insurance commissioner should receive ~~the~~an ORSA Summary Report covering all material group-wide insurance operations. ~~If the U.S. is not the global group-wide supervisor (i.e., lead state)~~Otherwise, the insurer may file ORSA Summary Reports encompassing, at a minimum, the U.S. insurance operations, as long as the lead state receives access to information from ORSA Summary Reports encompassing the non-U.S. insurance operations. The lead state commissioner should discuss with the global group-wide supervisor from the relevant foreign jurisdiction(s) the reports received ~~from the global group-wide supervisor~~ to inquire of any concerns and to either confirm that the reports w~~as~~ere compliant with the foreign jurisdictions' requirements or consistent with the applicable principles outlined in the International Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 16: Enterprise Risk Management (ERM), as well as the NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual to determine if additional information is needed. The commissioner will, where possible, avoid creating duplicative regulatory requirements for internationally active insurers.[PE1]

Any follow-up associated with this risk assessment should be coordinated through the lead state to improve regulatory effectiveness and reduce the level of regulatory duplication. Assessing the ERM process risks of the

group as detailed in Section VI.E. Enterprise Risk Management Process Risks Guidance is one of the roles of the lead state.

Market Conduct Risks

This Handbook discusses within Section I.A. Department Organization and Communication the need for communication with other divisions ~~within~~ of the insurance department. This Handbook also discusses within Section I.B. Interstate Communication and Cooperation, and specifically discusses regulatory actions taken relative to market conduct issues. The Risk Assessment worksheet within this Handbook also list market conduct actions/findings and documenting in the IPS. The IPS is a tool used for sharing information between states that also encompasses group information. Refer to the *Market Regulation Handbook* for further discussion of these types of risks.

Periodic Meeting with Group

As previously discussed, Model #440 and respective state laws and regulations give state regulators the authority to obtain and examine any information related to the group in order to determine the financial condition impact on the insurer. In addition, there is generally a need to meet periodically with group management in order to ascertain that the regulator has all relevant information he or she needs to have a current understanding of the financial condition of the group and insurer.

How often such a meeting takes place, or the depth of discussion, will vary considerably from group to group. However, an in-person meeting is recommended in the year of an examination. For example, if an examination is as of December 31, 2014, then meet early in 2014. The lead state regulator will use its judgment in making decisions on whether to meet or not, based on what it already knows about the group and insurer. Every holding company situation is different, and for that reason, the lead state should use its judgment in determining how best to gather additional information that can come from this type of process.

With the general objective of better understanding the financial condition of the group, the lead state should tailor any questions or discussion points to most accurately fit what the regulator knows about the group and its financial position and what could be projected into the future without the benefit of understanding what the group is doing to address such items. Therefore, considering what type of questions should be developed, or the focus of such a discussion, either through an in person meeting or a conference call, is one of the roles of the lead state. See Section VI.H. Periodic Meeting with the Group procedures for possible questions to consider for such a meeting.

Targeted Examination Procedures

The need for target examinations should be driven by the results of the risk-focused surveillance process. Therefore, because the general purpose of a targeted on-site examination is to focus resources on a particular risk, such procedures would generally be driven by any change in risks or any weaknesses or concerns given that on-site inspection can provide assurances that cannot be provided through off-site monitoring.

Targeted examinations on groups would generally not need to focus on risks that are already addressed within individual company examinations, unless there appears to have been a change in that risk since the last examination and that particular risk is one that is shared among several insurance legal entities within the group. It may be appropriate for the lead state to involve other domestic states in order to determine if resources for addressing such potential issue can be shared, thus preventing the extraordinary strain on the lead state resources. The targeted group examinations are generally expected to occur on those risks that are either outside the insurance legal entity or risks that are common to all entities within the group. Targeted examinations on changes in governance, risk management and internal controls are the more common areas where such procedures may be expected. Also expected, although not expected to be commonly performed, is targeted examination on particular non-insurance entities within the group. Considering if any targeted

examination procedures should be completed is one of the roles of the lead state, and it should consider the guidance in Section V.I. Targeted Examination Procedures and Guidance in making such a determination. Non-lead states should defer to the lead state with regard to whether a targeted group examination is necessary.

IAIG: For IAIGs, in certain circumstances targeted exam procedures may include the group-wide supervisor joining on-site inspections of an insurance legal entity in another jurisdiction to address specific issues of concern, coordinated by the relevant involved supervisor, with prior consent from that supervisor. In addition, it may be appropriate for the group-wide supervisor or other involved supervisors to conduct targeted exam procedures in response to concerns and risks identified during supervisory college discussions and to report the results back to the supervisory college. Finally, in addition to targeted exam procedures to address concerns identified through holding company analysis and supervisory colleges, the Financial Condition Examiners Handbook outlines additional examination considerations relevant to IAIGs that are more effectively conducted during an onsite examination.

Supervisory Colleges

The NAIC through the state regulators has defined a supervisory college as a regulatory tool that is incorporated into the existing risk-focused surveillance approach when a holding company system contains internationally active legal entities with material levels of activity and is designed to work in conjunction with a regulatory agency's analytical, examination and legal efforts. The supervisory college creates a more unified approach to addressing global financial supervision issues. Effective and efficient regulatory scrutiny of group-wide issues should occur in the context of an organized global approach and involve all significant regulatory parties, including regulatory agencies from countries outside of the U.S., and other state and federal agencies within the states. In rare cases (e.g., certain large health insurance groups), the use of a supervisory college for U.S.-only insurance groups (no insurance business outside the U.S.) may be beneficial to increasing the efficiency and effectiveness of group regulation. This type of supervisory college is referred to as a regional supervisory college.

A supervisory college establishes a routine communication channel with appropriate company personnel and all regulators, which can be beneficial in identifying the appropriate contacts quickly in the event of a crisis.

The above description of supervisory college is largely consistent with the lead state concept that has been used for years by state insurance regulators. In such situations, one jurisdiction takes the lead in terms of being primarily responsible for the coordination and communication between the insurance group and the other states, as well as other potential responsibilities. But, ultimately each jurisdiction may have to do what it believes is necessary ~~in its jurisdiction~~and that is in the best interests of the policyholders in its jurisdiction. In addition, the supervisory college acts as a peer review process similar to how the NAICs Financial Analysis (E) Working Group acts as a peer review process of troubled or potentially troubled insurers or insurance groups. This peer review process has the effect of allowing other jurisdictions to defer some of their authority. To the extent issues arise, the collective group makes them known to all jurisdictions so that the group-wide supervisor and the other jurisdictions can discuss how best to deal with the issues. Alternatively, the collective group can make the jurisdiction aware that more may need to be done. State insurance regulators have been dealing with these types of multi-jurisdictional issues for years.~~, and just as~~ Both state insurance regulators and the International Association of Insurance Supervisors (IAIS) are aware that these situations demand mutual cooperation in order to build the relationship and trust needed.~~, so too does the International Association of Insurance Supervisors (IAIS) recognize the same.~~

IAIG: For IAIGs, the group-wide supervisor establishes a supervisory college which is expected to meet at least annually. In addition, the members of the IAIG's supervisory college are expected to communicate and exchange relevant information on an ongoing basis, including information on group capital prepared by the group-wide supervisor, as well as a summary of any additional reporting related to group capital that has been reported at the option of the group-wide supervisor. Furthermore, through the supervisory college process, the group-wide supervisor should establish a crisis management group (CMG) for the IAIG with the objective of enhancing

preparedness for, and facilitating the recovery and resolution of, the IAIG. To facilitate this, the group-wide supervisor should put in place a written coordination agreement between the members of the IAIG CMG. The structure, participation in, and role of an IAIG supervisory college or CMG is ultimately the responsibility of the group-wide supervisor.

~~Considering if a supervisory college should be held and all of the related guidance~~Guidance for use in conducting supervisory colleges and related activities is included in Section VI.J. ~~Overseeing the Ssupervisory Ccolleges process is another one of the key roles of the lead state.~~

The following information is intended to provide a narrative description of the issues/considerations for analysts when performing insurance holding company analysis as well as procedures and processes for developing a Group Profile Summary (GPS). As discussed in Section VI.B Roles and Responsibilities of the Lead State/Group-wide Supervisor, the ~~G~~group-wide ~~S~~supervisor/~~L~~lead ~~S~~state is not intended to eliminate any authority that any jurisdiction has over a legal entity insurer. Rather, group-wide supervision is intended to increase the efficiencies and effectiveness for each insurance group by emphasizing that one state is responsible for completing certain duties that allow all other domestic states to focus their efforts in other areas.

States' Roles in Performing Insurance Holding Company Analysis

It is important for analysts to understand the concept that the lead state has certain responsibilities pertaining to insurance holding company analysis and understanding that many of these responsibilities focus on increasing communication and coordination. There are several other coordination activities involved with group-wide supervision, particularly if the result of the group analysis identifies areas that targeted examination procedures are warranted within the insurance operations and as a result involve other states. The following table lists the possible scenarios and actions for lead and domestic states completing an insurance holding company system analysis:

When your state is the lead state and another state has a domestic in the group:	**When your state is sharing duties with a lead state:**	**When your state is the lead state and all insurers within the group are domestics of your state:**	**When there is no group code, but your state's domestic is a multi-state writer and part of a holding company system (i.e., you receive a Form B):**	***When your state domestic has a group code, but your state is NOT the lead state:**
• Complete an insurance holding company analysis that considers procedures similar to those contained within the *Financial Analysis* Handbook Insurance Holding Company Analysis guidance and document results in the GPS. • The insurance holding company analysis chapter represents guidance that the accreditation team will use to evaluate the sufficiency of depth and documentation considerations. ~~• Notify the other domestic regulators in the group by the end of August regarding when the insurance holding company analysis is anticipated to be completed.~~ • Complete before October 31st.	• Coordinate the completion of holding company analysis and preparing a GPS. • The *Financial Analysis Handbook* Insurance Holding Company analysis chapter represents guidance that the accreditation team will use to evaluate the sufficiency of depth and documentation considerations. ~~• Notify the other domestic regulators in the group by the end of August regarding when the insurance holding company analysis is anticipated to be completed.~~ • Complete before October 31st.	• Complete an insurance holding company analysis that considers procedures similar to those contained within the *Financial Analysis* Handbook Insurance Holding Company Analysis guidance and document the analysis results in the GPS. • Complete before December 31st.	• Complete an insurance holding company analysis that considers procedures similar to those contained within the *Financial Analysis Handbook* Insurance Holding Company Analysis guidance and document the analysis results in GPS. • Complete before December 31st.	• Offer a copy of the "legal entity IPS" or other applicable information to the lead state to assist in the completion of the insurance holding company analysis. • Obtain and review the GPS from the ~~L~~lead ~~S~~state and update the impact of holding company on insurer section of the domestic IPS. • If a copy of the analysis has not been received from the lead state by November, contact the lead state and consider completing your evaluation of the impact of the insurance holding company system on the domestic insurer without the benefit of a detailed insurance holding company analysis.

*Each state should still review Form B for its domestic companies (See also chapter V.A. Holding Company Procedures (Non-Lead State) and V.F. Holding Company Procedures (Non-Lead State) Analyst Reference Guide for possible Form B and C compliance and assessment procedures and guidance).

Responsibilities of the Lead State

Insurance Holding Company System Analysis

The lead state or an agreed upon other designated state(s) is responsible for completing the insurance holding company analysis. The domestic state is responsible for completing and documenting an evaluation/analysis of the impact of the insurance holding company system on the domestic insurer. The distinction of these responsibilities is set forth in the following.

The depth and frequency of the insurance holding company analysis will depend on the characteristics (i.e., sophistication, complexity, financial strength) of the insurance holding company system (or parts thereof), availability of information (e.g., SEC Form 10K or Form 10Q) and the existing or potential issues and problems found during review of the insurance holding company filings. Analysts are required to document the results of the insurance holding company system analysis once annually but will update it periodically as needed. The Form B, Form C and any other holding company filings should be analyzed by October 31st for analysis conducted by the lead state. (See also chapter V.A. and V.F. for possible Form B and C compliance and assessment procedures and guidance.)

Documentation and Communication of Insurance Holding Company System Analysis

Documentation in the GPS of the analysis work performed by the lead state (or the domestic state for those groups with only one multi-state insurer or with multi-state insurers domiciled in only one state) should include sufficient evidence of a review of the insurance holding company system. The GPS should be updated and shared with other domestic states within the group prior to October 31 each year. If the GPS includes information from the analyst's summary of the Own Risk and Solvency Assessment (ORSA) analysis, analysts are reminded of the sensitivity of the information in the ORSA Summary Report and that it includes proprietary and trade secret information. Before sharing the GPS with another domestic state or other impacted regulator, the lead state should verify the ability of each regulator to keep the shared information confidential, consistent with state law. Analysts may consider consulting with the state's legal counsel before sharing with another regulator.

The lead state may choose to rely on the analysis work performed by an international insurance supervisor (e.g., work products from a supervisory college) or another functional regulator. If such reliance takes place, the lead state is still responsible for documenting and distributing to other domestic states an analysis of the overall financial condition of the group, significant events, and any material strengths and weaknesses of the holding company group. Additionally, if the lead state has material concerns with respect to the overall financial condition of the holding company group, it is responsible for notifying all other domestic states.

Responsibilities of Each Domestic State

Evaluation of the Impact of Holding Company System

The domestic state is responsible for completing an evaluation of the impact of the insurance holding company system on the domestic insurer. In doing so, the domestic state is responsible for identifying and understanding the affiliated risks within the insurance holding company system. This information and understanding can be obtained from several sources, including the supplemental filings (i.e., Form A, Form B, Form D, Form E, and Form F). The Form B, Form C and any other holding company filings should be analyzed, to at least some extent, by December 31st for analysis conducted by the domestic state (See also chapter V.A. and V.F. for possible Form B and C compliance and assessment procedures and guidance.) Additionally, the domestic state should obtain a GPS from the lead state containing the risk assessment of the group that is necessary to evaluate the impact that the insurance holding company system could have on the domestic insurer. The domestic state is responsible for summarizing a conclusion regarding this evaluation. This should be included in either the annual or quarterly financial analysis work papers and summarized in the Insurer Profile Summary (IPS) of the respective domestic insurer on a yearly basis.

Communication of Holding Company System Analysis

The communication with the lead state should be documented in order to substantiate the domestic department's understanding of the insurance holding company analysis that was performed and included in the financial analysis work papers of the respective domestic insurer on a yearly basis. Such documentation should include the bulleted items in the section above included in the GPS. If a state relies on the insurance holding company analysis of another regulator, communication of such by the lead state should be completed by October 31.

Holding Company System Analysis Consideration and Guidance

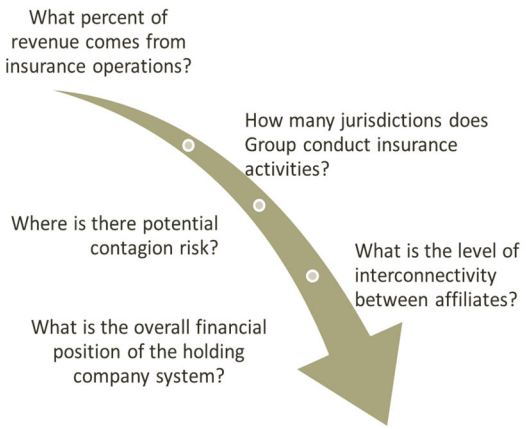
Overview of Insurance Holding Company System Structures

It is important for analysts to gain a thorough understanding of the organizational structure in order to properly analyze how each subsidiary/affiliate in the holding company operates. Organizational structures can vary significantly between insurance holding company systems. Larger holding company systems will often include lower-tier holding companies that manage both non-insurance and insurance subsidiaries independently of the ultimate holding company. Others may be partially held by different individuals and companies or have indirect ownership relationships.

An insurance holding company system may consist of one company that directly or indirectly controls one or more other companies. Control may exist through ownership of the voting shares of a company's common stock or, particularly in the case of a mutual insurer where ownership lies with the policyholders, control may exist or be strengthened through contractual relationships and/or common management. The controlling entity often delegates operational functions to subsidiaries so that it can focus on the management of the overall insurance holding company system. Some insurance holding company structures are established to hold only insurance operations, while others may be more complex and engage in multiple types of businesses. Understanding the insurance holding company system structure and the various types of operations and obligations that the entities within the structure create is critical in performing insurance holding company analysis.

A sophisticated/complex insurance holding company system may include, but not be limited to, the following:

- Insurance and non-insurance operations
- International operations
- Multiple or diverse lines of business
- Numerous entities or segments



This first step in understanding the insurance holding company structure is obtaining an organizational chart. Organizational charts are included in: 1) initial applications for licensure; 2) holding company registration statements (Form B); and 3) the Annual Financial Statement Schedule Y, which is also required to be updated and reported to regulators quarterly if there any changes from the prior year-end. The first step in understanding the organizational chart is identifying all the insurance subsidiaries and non-insurance affiliates in addition to identifying all the states and other jurisdictions responsible for regulating those subsidiaries.

There can be variations as to how an insurance holding company is classified. The most common types of

insurance holding company structures are described below, each of which has different implications for understanding the impact that the structure may have on the financial condition of the group.

Public Holding Company

A public holding company is an entity that controls various other affiliates, including financial intermediaries, such as insurance companies, banking institutions, security firms, etc. The shares in a public holding company are open to investors (thus making them shareholders), which can be purchased via a public securities exchange market, giving such entities greater abilities to access additional capital. Transactions that result from the public holding company are approved by the board of directors. A public holding company may be obligated to pay dividends in order to maintain expectations of their shareholders. No two groups are the same and, only through conversations with management and/or reviewing external historical actions can these things be properly evaluated.

Private Holding Company

A private holding company is a separate legal entity designed to hold either investments or operating assets. The shares in a private holding company are held by or on behalf of the beneficial owners. All transactions regarding the holding company must be approved by or on behalf of the beneficial owners. A private company has some of the same characteristics as a public company in terms of expectations, but usually such expectations differ from a public company. A private company may have some access to capital that mutual insurers do not have, but it also may be just as limited.

Mutual Insurance Company

A mutual insurance company is formed and bound by its policyholders. A mutual insurer does not issue stock and, therefore, does not have stockholders. The initial net worth of a mutual insurer is limited to surplus paid-in by the original policyholders or by a third-party contributor. A mutual insurer can create or acquire subsidiaries, thus becoming the controlling affiliate of an insurance holding company system. It may also create a subsidiary to act as a holding company for downstream affiliates. Although a mutual insurer may be subject to some pressure from its policyholders, such pressure is usually much different from what is experienced by a public company. However, a mutual insurer is limited in terms of its access to capital because it cannot issue new stock. Again, no two groups are alike and understanding these issues usually can only be obtained through conversations with management and/or reviewing historical actions.

Mutual Holding Company

In most states, a mutual insurer may be permitted to restructure by converting from a mutual to a stock insurer, with a new upstream mutual holding company owning a majority of the voting stock. The mutual policyholders' ownership rights are transferred to the mutual holding company. This structure gives the insurer more options to raise funds, through the issuance of stock. Such a conversion is subject to the approval of the policyholders and the domiciliary state's commissioner. 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

The term non-profit organization is generally most associated with the treatment of organizations under the Internal Revenue Code. The Internal Revenue Service (IRS) generally associates not for profits with charitable organizations, churches and religious organizations, political organizations and private foundations. Insurers that are non-profits are generally charitable organizations and it is not uncommon that 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 particular insurance holding company structure.

Fraternal Associations

State insurance departments have authority over fraternal benefit society insurers, and although each state may define them slightly differently, such definitions usually provide that they are a corporation, society, order, supreme lodge or voluntary association, without capital stock, conducted solely for the benefit of its members

and their beneficiaries. Because of this structure, 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. Although this is a general consideration for the regulator when evaluating the insurance holding company system, there is generally much more that must be understood before coming to this conclusion because in some cases, the fraternal may be able to assess its members or take other actions that can serve a similar purpose as raising capital.

Reciprocal Exchanges

State insurance departments have authority over reciprocal insurance exchanges and although each state may define them slightly differently, such definitions are generally centered on the notion of a group of persons who agree to share each other's insurance losses. The IRS provides that a reciprocal is an organization or group of subscribers, including individuals, partnerships and corporations, who may insure each other by "exchanging" insurance contracts through their commonly appointed attorney-in-fact. All such insurance contracts are executed on behalf of all the subscribers by their designated attorney-in-fact. Because of this structure, 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 insurance holding company system, there is generally much more that must be understood before coming to this conclusion because in some cases, the reciprocal may be able to assess policies that can serve a similar purpose as raising capital.

Sources of Insurance Holding Company Information

Statutorily Required Filings: The most readily available source for gaining an understanding of an insurance holding company structure is through the statutory filings submitted by insurers. Analysts may use the statutory filings to gain an understanding of: 1) the entities included in the insurance holding company system; 2) where revenue comes from; 3) how many jurisdictions the insurance holding company system writes in along with the percentage of U.S. versus foreign revenues; and 4) contagion risks. Insurers are required to submit an organizational chart and details of affiliated transactions in Schedule Y—Part 1, Part 1A, and Part 2. Part 1A includes the relationships within the insurance holding company system to the ultimate controlling person(s) or entity. This schedule provides valuable insight into the ownership structure, insurance holdings, locale and affiliated relationships within the insurance holding company system. To understand the different levels of interconnectivity and impact within the insurance holding company system, analysts should review Form D which includes the management service agreements, tax sharing agreements and affiliated reinsurance. Analysts should also review Form B to assess the overall financial condition of the insurance holding company system as Form B includes the holding company's profitability, debt, equity and assets. Review and consider the impact any holding company debt reported by the holding company and whether the insurers fund this debt through upstream dividend payments (See also chapter V.A. and V.F. for possible Form B and C compliance and assessment procedures and guidance).

Form B - Insurance Holding Company System Annual Registration Statement: Form B is filed annually on June 1 and contains information on identity and control of the registrant, organizational structure, ultimate controlling person(s), biographical information on directors and officers, transactions, relationships and agreements, litigation, statement regarding plans or service transactions, and financial statements and exhibits.

Note #10: Under guidance from *Statement of Statutory Accounting Principles (SSAP) No. 25 - Affiliates and Other Related Parties*, insurers are also required to provide detailed information on related party transactions and relationships in Note #10. Refer to Section IV.B. Analysis of Notes to Financials for more information.

MD&A and Audited Financial Statement: These filings also contain information on the insurance holding company structure. These reports are filed with the NAIC by April 1 and June 1, respectively, of the year following the annual reporting period. Specifically, the MD&A provides background information on organizational structure, product lines, marketing systems, and actions such as corporate restructuring, acquisitions, and dispositions. It is a narrative that provides information to regulators that enhances understanding of the insurer's financial position,

results of operations, changes in capital and surplus, and cash flows. The report often explains transactions or events that have occurred during the year that affect the financial condition of the insurer. It may also contain information about affiliated relationships or changes in those relationships.

Audited Financial Statement: This statement provides an overview of the background, operations, affiliated transactions, mergers and subsidiary holdings regarding a holding company. Several of the footnotes (Related Party Information, Reinsurance and Other Insurance Transactions, Reorganization, Acquisitions and Dispositions, and Summary of Ownership Relationships of Significant Affiliated Companies) also provide valuable insight into organizational structure and affiliated transactions. These footnotes provide disclosures on such issues as affiliated transactions, agreements, guarantees, reinsurance transactions, capital contributions, and organizational structure, which allow analysts to gain an understanding of how the different entities within the holding company operate together.

SEC Filings: Disclosures on non-insurance entities found within the holding company may be limited. For publicly traded companies, analysts can reference reports filed with the U.S. Securities and Exchange Commission (SEC) to gain insight on the insurance holding company structure. The SEC filings provide significant background information about the holding company and its subsidiaries. Form 10-K is used to report the entities' annual financial data. An example of sections within the Form 10-K that may provide valuable background information includes:

- Business**:** This section includes a general discussion of the entity's business, financial information, and industry segments. The industry segment section allows analysts to assess the organization by its major operating business segments.
- Directors and Executive Officers: This section helps analysts identify key officers, owners, and family relationships.
- Security Ownership of Certain Beneficial Owners and Management: This section identifies certain beneficial owners of the filer's securities and possible subsequent changes in control.
- Certain Relationships and Related Transactions: This section discusses affiliated transactions and business relationships.

Form 10-Q is used to report quarterly financial data and is much more limited in scope than Form 10-K, but it does require condensed financials as well as some background information. Form 8-K is required after certain significant changes in business occur, including change in control, bankruptcy or receivership, and resignation of directors.

Combined Statutory Financial Statements: These statements are required for property/casualty insurers only. These statements have been adjusted for intercompany transactions and affiliated investments.

Shareholders' Reports: These are generally available on a holding company's website. The scope of the shareholder's report may vary between companies but is generally reported on a consolidated generally accepted accounting principles (GAAP) basis and may contain segment information. An insurance holding company system's Web page may contain additional information such as current stock price information, company history, descriptions of products or business segments, and recent press releases. The insurer's website can be obtained from the Jurat page of the insurer's annual and quarterly statutory financial statements. Links to company websites can also be obtained from the rating agency websites, as well as other financial websites or through tools such as Bloomberg Financial.

Rating Agency Reports: Credit rating providers, each with their own unique methodology for assigning ratings, often provide financial data and/or analysis of an insurer or insurance group. This information is available through purchase or subscription. Some of the organizations include: A.M. Best; Fitch Ratings; Moody's Investor's Service; Standard and Poor's (S&P); Dominion Bond Rating Service; RealPoint, LLC (for CMBS only); Kroll Bond Rating Agency (KBRA); and TheStreet.com Ratings.

NAIC database and iSite+ Reports: These iSite+ applications provide information primarily on the insurance companies, rather than the insurance holding company system, with the exception of the property and casualty

combined annual financial statement. However, other information or resources on iSite+ may be helpful when reviewing collectively the insurance companies within an insurance holding company system. In addition to the financial statement and financial analysis solvency tools, other reports exist such as summary reports, the Lead State Summary Report and market analysis information. Line reports may be useful in collecting selected lines of data from the financial statements for all insurers within an insurance holding company system.

Internet/Websites: The Internet offers a variety of websites that contain information on the financial background of publicly traded companies. Some financial websites provide a comparison of the company's own financial results to that of their closest competitors and to industry averages. Some of these sites may provide information such as the buying and selling activities of company stock by senior level employees of the company. Additionally, links to news articles concerning the company and the industry are available.

Other Information Sources: These may include prior analysis performed on the insurance holding company system, financial and market examination reports, target examinations or special studies, discussions and other communications with other lead states or foreign regulators, and discussions with company management. The last point to make is that discussions with company management should not be minimized. This may be necessary particularly in those insurance holding company systems where the structure is more complicated, and more difficult to understand. The group should be willing to explain its structure and the purpose of such a structure to its regulators, including more in-depth discussions with the lead state or group wide supervisor. If the lead state or other regulators believe the structure is opaque, or difficult to understand, it should raise the issue with management. In rare cases, the lead state and/or other regulators may want to suggest that management consider some changes to either eliminate such confusion or determine if some additional disclosure could be made to in the public financial statements to reduce such confusion. The domestic regulator may initiate discussions to suggest dissolving, merging, de-stacking or other such transactions with legal entities within the insurance holding company system to facilitate corporate efficiencies and minimize complicated structuring.

International Data Sources: When an insurance holding company system is domiciled in a foreign country, it is necessary to determine the supervisory authority in that country and the filing requirements. Some countries have an agency that functions similar to the SEC, and financial statements may be available through that agency. For example, The System for Electronic Document Analysis and Retrieval is the official site for the filing of documents by public companies as required by securities laws in Canada. This website can provide the annual report for publicly traded insurance companies domiciled in Canada. When information is not readily available through a government source, the company's shareholder's report or other information may be available on the company's website or through regulator request.

For foreign holding companies, certain sources of information may require conversion of financial data to U.S. currency. Conversion rates can be found on a variety of different Internet websites.

Recent News and Rating Information

Analysts should research recent news relevant to the insurance holding company system. Press releases and publications may provide valuable insight about important events and management decisions. These items may include significant transaction activity, changes in the company's stock price, legal or regulatory issues, employee layoffs, losses of key personnel, and issues with customers or providers.

Review current financial strength and debt ratings of the group. Rating agencies often issue separate ratings and analyses on the credit and claims-paying ability of insurers or the holding company. Reports of rating agencies provide a quick overview of a company. Such reports should be scanned for background information about the company's operations, management, and significant changes. If a report of the entire insurance group is available, it may be useful as an early step in understanding the relationships of each entity within the insurance group.

Rating agencies focus on liquidity available at the holding company, so much of a subsidiary's cash may be pushed up to the holding company through dividends, management fees, or other intercompany arrangements to gain a better rating. A rating downgrade may have a material effect on the ability of the company to sell its products

(particularly in the commercial property/casualty and annuity lines of business), to obtain reinsurance, or to compete in the marketplace in general. Events such as these may place a greater strain on the insurance companies, which may already be coping with various financial issues such as high debt servicing requirements.

Stock Price Evaluation/Debt Prices/Credit Default Swaps

If the stock of the intermediate or ultimate holding company is publicly traded, monitor the stock price and volume. Compare the trends of price and volume of the holding company with peer organizations. Analysts should strive to determine the factors affecting stock prices, which extend well beyond the financial status of the insurer. The use of professional securities analyst reports may provide additional insight regarding the fluctuation of stock prices. In some cases, the intermediate or ultimate holding company debt may also be publicly traded, in which case similar to stocks; analysts should monitor the price and volume. Analysts should strive to determine the factors impacting the change in bond prices. Finally, some intermediate or ultimate holding companies may have credit default swaps issued on them. These should also be monitored where they exist. The NAIC Capital Markets Bureau monitors such information and summarizes the changes in the weekly reports available to state insurance regulators.

International Holding Company Considerations

Many insurance companies domiciled in the U.S. are owned by holding companies that are located in foreign countries. Depending on the country of domicile, for some, financial information is not readily available through a government-sponsored source similar to the SEC. Analysts may find that the investor's page of publicly held international holding companies' websites will provide the best source of financial information.

The regulation of international holding companies varies according to the laws of its country of origin. For most European Union organizations, accounting treatment and reporting is somewhat consistent and is improving due to the efforts of many groups working with the standards developed by the International Accounting Standards Board (IASB). However, for many organizations domiciled in offshore countries, such as Ireland, those located in the Caribbean, and others, the regulation around public financial reporting may be less robust~~no regulation regarding public financial reporting exists~~.

Analysts should understand the contact structure of the organization. For example, a German-based holding company may have advisory boards established to communicate with U.S. regulators. Analysts should direct any regulatory concerns to the proper organization contact to ensure a prompt reply or resolution.

Many transactions between a foreign holding company and U.S. companies, including the holding company's U.S. subsidiaries, are governed by special requirements. Transactions such as reinsurance, servicing, investment, the handling of pooling taxes, etc., are controlled by requirements that are in many cases quite different from similar transactions between two domestic entities.

Foreign holding companies invest in their U.S. subsidiaries to nurture profitable operations, to complement existing operations or to add to existing capacity. Some foreign holding companies may consider their U.S. enterprises non-core and consequently show weaker commitment to their ongoing business operations or financial support. In recent years, after sustaining continued losses from U.S. subsidiaries, several prominent foreign holding companies decided to cease their U.S. operations and liquidate their assets.

Analysts should be aware of a holding company's stated commitment to ensure the continued stability of U.S. operations. This commitment may include a written or verbal parental guarantee.

Some points to consider when assessing a holding company's commitment regarding continued U.S. operations include:

- The importance of the U.S. operations in the insurance holding company structure
- The holding company's historical involvement in supporting its subsidiaries

- Parental guarantees or commitments of financial support, or failures to act on these commitments

Forms A, B, D, E, and Extraordinary Dividend/Distribution

Forms A, D, E and Extraordinary Dividend/Distribution are transaction-specific and are not part of the regular annual/quarterly analysis process. The review of these transactions may vary as some states may have regulations that differ from the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450). See section V. procedures for holding company considerations for domestic and non-lead states.

Lead State Holding Company Analysis – Process and Procedures

In completing the process of holding company analysis and developing a GPS, analysts are encouraged to customize the work performed and documented at a level commensurate with the nature and complexity of the group. Analysts may elect to limit the amount of analysis and supporting documentation performed outside of the GPS and/or eliminate certain sections of the GPS to promote efficiencies in conducting analysis work. Conversely, analysts working on very complex groups may elect to perform additional analysis (including those listed in the Additional Procedures on Key Risk Areas – Insurance Holding Company System) as well as provide additional documentation within the GPS and/or in supporting analysis workpapers. Keep in mind, the GPS should provide sufficient information about the group and its risks to enable other state, federal and international regulators to understand the group risks that may be relevant to their regulated legal entities.

If the domestic insurers in a holding company system consist of only run-off companies, the domestic regulator, at its discretion, should determine the value, if any of performing a holding company system analysis. If it is determined that a holding company system analysis would be of no added value, this determination should be documented.

As the lead state, the department should coordinate the ongoing surveillance of companies within the group with input from other affected states (with the understanding that the domestic state has the ultimate authority over the regulation of the domestic insurer under its jurisdiction). The documentation contained in the GPS is considered to be part of the workpapers, and represents proprietary, confidential information that is not intended to be distributed to individuals other than state regulators.

Confidentiality of Information: Financial analysts are reminded that information collected from the group, generally under the authority of their holding company statutes or their more specific statutes dealing with the ORSA Summary Report may be confidential by law. Accordingly, before sharing statutorily confidential information with other jurisdictions, regulators will need to review their own statutory authority to do so, which generally requires that the receiving jurisdiction is able to maintain also the confidentiality of such information.

UCP is an Insurer: If the ultimate controlling person (UCP) of the holding company is a U.S. domiciled insurance company with a cocode, analysts may consider preparing one document that includes all the elements of the IPS and the GPS, in order to promote efficiency in the overall analysis. For example, in addition to the standard elements of the IPS, the document may also include sections such as corporate governance, ERM/ORSA, non-insurance affiliates/subsidiaries, etc. In addition, depending on the nature and extent of risks, analysts should consider whether it is more appropriate to assess and document certain risk exposures from a group or legal entity perspective (or both) in the IPS/GPS. In all cases, analysts are expected to document and complete both the legal entity and holding company analysis work in accordance with timeliness expectations. Therefore, the analyst and supervisor should demonstrate that the combined IPS/GPS is updated for both the results of legal entity analysis and holding company analysis through separate signoffs at different dates, as necessary.

Specific Procedures for Completing the Insurance Holding Company Analysis

The following procedures are intended to assist analysts completing a holding company analysis documented in the GPS. The following procedures do not represent additional documentation requirements.

Understand the Insurance Holding Company System

1. Evaluate and document an understanding of the insurance holding company system. Consider using the following if available and/or applicable: statutory Schedule Y, Form B Registration Statement, ORSA Summary Report, and financial filings of the insurance holding company system and/or person. Summarize the understanding of the holding company in the GPS. If necessary, analysts may also document further details below.
    a. Ultimate controlling entity(ies) or person(s).
    b. Nature and level of complexity of structure (e.g., public, non-public, mutual, complex, simple, etc.) including the level of interdependence within the group structure (e.g., pooling, guarantees, risk structure, etc.).
    c. Business segments and percent of overall revenue per segment (use segments as defined in the most current 10-K or financial statement, if available), including how the group sells and distributes its primary products and whether they expose the group to risk concentrations (geographic or product related).
    d. Number of insurers and respective jurisdictions, including the level of international insurance activities (including branches) within the group. Where are the largest concentrations of international business and which regulatory authorities are charged with oversight?
    e. The existence of captive insurance vehicles within the insurance holding company system as well as their specific purpose and domicile. What type of financial reporting is available/provided to the state of domicile for the entities? What risks do these captives pose to the insurance holding company system?
    f. Nature and function of material non-insurance legal entities that pose a material risk to the insurance holding company system. Are there material risks presented by these non-insurance entities? (Note: It is recommended that the insurer supply information via the non-insurance company grid provided [Excel] to assist with this determination. See also procedure 2 to be completed in conjunction with Procedure 1, to determine how to tailor this grid to the risks of the group and therefore the focus of the remaining analysis)
    g. Recent news, press releases or other information received from the group that identify changes in the holding company system or financial results.
    h. Obtain and review information to consider whether high-level management of the insurance holding company system is suitable for the respective positions held (e.g., does the individual have the appropriate background and experience to perform the duties expected of him/her?). Any suitability and other governance-related concerns identified should be communicated in writing to other relevant regulators both domestically and internationally. Follow-up on any previously-identified corporate governance issues of the insurance holding company system.

PROCEDURES #1 - 2 are intended to be completed simultaneously, as each is anticipated to be informative to the other. In many cases, information obtained from prior years may not have changed**.** That prior information can also be helpful in determining the extent of information regarding individual companies (non-insurance and insurance) that needs to be collected from the group in accordance with Procedure #1f and Procedure #2. Analysts should use such prior analysis and prior knowledge, as well as updated financial and nonfinancial information on the group, or members of the group, to help determine what information update is requested from the group and its affiliates. The information requested is intended to be focused on the primary risks of the group, and changes in the group or economic environment which require additional information to evaluate. For example, a lead state that has previously identified possible concerns with the overall profitability of the group will commonly track measures of profits against some measure, and individual company by company information would be used by the lead state to monitor and better understand and continue to evaluate that risk. Another example may be a group for which the lead state has seen a substantial increase in business written without a corresponding increase

in group capital. The lead state should use information from other filings (e.g., ORSA Summary Report and/or Form F) in understanding the business change, but may require further detail on the specific products and legal entities for which the business is written to fully understand and evaluate the change in risk. The exclusion or inclusion of entities from the focus of the group-supervision should be re-assessed annually.

PROCEDURE #1 assists analysts in documenting his or her understanding of the insurance holding company system. Various documents are available as a resource in helping to understand the insurance holding company system and its business purpose, but it is also anticipated that much of this information will be accumulated and updated by analysts through inquiries to the group.

As part of this review, analysts should also consider on a regular basis whether high-level management of the insurance holding company system is suitable for the respective positions held. Suitability includes considering whether the individual has the appropriate background and experience to perform the duties expected of his/her position. Any suitability and other governance-related concerns identified should be communicated to other relevant state insurance departments (and also possibly with international regulators). Analysts should also follow-up on any previously identified corporate governance issues of the insurance holding company system.

Complete Lead State Analysis Considerations

After gaining an understanding of the holding company system, complete the following considerations to assist in determining the detailed analysis procedures to be performed.

2. Based upon the information obtained in Procedure 1, and in combination of prior year analysis or prior knowledge of the group, determine the focus of this year's annual holding company analysis. Specifically consider the information obtained regarding both insurance and non-insurance entities and their impact on the entire group. Additionally, include a summary within this analysis that discusses the focus areas and why.
3. Using the Lead State Report on iSite+, identify the primary contact of other involved domestic states. Based on the analysis of the overall holding company structure and the state's preference, analysts may consider whether there is a need to request the confidential IPS report(s) from the applicable U.S. domestic states for insurers within the holding company system, pursuant to the NAIC's Insurer Profile Summary Sharing Best Practices. (E.g., A state may consider using the NAIC Prioritization Summary Report to assess the need to request such reports.) If the IPSs are requested, identify and document any material concerns or risks that were not covered elsewhere in this analysis.
4. Identify and document any other regulated entities within the holding company system and the respective involved supervisor. (Note: Consider using Annual Financial Statement, General Interrogatories – Part 1, #8.1 through #8.4). Consider the following:
    a. Does the size, complexity and/or interconnectivity of the entity with the holding company system warrant communication with the respective regulator/supervisor? If "yes," describe any communication between state, federal and international regulators that has been planned or initiated.
    b. If there is international insurance activity, document which jurisdiction(s) is considered the group-wide supervisor(s) of the insurance holding company system.
    c. Does the size, complexity and/or interconnectivity of the entity with the holding company system warrant a potential supervisory college? If "yes," describe any communication between state, federal and international regulators that has been planned or initiated.
    d. Does the department and/or other domestic state(s) within the group have a MoU to share confidential information with the involved supervisor(s)?
    e. Have any state, federal and/or international regulatory action(s) been taken? If "yes," describe.
    f. Determine and document whether it is necessary to develop an overall understanding of the relevant regulatory and supervisory requirements of the authority and document accordingly.

5. If applicable, identify and document contact information for federal or international involved supervisor(s).
6. Establish a plan for communicating and coordinating with the domestic state(s) and other involved supervisors if significant events, material concerns, adverse financial condition or prospective risks are identified.
7. If your state is leading or participating in a supervisory college of the holding company system, review the most recent information obtained as part of the supervisory college to determine if there are any areas of risk that require follow-up or additional analysis.

PROCEDURE #2 assists analysts in determining the focus of this year's annual holding company analysis. A practical method of determining the entities to focus on may begin with some type of internal unaudited consolidating financial statements prepared by the group, if applicable although other more simple methods could be used once the lead state had a better recognition of the size and risks of the individual legal entities. Alternatively, if internal unaudited consolidating financial statements are not prepared by the group, analysts may be able to obtain some information from the ORSA Summary Report. However, in many cases, that report will not contain legal entity information, therefore analysts may instead choose to request the insurer supply information via the non-insurance company grid provided. Analysts should also consider if there are other entities that pose a risk to the group, and for which the lead state analyst can only obtain qualitative information from the group in better evaluating such risks (such entities and these situations are presumed to be rare but can occur under some unique situations). The purpose of this step is to consider if there are any individual legal entities that can be excluded from the scope of group-wide supervision, because individual legal entities that are negligible to the group should be excluded. This procedure also assists analysts in putting together the Holding Company System Summary section of the GPS to indicate which entities have been subject to review and to be used as a starting point in ensuring there are no gaps or duplication in regulatory oversight between all of the states. Such process would conclude when the GPS is distributed and reviewed by the other domestic states and the lead state receives no feedback which would suggest otherwise. Although duplication is expected to be rare, obtaining input from other domestic states regarding the focus of the analysis is considered appropriate because the group can have an impact on each of the domestic insurance entities.

PROCEDURES #3 - 7 assist analysts with regulator/supervisor communication and coordination and supervisory college considerations. See Section VI.J. Supervisory Colleges Guidance for a more detailed discussion of supervisory colleges utilized for internationally active insurance groups.

Conduct Detailed Analysis of the Insurance Holding Company System

Conduct detailed analysis by evaluating the overall financial condition of the holding company system through an assessment of the group's exposure to each of the nine branded risk classifications. Consider both the financial review of insurance and non-insurance entities within the insurance holding company system. In certain cases, the review of non-insurance entities may be mitigated by the lack of interdependence of the entities. Conduct the assessment by using quantitative and qualitative information. Consider utilizing the following, if available and/or applicable: legal entity IPSs; Form B and Form F; ORSA; shareholders' report; combined financial statements; quarterly and annual SEC filings; International Financial Reporting Standards (IFRS) filings; personal net worth statements; audited financial statements; management's assessment of internal controls; auditor's assessment of management's assessment of internal controls; press releases; confidential information from other regulatory/supervisory bodies; and any other available sources.

The following are key areas of review of financial solvency. Below each are examples of the branded risks that may be identified through the analyst's review. The examples of related risks shown below do not represent a complete list; therefore, analysts should use professional judgment in categorizing issues identified during analysis

into the risk categories. Summarize the overall analysis of the holding company in the branded risk assessment section of the GPS. If necessary, analysts may also document further details below.

8. Profitability: Evaluate the insurance holding company system's operating and net income over the past three years, as well as return on equity (ROE) and document any trends as well as the primary drivers of those trends.

    - Pricing and Underwriting Risk—e.g., volume/growth; new product lines; geographic concentrations; pricing policies; price adequacy as identified through quantitative metrics; segment information identifying profitable vs. non-profitable product lines; impact of insurance vs. non-insurance operations on the profitability of the insurer: etc.
    - Reserving Risk—e.g., reserve development & trends; reserve adjustments; crediting rates; shifts in exposures to product lines: etc.
    - Market Risk—e.g., impact of market changes on investment income/yields; impact of/exposure to interest rate changes; impact of/exposure to changes in foreign exchange rates: etc.
    - Strategic Risk—e.g., planned growth/decline in writings; management expertise; variance to business plans and ability for group to adequately project future profitability; investment strategy and the adherence to it: etc.
    - Operational Risk—e.g., risk of events impacting the overall financial results, such as catastrophe events impacting P/C lines of business, issues with IT systems, cyber-security risks; degree of variability in profitability; high expense structures; TPA/MGA relationships; risks associated with distribution/sales channels; risks associated with unprofitable segments or lines of business: etc.

9. Financial Position**:** Evaluate the insurance holding company system's shareholder's equity (or equivalent), and document any negative deterioration.

    a. If publicly traded, review the holding company's stock price history. Has the value of common stock declined significantly over the past year? If "yes," explain the reasons for the negative trend.

    b. Assess the holding company's sources of capital.

        - Reputational Risk—e.g., sharp fluctuations and/or drops in stock prices or changes in financial strength and credit ratings that may impact market perceptions, sales growth and access to capital markets, etc.
        - Credit Risk—e.g., concentrations in investments; materiality of high risk or low quality investments; credit risks concentrated within certain segments of the group that impact the overall group financial position, etc.
        - Market Risk—e.g., stress test results, concentrations in certain investment market segments, changes in asset valuation due to market shifts, etc.
        - Operational Risk—e.g., impact of overall financial results; have sufficient profits been generated to meet business model needs and to generate capital, etc.
        - Strategic Risk—e.g., capital position; capital plans as may be outlined in ORSA or ERM planning; impact of changes in corporate structure, etc.
        - Legal Risk - e.g., litigation resulting in material contingent liabilities, etc.

10. Leverage: Review the insurance holding company system's leverage positions and document any negative trends and/or deteriorating ranges. In addition to traditional measures of financing leverage (debt to equity, interest coverage, etc.) and operating leverage (e.g., writings to surplus, surplus aid from reinsurance, etc.), evaluate the group's use of derivatives and their purpose including collateral held/required, trends, etc.

    - Market Risk – e.g., use of derivatives to mitigate economic conditions, generate profit, etc.

- Credit Risk—e.g., asset leverage risk in the insurance vs. non-insurance investment portfolios, extensive use of reinsurance, etc.
- Reserving Risk—e.g., level of operating leverage created by premium growth, etc.
- Strategic Risk—e.g., effectiveness of risk mitigation strategies as may be outlined in ORSA, ERM filings or business plans; risks posed by the use of captive insurance vehicles, etc.
- Operational Risk—e.g., financing leverage as indicated through measurements such as interest coverage ratio and debt-to-equity ratio; amount/type/trend in debt issuance and ability to meet payment schedules, etc.
- Reputational Risk—e.g., impact of reputational risk changes, such as ratings, on debt covenants, sales, etc.

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.

12. If applicable, review the insurance holding company system's independent public audit report. Comment on the following:
    - Auditor's Opinion
    - Notes to Financial Statements
    - Management's Assessment of Internal Controls
    - Auditor's Assessment of Management's Assessment of Internal Controls

13. Document in this analysis any concerns that arose during the lead state's evaluation of its domestic insurer(s) that in the opinion of the lead state have an impact on the evaluation of the overall financial condition of the insurance holding company system.

14. During the holding company analysis process, identify and document any material concerns or conditions within the group that may have a material impact on the lead state's domestic companies. Update the IPS of the state's domestic insurer(s) in the group for the impact of the Holding Company on that insurer(s).

PROCEDURES #8 - 13 assists analysts in determining and understanding the overall financial condition of the insurance holding company system which includes understanding profitability, financial position, leverage, liquidity and the organization's use of derivatives (if applicable). These procedures, and any additional/supplemental procedures that are chosen from the list below, are generally the most critical aspect of the insurance holding company analysis and contribute significantly to the identification and assessment of branded risk exposures as presented in the GPS. The following summarizes some approaches/issues for analysts to consider when completing these procedures. In most cases, analysts will require further information from the group in order to complete his or her evaluation of these key areas. Such information is necessary in part because no two groups are the same, and no two groups manage themselves in the same way. For example, in the area of profitability, it may be necessary to request more detail information at a particular legal entity or even product level to determine the cause of the changing trend and its impact on branded risk assessments. Another example is that the group may appear to have a greater than average amount of operating leverage and it may be necessary to gather more legal entity information to understand the source of this leverage. Although this may be discussed in the ORSA Summary Report, in many cases it may not. This approach of requesting further information to further isolate the causes of the profitability, leverage and liquidity trends is consistent with general techniques used in financial analysis. This use of general financial analysis techniques is the primary reason the states approach to

group reporting requires only limited information. Consequently, much of the information that should be requested is centered more on the way the group manages itself and its risks.

PROCEDURE #8 assists analysts in evaluating the profitability of the group and the impact of profitability issues on the group's exposure to branded risks. The first step in making such an evaluation would typically begin with analyzing the group's experience over a sufficient period of time so as to draw some conclusions. Although no two groups are the same, a good starting point for evaluating profitability would be looking at the group's operating and net income, as well as return on equity (ROE) (i.e., net income/stockholders equity) over a five-year period. The use of ROE is a common measure because it considers the perspective that the most common stakeholder, a shareholder, may use. Shareholders, or at least potential investors, commonly use ROE since it provides a measurement of the benefit that the company is generating for the potential use of shareholders. The measurement, although simple, can be effective because investors may make a decision to invest, or continue to invest, based on the value that the group can bring to the investors. Although return on equity does not indicate specifically how much value a group has generated for an investor, it provides a good starting point. It is suggested that it be measured over a five-year period, because such a time period is usually likely to show the results of the group under different economic conditions and therefore stresses, and can help to establish a normal expectation along with an expectation as to variables in the group's business plan.

As discussed in other areas, public company investors have different expectations than private investors, and stakeholders of mutual companies and mutual holding companies have even different expectations. Consequently, analysts should use caution in assuming certain things about the group only because its ROE is higher or lower than some of its peers. It is suggested that the information be used instead as a starting point to better understand the specific group. Analysts should use the information in connection with the latest business plan to better understand how the profits compare to what the group expected, and what its investors expect, on a short-term and long-term basis. The group may use other measures to track their experience (e.g., return on assets, return on revenue) but what is important is to understand how well the group is performing compared to its business plan, and how well that business plan allows them to continue to meet all of the demands of being part of a regulated insurance group. The measurement of profitability should not be minimized because, in virtually every single business sector, it is a major driver of strategic actions. The inability to generate sufficient profits can prevent the ability to generate additional capital. Consequently, although the regulator is primarily concerned about the ability of the insurance company, and therefore the group, to have sufficient capital/equity to absorb certain events or situations, a group that is unable to generate sufficient profits may have no ability to generate any new capital. As history has shown, in most cases, groups with insurance operations do not simply raise additional capital in time of stress, but rather find ways to reduce risk. This must be well understood in evaluating the financial condition of a group, and generally speaking, the starting point is the inability to generate the appropriate amount of profits to meet the business model needs. However, because this is a starting point for analyzing the group, and although most group analysis would be done using consolidated GAAP, that is currently not a requirement and therefore insurers may use different accounting basis that can skew such results. In such situations, analysts should consider asking for input from the group itself on the effect that such an issue has on the analysis and again, consistent with previous comments, ask the group to discuss the measures its stakeholders use to measure profitability.

In addition to measuring, tracking and monitoring profitability, analysts will need to obtain an understanding of what activities drive the profitability (or lack thereof) of the holding company system. As the group may be involved in various business activities across a number of segments, profitability may need to be reviewed and considered at the business segment level. Profitability challenges experienced by the group may indicate, or result from, any one of a number of branded risk exposures (e.g., pricing and underwriting risk, reserving risk, market risk, strategic risk and/or operational risk). Therefore, analysts will need to investigate the cause of profitability challenges to determine the extent of the group's exposure to branded risks in these areas.

PROCEDURE #9 assists analysts in evaluating the overall financial condition of the group and its impact on the group's exposure to branded risks. When performing this procedure, it is necessary for analysts to consider the requirement to obtain and understand the nature and function of all non-insurance entities within the group. This

is needed in order to evaluate the potential risk associated with each entity. In connection with obtaining five years of historical profitability figures and obtaining an understanding of the risks of the non-regulated entity, analysts may want to consider requesting consolidating information from those groups that either have a higher degree of variability in their profitability over a five-year period or those groups that have non-insurance entities that have higher potential risk. These are factors that can drive the capital that a group may need to operate its business plan in addition to the capital that is needed for the insurance operations itself, which can be determined at a more granular level at an insurance legal entity and then accumulated up to the group level. Alternatively, or in addition, for those entities that prepare an ORSA, the latter can be easily determined through such a report and can be used as a better starting point for discussing the same issues because they are from the perspective of how the group is managing such risk. (See section VI.E. Enterprise Risk Management Process Risks Guidance for discussion of procedures related to ORSA reports). For those entities that do not, the regulator should use the information from Form F, as well as all of the regulated entities required capital levels, in connection with any additional consolidating information to determine if existing equity levels within non-insurance entities are sufficient to address the needs of the group. However, bear in mind that the ORSA is a report of internal management processes and company business plans and strategies involve management judgment and flexible elements. A deeper discussion with management can provide input to understand management's view of the adequacy of the capital for its business and help analysts better make an appropriate assessment in this area.

In addition to evaluating the group's and individual entity's equity/surplus position, analysts may choose to evaluate the group's stock price and recent trading activity (if publicly traded) and access to additional sources of capital. If the group has been exposed to significant shifts in its stock price, this may be indicative of market concerns regarding the group's financial position. In addition, the sources of capital for the group may provide insight to sources of strength that can be accessed in a troubled company situation and provide greater stability for the group. However, if the sources of additional capital are questionable, this may indicate broader concerns regarding the group's strategy and prospective solvency.

Concerns regarding the group's financial position may indicate, or result from, any one of a number of branded risk exposures including, for example, reputational risk, credit risk, market risk, operational risk, strategic risk and/or legal risk. Therefore, analysts will need to investigate the cause of financial condition concerns to determine the extent of the group's exposure to branded risks in these areas.

PROCEDURE #10 assists analysts in evaluating the leverage of the group. There are generally two kinds of leverage: 1) operating leverage; and 2) financing leverage. Procedures related to operating leverage are generally very closely related to those regarding overall capital/equity adequacy/evaluation. This is because by definition, leverage is generally intended to be a relative measure of risk, and for insurers, operating leverage is created every time they generate an insurance policy. As alluded to within Procedure #4, insurance legal entity capital requirements already address such facts. Additionally, insurance legal entity capital requirements already address the other major causes of leverage created from operations, including asset leverage. Asset leverage is created when insurers generate risk within their invested asset portfolios. However, when considering the group's financial condition and leverage, analysts must consider the extent to which these same types of operating leverage are created by non-insurance affiliates within the group. Consistent with Procedure #8, leverage can be measured by reviewing the ORSA Summary Report. For those entities that do not prepare an ORSA, the regulator should use the information from the Form F, in connection with any additional consolidating information to determine if there is other operating leverage within the group. Financing leverage is more easily analyzed when its source is debt, which is generally very transparent and easily analyzed in terms of its impact or potential impact on a group's operations. Most public groups that own insurance operations have some level of debt, although most insurance groups do not carry the same level of debt as other financial institutions. This is important because debt by its very nature can generate a significant amount of strain on any entity. This strain can be captured with another simple ratio that should be considered for analysis on any group with debt, the interest coverage ratio (income/interest expense). Similar to the debt/equity ratio, this ratio should be looked at over a period of time (e.g., five years). The following presents different gauges for evaluating this ratio.

Interest Coverage	Benchmarks
Extremely strong	10 to 1 and higher
Strong	5 to 1
Adequate	4 to 1
Marginal	3 to 1
Weak	2 to 1
Extremely weak	1 to 1

The interest coverage ratio can either be expressed as a percentage or as a factor over 1. The interest coverage ratio is a major driver of any corporate entity's credit rating, and in many cases, it can be as high as 10 to 1 or 1000%. A ratio this high demonstrates that the interest expense is only a small portion of the group's operations, or a very small strain on the operations. As this number decreases, it suggests that such debt is a strain. It also demonstrates the amount of funds that are not available for stockholder dividends. Therefore, it can also indicate a potential concern for investors, and as a result, the ability to raise additional capital, or at a minimum be subject to more pressure from shareholders. More pressure to generate higher profits often times forces a group to take higher risks, and thus creates more leverage.

Another measure of debt is the debt to equity ratio (debt/equity). There are different ways to measure this ratio, and usually short-term operating debt is excluded because the intent of the ratio is to demonstrate the overall capital position of the group. As the ratio increases, it creates a greater possibility that shareholders would be left with less value in a bankruptcy because stockholders' claims are subordinate to bondholders. Therefore, similar to other ratios, it is an indicator that it may be difficult for the group to obtain more capital because investors may not be attracted to such groups.

Asset leverage may be demonstrated through the group's use of derivatives or other complex invested assets. Analysts should work with the group to gain a full understanding of the group's purpose for using these instruments, as they may be subject to significant shifts that can impact the profitability, financial position and/or liquidity of the group. Derivatives may be held by the company to hedge against existing business risks or to generate income for the group. The purpose of the group's use of derivatives as well as their effectiveness over an extended period of time should be evaluated and considered. In addition, analysts should consider the impact that any collateral requirements associated with these instruments may have on the group's financial position and liquidity.

Concerns regarding the group's leverage position may indicate, or result from, any one of a number of branded risk exposures including, for example, market risk, credit risk, reserving risk, strategic risk, operational risk and reputational risk. Therefore, analysts will need to investigate the cause of leverage concerns to determine the extent of the group's exposure to branded risks in these areas.

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.

PROCEDURE #12 assists analysts with identifying if there are any concerns regarding the insurance holding company system's independent public audit report and other related reports.

PROCEDURE #13 assists analysts in identifying any significant risks identified through a review of the IPS obtained for its domestic insurer(s) in the group. As the IPS presents the exposure of individual legal entities to the branded risk classifications, the lead state analyst may be able to identify exposures in the legal entity IPS to assist in conducting holding company analysis and preparing a GPS.

PROCEDURE #14 is intended for analysts to identify, evaluate and document during the holding company analysis any material concerns or issues that may have a material impact on the lead state's domestic insurer(s). This may include, but not limited to: affiliated risks, interdependence within the holding company entities and the insurer, reputational risk, and holding company debt service and other corporate initiatives that impact the lead state's domestic insurer(s). A summary of the evaluation of the impact of the holding company on the insurer(s) should be included in the appropriate section of the IPS of the insurer(s).

Additional Procedures on Key Risk Areas – Insurance Holding Company System

The following are available procedures that the lead state may consider performing in analyzing the financial condition of the holding company in part or in total to address current or prospective risks at the discretion of analysts, depending on the level of concern, the area in which the risk was identified, and the degree of interdependence within the holding company entities.

Analysts should use ~~his or her~~their judgment in determining if any of the following procedures should be applied to the group analysis, where the primary input for determining what is appropriate would depend on sophistication, complexity and overall financial position of the insurance holding company system. Documentation of the results of holding company analysis is in the GPS. After each additional procedure, examples of the branded risk classification(s) that may be associated with the procedure have been referenced in parentheses for use in mapping the procedures to branded risk classifications in the GPS.

1. Review the distribution of the insurance holding company's invested assets in order to assess the overall asset quality and note any shift in the mix. (CR, MK, LQ, ST)
2. Is the insurer(s) the only member(s) or the primary member(s) of the insurance holding company system that holds cash and invested assets? (CR, MK, LQ, ST)
3. If there are significant investments in non-investment grade bonds, unlisted stocks, mortgages, real estate or other invested assets, review the supporting schedules in greater detail to determine exposure to default, credit, and liquidity risk. (CR, MK, LQ, ST)
4. Review the distribution of the non-invested assets, and assess the overall collectability risk. (CR, LQ)
5. Review the level of goodwill and intangible assets. Determine the level of goodwill and intangible assets relative to the value of equity. (LQ, OP) If significant, summarize the following:
    a. Nature of intangible assets
    b. Change or trend in goodwill
    c. Source of goodwill
    d. Impairment of goodwill
6. Assess whether the insurance holding company system is reliant on the insurance operations for any of the following (LQ, ST):
    a. Service debt

b. Provide financing

c. Provide revenue streams

d. Provide services and/or facilities/equipment

e. Provide guarantees for the benefits of its affiliates

f. Pledge assets for the benefit of its affiliates

g. Contingently liable on behalf of its affiliates

7. Has debt shown an increasing pattern? If “yes,” explain any unusual changes. (ST)

8. Determine the level of insurance holding company debt and its relative value-to-equity. (ST, LQ) If significant, summarize the following:

   a. Type of debt

   b. Terms of the debt covenants

   c. Maturity schedules

   d. Interest payment schedules

   e. Ability to meet payments (e.g., principal and interest)

   f. Business purpose

9. Review the insurance holding company system’s commitments and contingent liabilities.

   a. Has the insurance holding company been subject to substantial complaints, class action lawsuits or other litigation or investigations? If "yes”, document the nature and outcome of those matters. (RP, LG)

   b. Are any contingencies expected to have a material impact on the financial condition of the insurance holding company? If so, document whether the holding company estimated the potential costs and established a reserve liability. (RV, LG)

10. Gain an understanding of and document the use of collateral across the holding company system. (ST, LQ).

Financial Position

11. Review the insurance holding company’s statement of shareholders’ equity. (ST, OP)

    a. Has equity decreased from the prior year or deteriorated over the past three years? If “yes,” describe the reason(s) for the decline.

    b. Does the net worth of the insurer(s) represent the total net worth or the majority of the net worth of the insurance holding company system?

    c. Is the net worth of the insurance holding company system less than the net worth of the insurer(s)?

12. If publicly traded, review the changes in the insurance holding company’s outstanding common stock. Document and understand the nature and business purpose of the following: new stock issuance; stock repurchase, stock split, short sales, or change in major exchange listings. (ST)

13. Have any insurer(s) of the insurance holding company paid extraordinary dividends upstream? If “yes”:

    a. Assess the nature of the dividends and the amount of dividends paid in relation to prior year surplus to determine the materiality of the insurance company dividends. (OP, ST)

    b. Compare current year extraordinary dividends to prior year dividends to identify any excessive trends in payments. (ST)

14. Review the revenue of the group.
    a. Identify each business segment as identified on the 10K, and review the net income from each. Discuss any notable changes in performance. Are there any business segments that are troubled or pose unusual risks to the insurance holding company system? (PR/UW, ST)
        i. Is the insurer(s) the only or primary revenue producer within the insurance holding company system?
        ii. If affiliates produce net income independently of the insurer(s), what percentage of total net income is produced independently of the insurer(s)?
    b. Has the insurance holding company entered into any new lines of business or types of non-insurance business or discontinued any business? (ST, OP)
    c. Has the volume of business increased or decreased significantly over the prior year? If "yes," explain the reason for the change. (ST, OP)
15. If the insurance holding company group places a significant amount of gross business with reinsurers, assess the following regarding reinsurance agreements:
    a. Risk transfer (CR)
    b. Collateralization to unauthorized reinsurance (CR)
    c. Recent reinsurance transactions (CR, ST)
    d. Credit quality of the reinsurer (CR)
    e. Collectability of recoverables (CR)
    f. Level of surplus aid (ST)

Profitability

16. Review investment income and realized capital gains and losses.
    a. Has net investment income increased or decreased significantly over the prior year? If "yes," explain the reason for the change. (ST, MK)
    b. Document the amount of investment income by sector that is attributed to dividends received from insurance subsidiaries. (ST)
    c. Document the annual investment yield. Has the yield decreased materially over the prior year? If "yes," explain the reason(s) for the change. (ST, CR, MK)
    d. Review the components of investment income. Has investment income from any asset category changed significantly over the prior year? If "yes," explain the reason for the change. (ST, CR, MK)
    e. Did the insurance holding company report material realized capital gains/losses? If "yes," identify the cause of the loss. (ST, CR, MK)
17. Review all other sources of revenue, and note any material changes or weaknesses. (PR/UW, ST)
18. Review expenses.
    a. Have losses increased or decreased substantially over the prior year? If "yes," explain the reason for the change. (RV)
    b. Have administrative and other expenses increased significantly over the prior year? If "yes," explain the reason for the change. (OP)
    c. Summarize the loss and expense ratios by line of business for material insurance lines and review the trend. (OP, RV, PR/UW)

19. Has the insurance holding company reported any non-recurring revenues or expenses that materially inflate or reduce earnings? If "yes," describe the reason for the revenue or expense. (ST, OP)

20. Did the insurance holding company report income or losses from discontinued operations? If "yes," summarize the nature of those operations and evaluate the earnings from those operations. (ST, OP)

21. Examine cash flow and document if there has been a negative trend in operating, investing, or financing activities over the past year or the past three years. (LQ)

22. Evaluate any downstream payments and explain the reason(s) for the downstream contributions. (LQ)

PROCEDURES #1 - 3 assist analysts in reviewing the invested assets of the group, noting any significant increases or decreases from the prior reporting period. Identify the most significant concentration of assets, and review the quality distribution of the asset portfolio. Assess the group's asset risk including credit, default, sector, and/or concentration risk. Include a review of affiliated ownership and any upstream holdings.

PROCEDURES #4 - 5 assist analysts in reviewing the non-invested assets of the group, noting any significant increases or decreases from the prior reporting period. Assess the group's exposure to risk related to high recoverable and receivables and miscellaneous balances. Also, assess the risk related to any miscellaneous assets such as goodwill or other intangible assets.

PROCEDURES #6 - 10 assists analysts in reviewing the liabilities of the group, noting any significant increases or decreases from the prior reporting period. Determine if debt exists at the holding company level that may be material and could affect the insurance companies. Debt includes not only long-term debt financed through the issuance of bonds, but also includes other long-term debt granted by a financial institution, as well as short-term vehicles such as commercial paper, repurchase agreements or bank credit facilities. Consider all types of debt arrangements when determining the amount and timing of cash flow payments.

PROCEDURES #11 - 13 assist analysts in reviewing the holding company's overall financial position. Holding company equity is usually reported on a GAAP consolidated basis and represents the retained earnings of the holding company and its ownership share of the equity of its subsidiaries.

The initial focus of insurance holding company analysis centers on the current level of equity. The amount of equity is primary in evaluating the organization's capacity to write business and its ability to cover unanticipated loss payments and expenses, uncollectible premiums and receivables, and capital losses to invested assets. Analysts should take note of the trend over past reporting periods and the factors that have significantly influenced an increase or decline.

PROCEDURES #14 - 15 assist analysts in reviewing the operations of the group. A required component of certain holding company filings, including SEC filings, is the reporting of premium or other non-insurance business segments. The segment disclosure is fairly broad, including information for each segment on net income, total revenue, and total assets. This information is helpful because it provides analysts with information that management considers in evaluating the results of the entire organization. Reporting segments may include:

- **Operational**—This segment reports the holding company results by categories such as property/casualty, life, bank, non-insurance, or financing and may describe the major operational divisions.
- **Special Sectors**—This segment may identify writing categories or specific lines of business in which an organization specializes. Examples include program business such as artisan contractors.
- **Geographic Concentrations**—Some organizations report their results according to the geographic areas in which the insurance coverage is written or the location of the controlling branch office. This is a fairly common type of reporting for international organizations.
- **Managing General Agents (MGA) and Third-Party Administrators (TPA)**—This segment identifies business produced by MGAs or TPAs. For additional information regarding MGAs and TPAs, refer to Part III. Analyst Reference Guide—Operational Risk.

Analysts should focus on the overall profitability of the segments as well as the stability of earnings over a period of time. To the extent that the segment has reported inconsistent earnings or has reported any losses, analysts may wish to obtain a greater understanding of the causes.

Review the insurer's overall plan of operations, including mission statement, business plan, financial projections, marketing strategies, investment policy and management's philosophy.

- **Mission Statement**—Overall focus and philosophy is clearly stated.
- **Business Plan/Financial Projections**—Determine whether the group has a current business plan that includes details on its primary lines of business and growth strategies, geographic focus, and a plan of operation that contains the group's annual financial and marketing goals. Determine that the group has projected future financial results that appear reasonable based on the variances between plan versus actual results.
- **Marketing Strategies**—Determine whether the group has in place a viable marketing plan that outlines the methods of marketing its products and services, (e.g., direct marketing, agent force, managing general agents, projected sales growth, geographic strategies, and the development and sales of new products).
- **Investment Policy**—Determine the methodology of investment practice, (e.g., investment pool, investment manager, and investment consultants). Ensure that the domestic insurer is in compliance with state investment laws. Evaluate management's philosophy on high-risk securities, affiliated investments (both insurance and non-insurance), and asset and liability matching.
- **Management's Philosophy**—Gain an understanding of the group's culture, management's expertise, and management's future vision of the group.

Determine whether the reinsurance programs in place support the overall risk profile of the group. Determine whether significant errors exist relating to the accounting for reinsurance. Review reinsurance recoverables for materiality and collectability. Identify whether reinsurance between affiliates within the group involve any unusual shifting of risk from one affiliate to another. Determine whether any of the companies within the group are using reinsurance for fronting purposes, and if so, whether any potential problems exist.

PROCEDURES #16 - 20 assist analysts in evaluating the profitability of a holding company, which is measured by its ability to generate earnings and reported on a consolidated basis as net earnings (loss). The earnings statement includes revenues and expenses and the contributing factors to net income. Attention should be focused on special reporting items such as earnings or expenses from discontinued operations. Losses from discontinued operations may represent a significant source of drain on the holding company's earnings. These operations should be investigated thoroughly to identify the types of operations involved, expected durations, and their impact on holding company earnings.

PROCEDURES #21 - 22 assist analysts in reviewing a group's cash flow. The three primary sections within a holding company cash flow statement include cash from operating, investing, and financing. These categories detail the cash inflows and the expenses associated with the activities of the holding company.

A positive cash flow from operations is essential to the continued financial stability of a holding company. A negative cash flow from operations or a negative cash flow trend could present a drain on assets.

Analysts should assess the level of liquid assets to current liabilities to determine the proper matching of assets to claims obligations. Analysts should also assess the material risk associated with low-quality assets and understated reserves.

Additional Procedures for U.S. Based IAIGs

The following general procedures are outlined ~~in ComFrame~~ for the group-wide supervisor of U.S. based IAIGs to use in analyzing the financial condition of ~~an~~the IAIG. Analysts should use their judgment in determining how to apply the procedures to group analysis and how to document the results but should not duplicate efforts if these considerations are already addressed in other holding company analysis, corporate governance or ORSA review

procedures. However, as other jurisdictions expect the U.S. group-wide supervisor to address these ~~ComFrame~~ elements on a regular basis, the analyst should consider the level of documentation to produce in this area. In addition, findings and relevant information from the completion of these procedures should be incorporated into the GPS and shared with other impacted regulators, including supervisory college members, as deemed appropriate.

1. Consider and evaluate the complexity of the IAIG's group structure and the resulting risks to effective group-wide supervision.
    a. See also procedure 1 of Appendix C in VI.F Group-Wide Supervision – Own Risk and Solvency Assessment (ORSA) Review Template.
2. Consider and evaluate the impact of the complexity of the IAIG's group structure on the effectiveness of its ~~group-wide~~ corporate governance framework.
    a. See also procedures 6-8 in VI.D Group-Wide Supervision – Corporate Governance Disclosure Procedures.
3. Review the IAIG's capital adequacy and the availability of capital to meet group-wide capital expectations, considering the regulatory capital requirements for each insurance legal entity within the IAIG. Consider information provided in the Group Capital Calculation (GCC) in conducting this review, as well as information provided in Section 3 of the group's ORSA Summary Report (see related procedures in VI.F). When applicable and available, review group capital reporting such as the Aggregation Method ~~(or the Group Capital Calculation)~~ or the Reference Insurance Capital Standard (ICS) as reported to the IAIS to prepare for discussions with international supervisors participating in a supervisory college. ~~The review may include a comparison of group capital calculations to the Reference ICS, the extent to which material risks of the IAIG are captured, and any difficulties in implementing the Reference ICS.~~ See also VI.J for guidance regarding discussions of group capital during IAIG supervisory college sessions.
    a. ~~Consider~~Recognize and assess the effect of potential legal, regulatory, and operational impediments to the IAIG's ability to transfer capital and assets within the group, including on a cross-border basis.
4. If significant concerns are identified related to the IAIG's current or prospective solvency, whether due to legal entity or group-wide risks, determine whether additional supervisory measures (as outlined in Model #440) should be implemented to obtain the information necessary and appropriate to assess enterprise risk and to compel the development and implementation of reasonable measures designed to ensure that the IAIG is able to timely recognize and mitigate enterprise risks to members of the IAIG that are engaged in the business of insurance.
    a. Coordinate with other involved supervisors (including the Crisis Management Group, if appropriate) before requiring a specific preventive or corrective measure if that measure will have a material effect on the supervision of the IAIG, or on the supervision of an insurance legal entity within the IAIG, unless exceptional circumstances preclude such coordination.
    b. Coordinate with other involved supervisors (including the Crisis Management Group, if appropriate) if the h~~H~~ead of the IAIG, or an insurance legal entity within the IAIG, fails to take action to address the group-wide supervisor's, or other involved supervisors, identified concerns.
        i. If an insurance legal entity within the IAIG fails to take preventive or corrective measures, as required by the involved supervisor, inform the ~~H~~head of the IAIG and coordinate with other involved supervisors and the ~~H~~head of the IAIG to address.

The following procedures (#5 through #11) are outlined ~~in ComFrame~~ for the group-wide supervisor to utilize in assessing various elements of an IAIG's internal control framework, including specific functions, strategies, and

policies. As many of these assessments and considerations are detailed in nature and may be more effectively assessed during ~~a coordinated~~ group examination efforts at the IAIG, the analyst is generally encouraged to collaborate with and place reliance on the examination function in this area, where appropriate. In addition, the analyst should not duplicate efforts if these considerations are already addressed in other holding company analysis, corporate governance or ORSA review procedures.

5. Review the results of the most recent ~~coordinated~~ group examination efforts ~~of~~ at the IAIG to understand the ~~group-wide~~ internal control assessment performed and determine if any follow-up is necessary to address concerns or recommendations.

    a. Consider the extent to which the examination addressed ~~group-wide~~ controls and processes related to the outsourcing of critical functions including:

        i. Policies and contractual requirements; due diligence prior to entering new outsourcing agreements; ongoing risk assessment and oversight of outsourced functions; and contingency plans for emergencies and service disruptions.

    b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to address:

        i. Diversity and geographical reach of activities; intra-group transactions; interconnectedness of entities; and applicable laws and regulations of the jurisdictions in which the IAIG operates.

6. Review the results of the most recent ~~coordinated~~ group examination efforts at~~of~~ the IAIG to understand the ~~group-wide~~ compliance function assessment performed and determine if any follow-up is necessary to address concerns or recommendations.

    a. Consider the extent to which the examination addressed the ~~group-wide~~ compliance function's ability to ensure compliance with relevant legislation and supervisory requirements applicable at both the group~~-wide~~ and material legal entity level.

    b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to maintain an effective compliance function.

7. Review the results of the most recent ~~coordinated~~ group examination ~~of~~efforts at the IAIG to understand the ~~group-wide~~ actuarial function assessment performed and determine if any follow-up is necessary to address concerns or recommendations.

    a. Consider the extent to which the examination addressed the ~~group-wide~~ actuarial function's ability to provide oversight of the groups~~-wide~~ actuarial activities, functions and risks emanating from insurance legal entities within the IAIG including:

        i. Policies and controls; actuarial concerns at the group or legal-entity level; current and prospective solvency position; adequacy of reinsurance arrangements; actuarial-related risk modelling in ORSA and use of internal models; coordination with legal entity actuarial functions; and providing independent advice and regular reporting to the IAIG Board or one of its committees.

    b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to maintain an effective actuarial function.

8. Review the results of the most recent ~~coordinated~~ group examination ~~of~~efforts at the IAIG to understand the ~~group-wide~~ internal audit function assessment performed and determine if any follow-up is necessary to address concerns or recommendations.
    a. Consider the extent to which the examination addressed the ~~group-wide~~ internal audit function's ability to provide independent assessment and assurance regarding:
        i. ~~Group-wide p~~Policies, processes, and controls; preservation and protection of assets and prevention of fraud; reliability, integrity, and completeness of accounting, financial, management, IT, and risk reporting information; capacity and adaptability of IT systems to provide accurate and timely information to the Board and Senior Management; and design and operational effectiveness of risk management and internal controls systems.
    b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to maintain an effective internal audit function.
9. Review the results of the most recent ~~coordinated~~ group examination ~~of~~efforts at the IAIG to understand the review performed of the ~~group-wide~~ investment policy (or similar policies and practices) and determine if any follow-up is necessary to address concerns or recommendations.
    a. Consider the extent to which the examination addressed whether the ~~group-wide~~ investment policies and practices incorporate the following criteria:
        i. Guidelines/limits for investment quality; guidelines/limits to ensure proper diversification and mitigate asset concentration risk; a counterparty risk appetite statement to limit credit risk from a single counterparty; guidelines/limits for intra-group investments; tracking and monitoring of investments to ensure compliance with policies; guidelines to avoid placing undue reliance on assessments by credit rating agencies for investment selection and risk management process.
    b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to maintain effective investment policies and practices.
10. Review the results of the most recent ~~coordinated~~ group examination ~~of~~efforts at the IAIG to understand the review performed of the ~~group-wide~~ claims management policy (or similar policies and practices) and determine if any follow-up is necessary to address concerns or recommendations.
    a. Consider the extent to which the examination addressed whether the ~~group-wide~~ claims management policies and practices incorporate the following criteria:
        i. Guidelines for claims estimation and settlement; feedback into the group's ~~-wide~~ underwriting policy and reinsurance strategy; and claims data reporting for group analysis.
    b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to maintain effective claims management policies and practices.
11. Review the results of the most recent ~~coordinated~~ group examination ~~of~~efforts at the IAIG to understand the review performed on the ~~group-wide~~ strategy for reinsurance and other forms of risk transfer and determine if any follow-up is necessary to address concerns or recommendations.
    a. Consider the extent to which the examination addressed whether the following issues are appropriately addressed:

i. Interaction with the group's ~~wide~~ risk and capital management strategies; achievement of underwriting risk appetite, both gross and net; appetite for and practices in place to address reinsurer credit risk; policies and practices around legal entity reinsurance arrangements and group aggregation; procedures for managing reinsurance recoverables; intra-group reinsurance strategy and practices; use of alternative risk transfer; and effectiveness of risk transfer in adverse circumstances.

b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to maintain effective ~~group-wide~~ strategies for reinsurance and other forms of risk transfer.

IAIG Procedures #1 and 2 assists the analyst in evaluating the impact of the group's complexity on the effectiveness of group ~~-wide~~ supervision and the IAIG's governance processes. As many IAIGs have multiple levels of holding companies, various legal entities incorporated in various jurisdictions, and a significant number of shared-services and inter-connectedness, it is important for the analyst to consider the impact of this complexity on the group's risks and corporate governance activities.

IAIG *Procedure* #3 assists the analyst in assessing the group-wide capital position of the IAIG, as well as any potential issues related to capital fungibility. The focus of this review should be utilizing information provided in the GCC and ORSA Summary Report to assess the IAIG's capital position. For additional guidance on utilizing information provided in the ORSA Summary Report to assess group capital, see supporting guidance and review procedures at VI.E and VI.F. [PE1] Also, when applicable, this procedure assists the analyst in understanding the ICS if calculated and provided by the IAIG or other reporting such as the Aggregation Method, during the ICS Monitoring Period. Understanding the group capital information reported to the IAIS can assist the analyst in communicating with international supervisors and participating in discussions on the ICS at supervisory college sessions (see additional guidance at VI.J). The IAIS' ICS Monitoring Period runs from 2020 through the end of 2024 and is intended to assess the effectiveness of the newly developed standard. A main objective of the Monitoring Period is to receive feedback from insurance regulators on the Reference ICS and, if applicable, feedback on additional reporting. During the Monitoring Period, the ICS is not designed for the purpose of supervisory intervention on the basis of capital adequacy but may assist supervisors in ongoing risk assessment. During the Monitoring Period, U.S. IAIGs may report an alternative group capital calculation to the IAIS known as the Aggregation Method, which is expected to be similar to the ~~U.S. Group Capital Calculation~~GCC ~~under development at the NAIC~~. The Aggregation Method will be subject to a Comparability Assessment and by the end of 2024, will be deemed to produce, or not produce, comparable outcomes to the ICS.

IAIG Procedure #4 assists the analyst in determining whether additional supervisory measures should be taken in response to risks or concerns identified during the holding company analysis for the IAIG. As the group-wide supervisor assumes responsibility for overseeing the overall solvency monitoring for the group, it is important that risks or issues requiring supervisory intervention are identified and addressed in a timely manner through coordination with other involved supervisors.

IAIG Procedure #5 assists the analyst in coordinating with the examination function to evaluate ~~group-wide~~ control processes and functions. As discussed in procedures 1 and 2, the structure and complexity of an IAIG can lead to various challenges, including challenges in effectively organizing and coordinating control functions across holding companies, legal entities, and jurisdictions. However, as evaluation of ~~group-wide~~ control processes is generally performed during ~~an~~ on-site ~~group~~ examination efforts, the analyst should review and follow-up on relevant results of the most recent examination and consider whether any recent changes in group structure or strategy have impacted control functions.

IAIG Procedure #6 assists the analyst in coordinating with the examination function to evaluate the ~~group-wide~~ compliance function and how it ensures compliance with regulatory requirements at both the group and legal entity level.

IAIG Procedure #7 assists the analyst in in coordinating with the examination function to evaluate the ~~group-wide~~ actuarial function and its role in providing oversight of the group-wide actuarial activities, functions and risks emanating from insurance legal entities within the IAIG.

IAIG Procedure #8 assists the analyst in coordinating with the examination function to evaluate the ~~group-wide~~ internal audit function and its role in providing independent assessment and assurance regarding internal controls, systems, and risk management practices.

IAIG Procedure #9 assists the analyst in coordinating with the examination function to evaluate ~~group-wide~~ investment policies and practices, including whether they set criteria for investment quality and address the selection of, and exposure to, low-quality investments or investments whose security is difficult to assess.

IAIG Procedure #10 assists the analyst in coordinating with the examination function to evaluate ~~group-wide~~ claims management policies and practices, including whether they include procedures for: claims estimation and settlement; feedback into the group's~~-wide~~ underwriting policy and reinsurance strategy; and claims data reporting for group analysis.

IAIG Procedure #11 assists the analyst in coordinating with the examination function to evaluate the ~~group-wide~~ strategy for reinsurance and other forms of risk transfer, including whether the strategy is consistent with risk and capital management strategies, in line with underwriting risk appetites, and addresses credit risk with reinsurance counterparties.

Contents of the Group Profile Summary (GPS)

The following analysis work should be documented in the GPS:

- **Holding Company System Summary** – Include an understanding the holding company system by discussing the structure and business operations, including any significant recent events, changes in structure, key business segments, international activity, rating organization changes/actions and key entities/persons within the insurance holding company system. Include discussion of new and material affiliated transactions/relationships, management and third-party agreements and non-insurance agreements as well as the impact of these agreements to the group/insurers.
- **Corporate Governance Summary** – Present a summary of the group's overall corporate governance structure and an overall assessment for the holding company system.
- **Enterprise Risk Management Summary** – Present a summary and assessment of the enterprise risk management function in place at the holding company system, as well as a discussion of ORSA Summary Report filing/review status (if applicable).
- **Branded Risk Assessments** – Include a summary assessment of the group's exposure to branded risk classifications, including prospective risks, the financial strength of the insurance holding company system, including finanical position, liquidity, leverage, and profitability. Such documentation should include summarizing key risks noted within the IPSs from respective domestic regulators within the group.
- **Overall Conclusion** – Present an overall conclusion as to the group's financial condition, including key strengths and weaknesses or material concerns that regulators may have with the group's operations going forward.
- **Supervisory Plan** – Present any specifically identified items that require further action and/or monitoring by analysts or specific testing by the examiner.
- **Other Functional Financial Regulators/Supervisors** – Where appropriate, it may be necessary to document an understanding of other functional financial regulators/supervisors involved with legal entities within the

insurance holding company system, including international regulators/supervisors and U.S. federal banking regulators.

Special Note: The following procedures do not supersede state regulation but are merely additional guidance an analyst may consider useful.

The *Corporate Governance Annual Disclosure Model Act (#305)* and *Corporate Governance Annual Disclosure Model Regulation (#306)* provide a summary of an insurer or insurance group's corporate governance structure, policies and practices to permit the Commissioner to gain and maintain an understanding of the insurer's corporate governance framework.

States should also consider completion of applicable questions within the Operational and Strategic risk repositories of this Handbook based upon the level of concern an analyst may have with management performance and the driving forces behind operations. ~~The risk repositories may also be used by an analyst of a state that has obtained the disclosure for an insurer or insurance group subject to the aforementioned corporate governance disclosure. However, analysts should avoid duplicate information requests.~~

Introduction

Model #305 and #306 require~~s~~ an insurer, or an insurance group, to file a summary of an insurer or insurance group's corporate governance structure, policies and practices with the commissioner by June 1 of each calendar year. Model #305 allows the information to be at the ultimate controlling parent level, an intermediate holding company level and/or the individual legal entity level, depending upon how the insurer or insurance group has structured its system of corporate governance. Because most corporate governance is driven at a controlling or intermediate holding company level, this guidance is contained within this section dealing with group supervision. ~~Although by inclusion in this section~~As such, reviewing the corporate governance disclosure of a group is a responsibility of the lead state~~, the approach on this is different from that taken with the Own Risk Solvency and Analysis (ORSA). This is because it's common for most groups to have different layers of governance that is important in achieving the objectives of the group. More specifically,~~ In addition to the role of the lead state, other analysts from participating states may also review corporate governance since it is common for most groups have some level of governance at the individual legal entity level. ~~However, because it is common for legal entity governance to be a less significant aspect of the governance objectives, even those companies that incorporate governance at the individual legal entity level are likely to include materially less documentation on such, may instead summarize such processes and list those entities for which they exist.~~

Non-Lead State Reliance on the Lead State Analysis of Corporate Governance Annual Disclosure:

Model #305 requires the filing to be made with the lead state; however, non-lead domestic states may request the CGAD filing from the insurer. Because the filing may be made on a group basis or legal entity basis, it may contain information that applies to all insurers within the group or it may contain information applicable to a specific legal entity.

It may be necessary or acceptable for the lead state to share its work papers with another state, related to such filing, provided such information is shared in accordance with the confidentiality provisions of Model #305. This is because similar to other solvency regulation models, Model #305 contemplates both off-site and on-site examination of such information. The ~~L~~lead ~~S~~state can share the analysis of the filing through NAIC tools (i.e., iSite+ Regulator File Sharing System) or other means deemed appropriate. Before a non-lead state~~s~~ requests the CGAD filing or conducts a full review of CGAD to determine its impact on their domestic insurers, non-lead domestic states should consider obtaining and reviewing the ~~L~~lead ~~S~~state's analysis of CGAD to reduce duplication of analysis efforts.

To the extent the ~~L~~lead ~~S~~state's analysis of the Corporate Governance Annual Disclosure (CGAD) addresses policies and practices of the group applicable to the non-lead state's domestic insurer, that analysis may be leveraged by the non-lead state to reduce the analysis work of the non-lead state. If the ~~L~~lead ~~S~~state's analysis of CGAD does not assess the impact on the non-lead state's domestic insurer or the CGAD is on a legal entity basis, the non-lead domestic state should consider a review of CGAD. Analysis steps are included in the non-~~L~~lead ~~S~~state analysis procedures.

IAIG Considerations:

While the considerations outlined in this chapter are generally applicable to all insurers/insurance groups (depending on the level at which the CGAD filing is made), there are some additional corporate governance assessment considerations ~~outlined in ComFrame which are~~ applicable to U.S. based IAIGs on an annual basis that are incorporated into this section. It is the responsibility of the group-wide supervisor to ensure that the group meets minimum governance expectations at both the legal entity (for its domestic insurers) and h~~H~~ead of the IAIG level. As such, the ~~G~~group-~~W~~wide ~~S~~supervisor should request and review additional information from the ~~H~~head of the IAIG as necessary to complete this assessment, which may include requesting information similar to what is provided in a CGAD and/or additional information (e.g., biographical affidavits, conflict of interest statements) at the ~~H~~head of the IAIG level. In addition, the analyst should utilize other filings and resources already available to the department including holding company filings (i.e., Form B, Form F), ORSA and any other relevant information (e.g., SEC Proxy Statements, voluntary disclosures) to complete this assessment.

PROCEDURES #1 - 2 assist analysts in reviewing the Corporate Governance disclosure for completeness and help guide analysts through each of the major items of information required by Model #306.

PROCEDURES #3 - 5 assist analysts in summarizing any concerns relative to the insurer or insurance group's corporate governance and its impact.

PROCEDURES #6 - 8 assist analysts in assessing the corporate governance practices of IAIGs on an annual basis.

Compliance with Corporate Governance Disclosure Requirements

1. Does the disclosure provide information regarding the following areas as required by Model #306?
    a. The insurer's or insurance group's corporate governance framework and structure including consideration of the following.
        i. The Board and various committees thereof ultimately responsible for overseeing the insurer or insurance group and the level(s) at which that oversight occurs (e.g., ultimate control level, intermediate holding company, legal entity, etc.). The insurer or insurance group shall describe and discuss the rationale for the current Board size and structure; and
        ii. The duties of the Board and each of its significant committees and how they are governed (e.g., bylaws, charters, informal mandates, etc.), as well as how the Board's leadership is structured, including a discussion of the roles of Chief Executive Officer (CEO) and Chair of the Board within the organization.
    b. The policies and practices of the most senior governing entity and significant committees thereof, including a discussion of the following factors:
        i. How the qualifications, expertise and experience of each Board member meet the needs of the insurer or insurance group.
        ii. How an appropriate amount of independence is maintained on the Board and its significant committees.
        iii. The number of meetings held by the Board and its significant committees over the past year as well as information on director attendance.
        iv. How the insurer or insurance group identifies, nominates and elects members to the Board and its committees. The discussion should include, for example:
            1. Whether a nomination committee is in place to identify and select individuals for consideration.

2. Whether term limits are placed on directors.
3. How the election and re-election processes function.
4. Whether a Board diversity policy is in place and if so, how it functions.

v. The processes in place for the Board to evaluate its performance and the performance of its committees, as well as any recent measures taken to improve performance (including any Board or committee training programs that have been put in place).

c. The policies and practices for directing senior management, including a description of the following factors:

i. Any processes or practices (i.e., suitability standards) to determine whether officers and key persons in control functions have the appropriate background, experience and integrity to fulfill their prospective roles, including:

1. Identification of the specific positions for which suitability standards have been developed and a description of the standards employed.
2. Any changes in an officer's or key person's suitability as outlined by the insurer's or insurance group's standards and procedures to monitor and evaluate such changes.

ii. The insurer's or insurance group's code of business conduct and ethics, the discussion of which considers, for example:

1. Compliance with laws, rules, and regulations.
2. Proactive reporting of any illegal or unethical behavior. [1]

iii. The insurer's or insurance group's processes for performance evaluation, compensation and corrective action to ensure effective senior management throughout the organization, including a description of the general objectives of significant compensation programs and what the programs are designed to reward. The description shall include sufficient detail to allow the Commissioner to understand how the organization ensures that compensation programs do not encourage and/or reward excessive risk-taking. Elements to be discussed may include, for example:

1. The Board's role in overseeing management compensation programs and practices.
2. The various elements of compensation awarded in the insurer's or insurance group's compensation programs and how the insurer or insurance group determines and calculates the amount of each element of compensation paid.
3. How compensation programs are related to both company and individual performance over time.
4. Whether compensation programs include risk adjustments and how those adjustments are incorporated into the programs for employees at different levels.
5. Any "clawback" provisions built into the programs to recover awards or payments if the performance measures upon which they are based are restated or otherwise adjusted.
6. Any other factors relevant in understanding how the insurer or insurance group monitors its compensation policies to determine whether its risk- management objectives are met by incentivizing its employees.

iv. The insurer's or insurance group's plans for CEO and senior management succession.

[1] See additional discussion of conflicts of interest, which could be covered in this section of the CGAD, under Assessment of IAIG Corporate Governance Assessment below.

d. The insurer or insurance group shall describe the processes by which the Board, its committees and senior management ensure an appropriate amount of oversight to the critical risk areas impacting the insurer's business activities, including a discussion of:

i. How oversight and management responsibilities are delegated between the Board, its committees and senior management;

ii. How the Board is kept informed of the insurer's strategic plans, the associated risks, and steps that senior management is taking to monitor and manage those risks;

iii. How reporting responsibilities are organized for each critical risk area. The description should allow the commissioner to understand the frequency at which information on each critical risk area is reported to and reviewed by senior management and the Board. This description may include, for example, the following critical risk areas of the insurer:

1. Risk management processes (an ORSA Summary Report filer may refer to its ORSA Summary Report pursuant to the *Risk Management and Own Risk and Solvency Assessment Model Act (Model #505)*);
2. Actuarial function
3. Investment decision-making processes
4. Reinsurance decision-making processes
5. Business strategy/finance decision-making processes
6. Compliance function
7. Financial reporting/internal auditing
8. Market conduct decision-making processes

2. If the insurer or insurance group has not disclosed specific information listed in Procedure 1 above, was other information included that adequately describes why such information was not included?

Assessment of Corporate Governance Disclosure

3. Is the analyst aware of any significant and material corporate governance information not reported in the disclosure? If "yes," refer to the Management Considerations section of IV.A. Financial Analysis and Reporting Considerations for additional guidance.

4. Based on the analyst's review of Corporate Governance disclosure and any additional information related to the corporate governance of the insurer or insurance group, document any material concerns regarding corporate governance of the insurer or insurance group.

5. Do any of the concerns pose an immediate risk to the insurer's or insurance group's operations, policyholder surplus or capital position?

Assessment of U.S. Based IAIG Corporate Governance

6. Based on the analyst's review of the CGAD and any additional information received (e.g., biographical affidavits, conflict of interest statements), document any material concerns related to the individual and collective suitability of Board Members, Senior Management and Key Persons in Control Functions at the IAIG.

a. In reviewing the information received and assessing suitability, consider whether the IAIG Board has the necessary information and processes in place to understand group-wide corporate governance framework and corporate structure; activities of the legal entities and associated risks; supervisory

regimes applicable to the IAIG; issues that arise from cross-border business and international transactions; and the risk management, compliance, audit, actuarial and related areas of the group.

b. In reviewing the information received, consider whether the group-wide corporate governance framework includes policies and processes to identify and avoid, or manage, conflicts of interest that may adversely affect the IAIG as a whole or any of its legal entities.

7. Based on the analyst's review of the CGAD and any additional information received, document any material concerns related to ~~whether~~ the appropriateness of the corporate governance framework ~~of the group is appropriate to~~given the structure, business, and risks of the IAIG including the risks of its legal entities, and ~~whether clear~~the reporting lines ~~are~~ in place between the material legal entities and the ~~H~~head of the IAIG.

   a. Consider what role or influence the ~~H~~head of the IAIG plays in setting corporate governance expectations at the legal entity level, including establishing the "tone at the top". ~~For example, consider whether the Head of the IAIG establishes minimum standards for the group and then allows legal entities to develop additional practices as necessary to meet local needs.~~

   ~~Consider whether the Head of the IAIG's internal audit function reviews corporate governance practices at both the group and legal entity on a regular basis.~~

8. Based on the analyst's review of the CGAD and any additional information received, document any material concerns related to whether the IAIG's group-wide governance structure promotes effective oversight of the group-wide operations independent of day-to-day management.

For the U.S. lead state:

- ❑ Analysts should update the Group Profile Summary and Supervisory Plan with any material information.
- ❑ Analysts should communicate to the examiner-in-charge (EIC) any prospective risks identified in the review of corporate governance disclosure that affects the domestic insurer. In addition, analysts should share information or open items related to group-wide corporate governance assessments with the EIC ~~of the coordinated group examination~~ to facilitate effective review and follow-up of the analysis during onsite exam activities.

Recommendations for further action, if any, based on the overall conclusion above:

For the U.S. lead state that is also the group-wide supervisor:

- ❑ Contact the holding company seeking explanations or additional information
- ❑ Meet with the holding company management
- ❑ Suggest assessment or follow-up procedures to be completed during the next ~~coordinated group~~ examination
- ❑ Pursue, as appropriate, within an international supervisory college
- ❑ Other (explain)

For the U.S. lead state that is not the group-wide supervisor:

- ❑ Contact the group-wide supervisor, seeking explanations or additional information
- ❑ Pursue, if applicable and as appropriate, within an international supervisory college
- ❑ Other (explain)

For a non-lead state:

- ❑ Contact the lead state, seeking explanations or additional information

- ❑ Pursue, if applicable and as appropriate, within an international supervisory college (if applicable)

Analyst:	Date:
Supervisor Review:	Date:
Supervisor Comments:	

Introduction

The process for assessing enterprise risk management (ERM) within the group will vary depending upon its structure and scale. Approximately 90 percent of the U.S. premium is subject to reporting an annual Own Risk Solvency Assessment (ORSA) Summary Report. However, all insurers are subject to an assessment of risk management during the risk-focused analysis and examination, and this review is a responsibility of the lead state. In addition, all groups are required to submit the Form F - Enterprise Risk Report under the requirements of the NAIC *Insurance Holding Company System Regulatory* Act (#440). In addition, both the ORSA Summary Report and the Form F are subject to the supervisory review process, which contemplates both off-site and on-site examination of such information proportionate to the nature, scale and complexity of the insurer/group's risks. Those procedures are discussed in the following two sections. In addition, any risks identified throughout the entire supervisory review process are subject to further review by the lead state in either the periodic meeting with the insurer/group and/or any targeted examination work. When reviewing the ORSA and Form F, the lead state analyst should consider consistency between the documents, as well as information provided in the Corporate Governance Annual Disclosure.

ORSA Summary Report

The NAIC *Risk Management and Own Risk and Solvency Assessment Model Act* (#505) requires insurers above a specified premium threshold, and subject to further discretion, to submit a confidential annual ORSA Summary Report. Model #505 gives the individual insurer and the insurance group discretion as to whether the report is submitted by each individual insurer within the group or by the insurance group as a whole (See the NAIC *Own Risk Solvency Assessment Guidance Manual* for further discussion).

- **Lead State:** In the case where the insurance group chooses to submit one ORSA Summary Report for the group, it must be reviewed by the lead state. The lead state is to perform a detailed and thorough review of the information and initiate any communications about the ORSA with the group. The suggestions below set forth some possible considerations for such a review. At the completion of this review, the lead state should prepare a thorough summary of its review, which would include an initial assessment of each of the three sections. The lead state should also consider and include key information to share with other domestic states that are expected to place significant reliance on the lead state's review. The lead state should share the analysis of ORSA with other states that have domestic insurers in the group. The group ORSA review and sharing with other domestic states should occur within 120 days of receipt of the ORSA filing.
- **Non-Lead State:** Non-lead states are not expected to perform an in-depth review of the ORSA, but instead rely on the review completed by the lead state. The non-lead states' review of the lead state's ORSA review should be performed only for the purpose of having a general understanding of the work performed by the lead state, and to understand the risks identified and monitored at the group-level so the non-lead state may better monitor and communicate to the lead state when its legal entity could affect the group. Any concerns or questions related to information in the ORSA or group risks should be directed to the lead state.
- **Single Insurer ORSA:** In the case where there is only one insurer within the insurance group, or the group decides to submit separate ORSA Summary Reports for each legal entity, the domestic state is to perform a detailed and thorough review of the information, which would include an initial assessment of each of the three sections and initiate any communications about the ORSA directly with the legal entity. Such a review should also be shared with the lead state (if applicable) so it can develop an understanding of the risks within the entire insurance group. Single insurer ORSA reviews should be completed within 180 days of receipt of the ORSA filing.

Throughout a significant portion of the remainder of this document, the term "insurer" is used to refer to both a single insurer for those situations where the report is prepared by the legal entity, as well as to refer to an

insurance group. However, in some cases, the term group is used to reinforce the importance of the group-wide view. Similarly, throughout the remainder of this document, the term "lead state" is used before the term "analyst" with the understanding that in most situations, the ORSA Summary Report will be prepared on a group basis and, therefore reviewed by the lead state.

Background Information

To understand the appropriate steps for reviewing the ORSA Summary Report, regulators must first understand the purpose of the ORSA. As noted in the *ORSA Guidance Manual*, the ORSA has two primary goals:

1. To foster an effective level of (ERM) at all insurers, through which each insurer identifies, assesses, monitors, prioritizes and reports on its material and relevant risks identified by the insurer, using techniques that are appropriate to the nature, scale and complexity of the insurer's risks, in a manner that is adequate to support risk and capital decisions
2. To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

In addition, separately, the *ORSA Guidance Manual* discusses the regulator obtaining a high-level understanding of the insurer's ORSA and discusses how the ORSA Summary Report may assist the commissioner in determining the scope, depth and minimum timing of risk-focused analysis and examination procedures.

There is no expectation with respect to specific information or specific action that the lead state regulator is to take as a result of reviewing the ORSA Summary Report. Rather, each situation is expected to result in a unique ongoing dialogue between the insurer and the lead state regulator focused on the key risks of the group. For this reason, as well as others, the lead state analyst may want to consider additional support in the form of a broader review team as necessary in reviewing the ORSA Summary Report, subject to the confidentiality requirements outlined in statute. In reviewing the final ORSA filing prior to the next scheduled financial examination, the analyst should consider inviting the lead state examiner to participate on the review team. Regardless of which individuals are involved on a review team, the 120-day or 180-day timeliness standards are applicable to the review. Additionally, the lead state analyst and examiner may want to include the review team in ongoing dialogues with the insurer since the same team will be part of the ongoing monitoring of the insurer and an ORSA Summary Report is expected to be at the center of the regulatory processes.

These determinations can be documented as part of each insurer's ongoing supervisory plan. However, the *ORSA Guidance Manual* also states that each insurer's ORSA will be unique, reflecting the insurer's business model, strategic planning and overall approach to ERM. As regulators review ORSA Summary Reports, they should understand that the level of sophistication for each group's ERM program will vary depending upon size, scope and nature of business operations. Understandably, less complex insurers may not require intricate processes to possess a sound ERM program. Therefore, regulators should use caution before using the results of an ORSA review to modify ongoing supervisory plans, as a variety of practices may be appropriate depending upon the nature, scale and complexity of each insurer.

General Summary of Guidance for Each Section

The guidance that follows is designed to assist the lead state analyst in the review of the ORSA and to allow for effective communication of analysis results with the non-lead states. It is worth noting that this guidance is expected to evolve over the years, with the first couple of years focused on developing a general understanding of ORSA and ERM. It should be noted that each of the sections can be informative to the other sections. As an example, Section II affords an insurer the opportunity to demonstrate the robustness of its process through its assessment of risk exposure. In some cases, it's possible the lead state analyst may conclude the insurer did not summarize and include information about its framework and risk management tools in Section I in a way that allowed the lead state analyst to conclude on effectiveness, but in practice by review of Section II, such a conclusion was able to be reached. Likewise, the lead state analyst may assess Section II as effective but may be

unable to see through Section III how the totality of the insurer's system is effective because of a lack of demonstrated rigor documented in Section III. Therefore, the assessment of each section requires the lead state analyst to consider other aspects of the ORSA Summary Report. This is particularly true of Section I, because as discussed in the following paragraphs, the other two sections have very distinct objectives, whereas the assessment of Section I is broader.

Background Information procedures are provided to assist the regulator in gaining an overall understanding of the ORSA Summary Report and assessing compliance with ORSA Guidance Manual reporting requirements (i.e. attestation, entities in scope).

Section I procedures are focused on assessing the insurer's overall risk management framework. The procedures are presented as considerations to be taken into account when reviewing and assessing an insurer's implementation of each of the risk management principles highlighted in the NAIC's *ORSA Guidance Manual*. In assessing implementation, regulators should consider whether the design of ERM/ORSA practices appropriately reflects the nature, scale and complexity of the insurer.

Section II takes a much different approach. It provides guidance to allow the lead state analyst to better understand the range of practices they may see in ORSA Summary Reports. However, such practices are not intended to be requirements, as that would eliminate the "Own" aspect of the ORSA and defeat its purpose. As such, analysts should not expect or require insurers to organize or present their risks in a particular manner (i.e. by branded risk classification). Rather, the guidance can be used in a way to allow the lead state analyst to better understand the information in this section. Section II guidance has been developed around reviewing key risks assessed by the insurer, evaluating information provided on the assessment and mitigation of those risks and classifying them within the nine branded risk classifications outlined in the Handbook, which are used as a common language in the risk-focused surveillance process for ongoing tracking and communication. As such, the analyst should attempt to classify each key risk assessed by the insurer into a branded risk classification(s) for incorporation into general analysis documentation (IPS or GPS) as appropriate. The branded risk classifications are intentionally broad in order to allow almost any risk of an insurer to be tracked within one or more categories, but the analyst may also use an "Other" classification as necessary to track exposures.

Section III is also unique in that it provides a specific means for assisting the lead state analyst in evaluating the insurer's determinations of the reasonableness of its group capital and its prospective solvency position on an ongoing basis. Section III of the ORSA Summary Report is intended to be more informative regarding capital than other traditional methods of capital assessment since it sets forth the amount of capital the group determines is reasonable to sustain its current business model rather than setting a minimum floor to meet regulatory or rating agency capital requirements.

Background Information

The *ORSA Guidance Manual* encourages discussion and disclosure of key pieces of information to assist regulators in reviewing and understanding the ORSA Summary Report. As such, the following considerations are provided to assist the regulator in reviewing and assessing the information provided in these areas.

- **Attestation** – The report includes an attestation signed by the Chief Risk Officer (or other executive responsible for ERM oversight) indicating that the information presented is accurate and consistent with ERM reporting shared with the Board of Directors (or committee thereof).
- **Entities in Scope** – The scope of the report is clearly explained and identifies all insurers covered. The scope of a group report also indicates whether material non-insurance operations have been covered. The lead state analyst could utilize Schedule Y, the Lead State ~~r~~Report and other related tools/filings to review which entities are accounted for in the filing.
- **Accounting Basis** – The report clearly indicates the accounting basis used to present financial information in the report, as well as the primary valuation date(s).
- **Key Business Goals** – The report provides an overview of the insurer's/group's key business goals in order

to demonstrate alignment with the relevant and material risks presented within the report.

- **Changes from Prior Filing(s)** – The report clearly discusses significant changes from the prior year filing(s) to highlight areas of focus in the current year review including significant changes to the ERM framework, risks assessed, stress scenarios, overall capital position, modeling assumptions, etc.

Review of Section I - Description of the Insurer's Risk Management Framework

The *ORSA Guidance Manual* requires the insurer to discuss the key principles below in Section I of the ORSA Summary Report. For purposes of evaluating the ORSA Summary Report, and moreover, the lead state analyst's responsibility to assess the insurer's risk management framework, the lead state analyst should review the ORSA Summary Report to ascertain if the framework meets the principles. Additional guidance is included to provide further information on what may be contemplated in assessing such principles.

Key Principles:

A. Risk Culture and Governance

B. Risk Identification and Prioritization

C. Risk Appetite, Tolerances and Limits

D. Risk Management and Controls

E. Risk Reporting and Communication

Documentation for Section I

When reviewing the ORSA Summary Report, the lead state analyst should consider the extent to which the above principles are ~~present within~~practiced by the insurer. In reviewing these principles, examples of various considerations are provided for each principle in the following sections. The intent in providing these considerations is to assist the lead state analyst in assessing the risk management framework. However, these considerations only highlight certain elements associated with the key principles and practices of individual insurers that may vary significantly. The lead state analyst should document a summary of the review of Section I by outlining key information and developing an assessment of each of the five principles set forth in the *ORSA Guidance Manual* using the template located in the next section of this Handbook.

A. Risk Culture and Governance

It is important to note some insurers view risk culture and governance as the cornerstone to managing risk. The *ORSA Guidance Manual* defines this item to include a structure that clearly defines and articulates roles, responsibilities and accountabilities, as well as a risk culture that supports accountability in risk-based decision making. Therefore, the objective is to have a structure in place within the insurer that manages reasonably foreseeable and relevant material risk in a way that is continuously improved. Key considerations in reviewing and assessing risk culture and governance might include, but aren't limited to:

- **Roles and Responsibilities** - Roles and responsibilities of key stakeholders in risk and capital management are clearly defined and documented in writing, including members of the board (or committee thereof), officers and senior executives, risk owners, etc.
- **Board or Committee Involvement** – The Board of Directors or appropriate committee thereof demonstrates active involvement in the oversight of ERM activities through receiving regular updates from management on ERM monitoring, reporting and recommendations.
- **Strategic Decisions** – Directors, officers and other members of senior management utilize information generated through ERM processes in making strategic decisions.
- **Staff Availability and Education** – The insurer maintains suitable staffing (e.g., sufficient number, educational background, and experience) to support its ERM framework and deliver on its risk strategy. Staff is kept current in its risk education in accordance with changes to the risk profile of the insurer.
- **Leadership** – The Chief Risk Officer (CRO), or equivalent position, possesses an appropriate level of

knowledge and experience related to ERM and receives an appropriate level of authority to effectively fulfill responsibilities. This includes clear and direct communication channels between the CRO and the BOD or appropriate committee thereof.

- **Compensation** – The insurer demonstrates that incentives, compensation and performance management criteria have been appropriately aligned with ERM processes and do not encourage excessive risk taking given the capital position of the insurer.
- **Integration** – The insurer integrates and coordinates ERM processes across functional areas of the insurer including human resources, information technology, internal audit, compliance, business units, etc.
- **Assessment** – The insurer's ERM framework is subject to regular review and assessment, with updates made to the framework as deemed necessary.

B. Risk Identification and Prioritization

The *ORSA Guidance Manual* defines this as key to the insurer. Responsibility for this activity should be clear, and the risk management function is responsible for ensuring the processes are appropriate and functioning properly. Therefore, an approach for risk identification and prioritization may be to have a process in place that identifies risk and prioritizes such risks in a way that potential reasonably foreseeable and relevant material risks are addressed in the framework. Key considerations in reviewing and assessing risk identification and prioritization might include, but aren't limited to:

- **Resources** – The insurer utilizes appropriate resources and tools (e.g., questionnaires, external risk listings, brainstorming meetings, regular calls) to assist in the risk identification process that are appropriate for its nature, size and structure.
- **Stakeholder Involvement** – All key stakeholders (i.e., directors, officers, senior management, business unit leaders, risk owners) are involved in risk identification and prioritization at an appropriate level.
- **Prioritization Factors** – Appropriate factors and considerations are utilized to assess and prioritize risks (e.g., likelihood of occurrence, magnitude of impact, controllability, speed of onset).
- **Process Output** – Risk registers, key risk listings and risk ratings are maintained, reviewed and updated on a regular basis.
- **Emerging Risks** – The insurer has developed and maintained a formalized process for the identification and tracking of emerging risks.

C. Risk Appetite, Tolerances and Limits

The *ORSA Guidance Manual* states that a formal risk appetite statement, and associated risk tolerances and limits are foundational elements of a risk management framework for an insurer. While risk appetites, tolerances and limits can be defined and used in different ways across different insurers, this guidance is provided to assist the regulator in understanding and evaluating the insurer's practices in this area.

Risk appetite can be defined as the amount of specific and aggregate risk that an insurer chooses to take during a defined time period in pursuit of its business objectives. Articulation of the risk appetite statement ensures alignment of the risk strategy with the business strategy set by senior management and reviewed and evaluated by the board. Not included in the Manual, but widely considered, is that risk appetite statements should be easy to communicate, be understood, and be closely tied to the insurer's strategy.

After the overall risk appetite for the insurer is determined, the underlying risk tolerances and limits can be selected and applied to business units and specific key risks identified by the insurer. Risk tolerance can be defined as the aggregate risk-taking capacity of an insurer. Risk limits can be defined as thresholds used to monitor the actual exposure of a specific risk or activity unit of the insurer to ensure that the level of actual risk remains within the risk tolerance. The insurer may apply appropriate quantitative limits and qualitative statements to help establish boundaries and expectations for risks that are hard to measure. These boundaries may be expressed in terms of earnings, capital, or other metrics (growth, volatility, etc.). The risk tolerances/limits provide direction

outlining the insurer's tolerance for taking on certain risks, which may be established and communicated in the form of the maximum amount of such risk the entity is willing to take. However, in many cases these will be coupled with more specific and detailed limits or guidelines the insurer uses.

Due to the varying level of detail and specificity that different insurers incorporate into their risk appetites, tolerances and limits, lead state regulators should consider these elements collectively to reach an overall assessment in this area and should seek to understand the insurer's approach through follow-up discussions and dialogue. Key considerations in reviewing and assessing risk appetites, tolerances and limits might include, but aren't limited to:

- **Risk Appetite Statement** – The insurer has developed an overall risk appetite statement consistent with its business plans and operations that is updated on a regular basis and subject to appropriate governance oversight.
- **Risk Tolerances/Limits** – Tolerances and limits are developed for key risks in accordance with the overall risk appetite statement.
- **Risk Owners** – Key risks are assigned to risk owners with responsibility for risk tolerances and limits, including actions to address any breaches.

D. Risk Management and Controls

The *ORSA Guidance Manual* stresses managing risk as an ongoing ERM activity, operating at many levels within the insurer. This principle is discussed within the governance section above from the standpoint that a key aspect of managing and controlling the reasonably foreseeable and relevant material risks of the insurer is the risk governance process put in place. For many companies, the day-to-day governance starts with the relevant business units. Those units put mechanisms in place to identify, quantify and monitor risks, which are reported up to the next level based upon the risk reporting triggers and risk limits put in place. In addition, controls are also put in place on the backend, by either the ERM function or the internal audit team, which are designed to ensure compliance and a continual enhancement approach. Therefore, one approach may be to put controls in place to ensure the insurer is abiding by its limits. Key considerations in reviewing and assessing risk management and controls might include, but aren't limited to:

- **Lines of Accountability** – Multiple lines of accountability (i.e. business unit or risk owners, ERM function, internal audit) are put in place to ensure that control processes are effectively implemented and maintained.
- **Control Processes** – Specific control activities and processes are put in place to manage, mitigate and monitor all key risks.
- **Implementation of Tolerances/Limits** – Risk tolerances and limits are translated into operational guidance and policies around key risks through all levels of the insurer.
- **Indicators/Metrics** – Key risk indicators or performance metrics are put in place to monitor exposures, provide early warnings and measure adherence to risk tolerances/limits.

E. Risk Reporting and Communication

The *ORSA Guidance Manual* indicates risk reporting and communication provides key constituents with transparency into the risk-management processes as well as facilitates active, informal decisions on risk-taking and management. The transparency is generally available because of reporting that can be made available to management, the board, or compliance departments, as appropriate. However, most important is how the reports are being utilized to identify and manage reasonably foreseeable and relevant material risks at either the group, business unit or other level within the insurer where decisions are made. Therefore, one approach may be to have reporting in place that allows decisions to be made throughout the insurer by appropriately authorized people, with ultimate ownership by senior management or the board. Key considerations in reviewing and assessing risk

reporting and communication might include, but aren't limited to:

- **Training** – The importance of ERM processes and changes to the risk strategy are clearly communicated to all impacted areas and business units through ongoing training.
- **Key Risk Indicator Reporting** – Summary reports on risk exposures (i.e. key risk indicators) and compliance with tolerances/limits are maintained and updated on a regular basis.
- **Oversight** – Summary reports are reviewed and discussed by the appropriate members of management, and when appropriate, directors, on a regular basis.
- **Breach Management** – Breaches of limits and dashboard warning indicators are addressed in a timely manner through required action by management and, when appropriate, directors.
- **Feedback** – A feedback loop is embedded into ERM processes to ensure that results of monitoring and review discussions on key risks by senior management and the board are incorporated by business unit leaders and risk owners into ongoing risk-taking activities and risk management processes.

Overall Section 1 Assessment

After summarizing the information reviewed for each of the key principles individually, the lead state analyst should provide an overall assessment of the insurer's ERM framework, including any concerns or areas requiring follow-up investigation or communication. In preparing the assessment, the lead state analyst should understand that ORSA summary reports may not always align with each of these specific principles. Therefore, the lead state analyst must use judgment and critical thinking in accumulating information to support their evaluation of each of these principles. The overall evaluation should focus on critical concerns associated with any of the individual principles and should also address any other ERM framework concerns that may not be captured within these principles.

The lead state analyst should also be aware that the lead state examiner is tasked with supplementing the lead state analyst's assessment with additional onsite verification and testing. The lead state analyst should direct the lead state examiner to those areas where such additional verification and testing is appropriate and could not be performed by the lead state analyst. Where available from prior full scope or targeted examinations, information from the lead state examiner should be used as a starting point for the lead state analyst to update. Consequently, on an ongoing basis, the lead state analyst's update may focus on changes to ERM processes and the ORSA Summary Report since the prior exam in directing targeted onsite verification and testing.

The lead state analyst, after completing a summary of Section I, should consider if the overall assessment, or any specific conclusions, should be used to update either the ERM section of the Group Profile Summary (GPS) (if the ORSA Summary Report is prepared on a group basis) or information in the Insurer Profile Summary (IPS) (if the ORSA Summary Report is prepared on a legal entity basis). In addition, key information from the review should be incorporated into the Risk Assessment Worksheet (RAW) during the next full analysis (quarterly or annual) of the insurer where relevant.

Review of Section II - Insurer's Assessment of Risk Exposure

Section II of the ORSA Summary Report is required to provide a high-level summary of the quantitative and/or qualitative assessments of risk exposure in both normal and stressed environments. The *ORSA Guidance Manual* does not require the insurer to address specified risks, but does provide examples of reasonably foreseeable and relevant material risk categories (e.g. credit, market, liquidity, underwriting, and operational risks). In reviewing the information provided in this section of the ORSA, lead state analysts may need to pay particular attention to risks and exposures that may be emerging or significantly increasing over time. To assist in identifying and understanding the changes in risk exposures, the lead state analyst may consider comparing the insurer's risk exposures and/or results of stress scenarios to those provided in prior years.

Section II provides risk information on the entire insurance group, which may be grouped in categories similar to the NAIC's nine branded risk classifications. However, this is not to suggest the lead state analyst or lead state

examiner should expect the insurer to address each of the nine branded risk classifications. In fact, in most cases, they will not align, but it is not uncommon to see some similarities for credit, market, liquidity, underwriting and operational risks. A fair number of insurer risks may not be easily quantified or are grouped differently than these nine classifications. Therefore, it is possible the insurer does not view them as significant or relevant. The important point is not the format, but for the lead state analyst or lead state examiner to understand how the insurer categorizes its own risks and contemplate whether there may be material gaps in identified risks or categories of risks.

Documentation for Section II

Prepare a summary and assessment of Section II by identifying and outlining key information associated with the significant reasonably foreseeable and material relevant (key) risks of the insurer per the ORSA Summary Report. Following the documentation on each key risk per the report, the lead state analysts should include an analysis of such risk. In developing such analysis, the lead state analyst is encouraged to use judgment and critical thinking in evaluating if the risks and quantification of such risks under normal and stressed conditions are reasonable and generally consistent with expectations. The lead state analyst should be aware that the lead state examiner is tasked to update the assessment by supplementing the lead state analyst's assessment with additional on-site verification and testing. The lead state analyst should direct the lead state examiner to those areas where such additional verification and testing is appropriate and could not be performed by the lead state analyst. Suggested information to be documented on each key risk, including supporting considerations, is outlined below:

- **Risk Title and Description** – Provide the title for each key risk as identified/labeled by the insurer as well as a basic description.
- **Branded Risk** – Provide information on the primary branded risk classification(s) that apply to the key risk and briefly discuss how they apply/relate.
- **Controls/Mitigation** – Summarize information known about the controls and mitigation strategies put in place by the insurer to address the key risk.
- **Risk Limits** – Provide information on any specific risk tolerances or limits associated with the key risk and how they are monitored and enforced.
- **Assessment** – Discuss how the key risk is assessed by the insurer, including whether the assessment is performed on a quantitative (QT) or qualitative (QL) basis. Describe the methodology used, the key underlying assumptions and the process utilized to set these assumptions.
- **Normal Exposure** – Summarize the insurer's normal exposure to this key risk based on budget information or historical experience.
- **Stress Scenario(s)** – Discuss the stress scenario(s) identified and applied to the key risk and how they were determined and validated by the insurer.
- **Stressed Exposure** – Provide information on the impact of the stress scenario(s) on the key risk and potential impact on the insurer's surplus position and business strategy/operations.
- **Inclusion on IPS/GPS** – Discuss whether the key risk will be recognized on the IPS/GPS of the insurer, including the risk component it will be incorporated into.
- **Regulator Review & Assessment** – Assess the adequacy of the risk assessment performed by the insurer on each key risk (including the appropriateness of controls/limits and reasonableness of methodology, assumptions and stress scenarios used) and whether any specific issues or concerns are identified that would require further investigation or follow-up communication

After completing a summary and assessment for each key risk addressed in Section II, the lead state analyst should use the information to update the risk assessment in either the GPS (if the ORSA is prepared on a group basis) or the IPS (if the ORSA is prepared on a legal entity basis) and supporting documentation if deemed necessary. In addition, key information from the review should be incorporated into the RAW during the next full analysis (quarterly or annual) of the insurer where relevant.

Overall Section 2 Assessment

The lead state analyst should complete an overall assessment of the information provided in Section II, including an evaluation of the insurer's risk assessment processes and whether all material and relevant risks were assessed and presented at an appropriate level of detail. This should include consideration of whether there is consistency between the insurer's Risk Identification and Prioritization process discussed in Section I and risks that are assessed and reported on in Section II (i.e. have all key risks been addressed). In addition, this should focus on critical concerns associated with the assessment of individual key risks as well as whether the insurer's overall assessment process (i.e. methodology, assumptions and stress scenarios) is adequate and well-supported.

Review of Section III - Group Assessment of Risk Capital

In reviewing Section III of the ORSA Summary Report, the lead state analyst should recognize this section is generally presented in a summarized form. Although this section requires disclosure of aggregate available capital compared against the enterprise's risk capital (i.e. the amount deemed necessary to withstand unexpected losses arising from key risks), the report may not provide sufficient detail to fully evaluate the group capital position. As such, the lead state analyst may need to request the assistance of staff actuaries when available in evaluating the reasonableness and adequacy of the stress tests selected, request additional detail from the insurer in order to understand and evaluate the group capital position and/or refer additional investigation to the financial examination function.

The *ORSA Guidance Manual* (Manual) requires the insurer to estimate its prospective solvency under stressed conditions by identifying stress scenarios that would give rise to significant losses that have not been accounted for in reserves. Furthermore, the Manual requires the insurer to estimate its prospective solvency in Section III by projecting the aggregate capital available and comparing it against the enterprise's risk capital. Insurers may include information in the ORSA Summary Report developed as part of their strategic planning and may include pro forma financial information that displays anticipated changes to key risks as well as projected capital adequacy in those future periods based on the insurer's defined capital adequacy standard. In reviewing information on prospective solvency, the lead state analyst should carefully consider projected changes to the group capital position as well as significant shifts in the amount of capital allocated to different risks, which could signal changes in business strategy and risk exposures.

Documentation for Section III

Insurance groups will use different means to manage capital and they will use different accounting and valuation frameworks. For example, they may determine the amount of capital they need to fulfil regulatory and rating agencies' requirements, but also determine the amount of capital (risk capital) they need to absorb unexpected losses that are not accounted for in the reserves. The lead state analyst may need to request management to discuss their overall approach to capital management and the reasons and details for each approach so that they can be considered in the evaluation of estimated risk capital.

Many insurers use internally developed capital models to quantify the risk capital. In these cases, the ORSA Summary Report should summarize the insurer's process for model validation to support the quantification methodology and assumptions chosen to determine risk capital. The lead state analyst should use the model validation information to assess the reasonableness of the quantification methodology and assumptions used. If the ORSA Summary Report does not provide a summary of the model validation process, the lead state analyst should request copy of the validation report prepared by the insurer. With regard to the determination of the risk capital under stressed conditions, because the risk profile of each insurer is unique, there is no standard set of stress conditions that each insurer should run. However, the lead state regulator should be prepared to dialogue with management about the selected stress scenarios if there is concern with the rigor of the scenario. In discussions with management, the lead state analyst should gain an understanding of the modeling methods used to project available and risk capital over the duration of the insurer's business plan as well as the potential changes to the risk profile of the insurer over this time horizon (i.e. changes to the list of key risks) based on the business plan. The aforementioned dialogue may occur during either the financial analysis process and/or the financial

examination process.

The lead state analyst, after completing a summary of Section III, should assess the overall reasonableness of the capital position compared to the group's estimated risk capital. Additionally, the lead state analyst should also consider if any of the information, or any specific conclusions, should be used to update either the GPS or IPS.

An assessment of the reasonableness of group risk capital and the process to measure it should be provided by developing a narrative that provides the following for each individual element of the insurer's assessment of risk capital:

- **Discussion of Capital Metric(s) Used** – Discuss the method(s) used by the group in assessing group risk capital and their basis for such a decision. Identify the capital metric(s) used to estimate group risk capital, as well as the level of calibration selected. Consider whether the capital metric(s) utilized to assess the group's overall capital target are clearly presented and described. Metrics may consist of internally developed economic capital models (deterministic or stochastic) and/or externally developed models, such as regulatory capital requirements (RBC) or A.M. Best's Capital Adequacy Ratio (BCAR). In discussing calibration, consider both the method used (e.g. Value at Risk, Tail Value at Risk) and its level to evaluate whether the results are calibrated to an appropriate confidence level. Discuss whether the capital metric(s) selected address all key risks of the group. Of particular importance is considering whether the metric used fits the approach used to determine the group's risk appetite. Document the extent to which the lead state analyst believes the approach used by the insurer is reasonable for the nature, scale and complexity of the group and if this has any impact on the lead state analyst's assessment of the insurer's overall risk management.
- **Group Risk Capital - By Risk and in Aggregate** – Provide information on the amount of risk capital determined for each individual key risk and in aggregate. In reviewing the results for each individual risk, evaluate whether all key risks are adequately accounted for in the metric by assessing the amount of capital allocated to each risk. Consider significant changes in group risk capital from the prior filing, the drivers of such change, and any decisions made as a result of such movement.
- **Impact of Diversification Benefit** – Discuss the impact of any diversification benefit calculated by the group in aggregating its group risk capital. Diversification benefit is typically calculated by aggregating individually modeled risk capital and then accounting for potential dependencies among those risks to allow for an offset or reduction in the total amount of required capital (group risk capital). In evaluating the group's diversification benefit, consider whether the benefit is calculated based on dependencies/correlations in key risk components that are reasonable/appropriate.
- **Available Capital** – Provide information on and discuss the amount of capital available to absorb losses across the group, recognizing that there may be fungibility issues relating to capital trapped within various legal entities and jurisdictions for which regulatory restrictions and supervisory oversight constrain the extent and timing of capital movement across the group. Describe management's strategy to obtain/deploy additional capital across the group should the need arise.. Determine if there is any double counting of capital through the stacking of legal entities.
- **Excess Capital** – Discuss the extent to which the group available capital amount exceeds the group risk capital amount per the ORSA Summary Report. In evaluating the overall adequacy of excess capital, consider any concerns outlined above relating to the capital metric(s), group risk capital, impact of diversification and available capital. If the level of excess capital or its availability/liquidity is of concern, evaluate the group's ability to remediate capital deficiencies by obtaining additional capital or reducing risk where required. If further concerns exist, contact the group to discuss and communicate with department senior management to determine whether additional investigation or regulatory action is necessary.
- **Impact of Stresses on Group Risk Capital** – Discuss whether additional stress scenarios have been applied to the model results to demonstrate the group's resiliency to absorb extreme unexpected losses. This step is particularly important when reviewing the use of external capital models that may not be tailored to address the enterprise's specific exposures. Evaluate the range and adequacy of any stress scenarios applied and the resulting impact on the group's ability to accomplish its business strategy, provide sufficient liquidity and meet

the capital expectations of rating agencies and regulators.

- **Governance and Validation** – Discuss and evaluate the group's model governance process and the means by which changes to models are overseen and approved. Consider whether members of senior management are adequately involved. Discuss the extent to which the group uses model validation (including validation of data inputs) and independent review to provide additional controls over the estimation of group capital.
- **Prospective Solvency Assessment** – Discuss the information provided by the group on its prospective solvency position, including any capital projections. Consider whether the business goals of the insurer and its strategic direction are adequately discussed and incorporated into the prospective solvency assessment. For example, are expected changes in risk profile presented and discussed? Also consider whether prospective solvency is projected across the duration of the current business plan. To the extent the prospective assessment suggests that the group capital position will weaken, or recent trends may result in certain internal limits being breached, the lead state analyst should understand and discuss what actions the insurer expects to take as a result of such an assessment (e.g., reduce certain risk exposure, raise additional capital, etc.).

Overall Section 3 Assessment

In addition, after summarizing the assessment of each individual element above, the lead state analyst should provide an overall assessment of the insurer's risk capital assessment process, including any concerns or areas requiring follow-up investigation or communication. The overall evaluation should focus on critical concerns associated with any of the individual elements noted above and should also address any other risk capital assessment concerns that may not be captured within these principles.

The lead state analyst, after completing a summary of Section 3, should consider if the overall assessment, or any specific conclusions, should be used to update either the ERM section of the GPS (if the ORSA Summary Report is prepared on a group basis) or information in the IPS (if the ORSA Summary Report is prepared on a legal entity basis). In addition, key information from the review should be incorporated into the RAW during the next full analysis (quarterly or annual) of the insurer if relevant.

Feedback to the Insurer

After completing a review of the ORSA Summary Report, the lead state should provide practical and constructive feedback to the insurer related to the review. Feedback plays a critical role in ensuring the compliance and effectiveness of future filings. Feedback also provides a means for asking follow-up questions or requesting additional information to facilitate the review and incorporation of ORSA information into ongoing solvency monitoring processes.

During the review, topics for feedback communication to the insurer can be accumulated on **Appendix A** of the template. The appendix encourages the lead state to accumulate positive attributes to reinforce the effectiveness of certain practices and information in the summary report. In addition, the appendix encourages the lead state to identify areas for constructive feedback to encourage the insurer to provide additional information or clarify the presentation of certain items in future filings. Finally, the appendix encourages the lead state to list requests for additional information that may be necessary to complete a review and evaluation of the insurer's ORSA/ERM processes.

Suggested Follow-up by the Examination Team

After completing a review of the ORSA Summary Report, the lead state analyst should direct the lead state examiner to those areas that could benefit from focused inquiries and interviews during an on-site risk-focused examination. In some instances, the analyst may want the examiner to determine through limited testing, if the data provided and processes described in the ORSA Summary Report are consistent with the insurer's ERM/ORSA operations. These items can be accumulated on **Appendix B** of the template for follow-up and communication. If

there are specific reports, information and/or control processes addressed in the ORSA Summary Report that the lead state analyst feels should be subject to additional review and verification by the examination team, the lead state analyst is expected to provide direction as to its findings of specific items and/or recommended testing and such amounts should be listed in the template by the lead state analyst. During planning for a financial examination, the lead state examiner and lead state analyst should work together to develop a plan for additional testing and follow-up where necessary. The plan should consider that the lead state examiner may need to expand work to address areas of inquiry that may not be identifiable by the lead state analyst.

In addition to this specific expectation, during each coordinated financial condition examination, the exam team as directed by the lead state examiner and with input from the lead state analyst will be expected to review and assess the insurer's risk management function through utilization of the most current ORSA Summary Report received from the insurer. Also, the lead state analyst will ask the examination team to address the unresolved questions and concerns arising from the analyst's review of the ORSA documented in the template (see Appendix B), through focused inquiries and interviews and testing during an on-site risk-focused examination. Information included in the report and the operating effectiveness of various risk management processes can be supported/tested on a sample basis (e.g., reviewing certain supporting documentation from Section I; assessing the reasonableness of certain inputs into stress testing from Section II; and reviewing certain inputs, assumptions and outputs from internal capital models).

U.S. Based IAIG Risk Management Assessment Considerations

While the considerations covered in this chapter are generally applicable to all insurers/insurance groups filing an ORSA Summary Report, there are additional risk management assessment considerations ~~outlined in the Common Framework (ComFrame)~~ for the ~~S~~supervision of Internationally Active Insurance Groups (IAIGs) that have been incorporated into this section. As such, U.S. ~~L~~lead ~~S~~states functioning as ~~G~~group-~~W~~wide ~~S~~supervisors should document their assessment of the specific IAIG risk management practices ~~outlined in ComFrame,~~ as highlighted in **Appendix C** of the template. If such practices are already assessed and documented in the general review template, the documentation provided in this appendix can so state and cross-reference to where those practices are covered.

To complete the IAIG assessment, the ~~G~~group-~~W~~wide ~~S~~supervisor may need to request and review additional information from the ~~H~~head of the IAIG, which could include an ORSA Summary Report, Corporate Governance Annual Disclosure (CGAD) and/or additional information on risk management practices at the ~~H~~head of the IAIG level. The ~~G~~group-~~W~~wide ~~S~~supervisor should utilize other filings and resources already available to the department including holding company filings (i.e., Form B, Form F) and public information sources before requesting additional information to complete the assessment.

In completing the assessment, the ~~G~~group-~~W~~wide ~~S~~supervisor should consider whether certain elements are more appropriately assessed and addressed as necessary during an on-site examination and coordinate with the examination function. In addition, the analysis function should follow-up on findings from the previous examination, as well as identify and assess significant changes in operations and risk management functions at the ~~H~~head of the IAIG since the last examination, as appropriate.

Detail Eliminated to Conserve Space

ORSA Review Template

Group/Insurer: _____
Group Code/Cocode: _____
Valuation Date: _____
Submission Date: _____

General Instructions:

This template is intended to be used to document a review and assessment of the ORSA Summary Report by the lead/domestic state. Regulators should document the results of their annual review of the ORSA and utilize the appendixes to track and communicate feedback to the insurer and procedures for regulatory follow-up. See VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance for additional guidance in completing this template.

Prepared/Reviewed By:	Date:

Date of Last Exam:	
Date of Next Exam:	

Background Information

Summarize and assess background information provided in the report, where available. Key documentation elements are presented below.

1. **Attestation**:

2. **Entities in Scope:**

3. **Accounting Basis:**

4. **Key Business Goals:**

5. **Changes from Prior Filing(s):**

Section I – Description of the Insurer's ERM Framework

Summarize and assess key information from Section I of the ORSA Summary Report for each of the five principles of a risk management framework.

1. **Risk Culture and Governance:**

2. **Risk Identification and Prioritization:**

3. **Risk Appetite, Tolerances and Limits:**

4. **Risk Management and Controls:**

5. **Risk Reporting and Communication:**

Overall Section 1 Assessment—After reviewing and considering each principle individually, develop an overall assessment of the group's/insurer's risk management framework including any concerns or areas requiring follow-up investigation or communication:

Section II – Insurer Assessment of Risk Exposures

Prepare documentation summarizing a review and assessment of information provided on the reasonably foreseeable and relevant material risks of the insurer/group.

THE FOLLOWING TABLE SHOULD BE COMPLETED FOR EACH KEY RISK

Risk Title/Description	
Branded Risk(s)	
Controls/Mitigation	
Risk Limits	
Assessment (QT/QL)	
Normal Exposure	
Stress Scenario(s)	
Stressed Exposure	
Inclusion on GPS/IPS	
Regulator Review & Assessment:	

Overall Section 2 Assessment—After reviewing and considering each key risk individually, develop an overall conclusion regarding the group's/insurer's process to assess key risk exposures including any concerns or areas requiring follow-up investigation or communication:

Section III – Assessment of Risk Capital and Prospective Solvency

Prepare documentation summarizing a review and assessment of key elements of the risk capital and prospective solvency process as follows.

1. **Discussion of Capital Metric(s) Used:**

2. **Group Risk Capital (GRC) – By Risk and In Aggregate:**

3. **Impact of Diversification Benefit:**

4. **Available Capital:**

5. **Excess Capital:**

6. **Impact of Stresses on GRC:**

7. **Governance and Validation:**

8. **Prospective Solvency Assessment:**

Overall Section III Assessment—After reviewing and considering each of the key elements individually, develop an overall assessment of the risk capital and prospective solvency of the insurer/group including any concerns or areas requiring follow-up investigation or communication:

Appendix A – Feedback to Insurer

Feedback to the insurer on the ORSA Summary Report is critical for the compliance and effectiveness of future filings. The purpose of this form is to help the lead/domestic state gather and provide constructive and practical feedback to the insurer.

Positive Attributes:
1.
2.
3.

Constructive Feedback:
1.
2.
3.

Requests for Additional Information:
1.
2.
3.

Appendix B – Recommended Exam Procedures/Areas for Follow-up Investigation

In completing a review of the ORSA Summary Report, the lead state/domestic regulator should consider whether certain elements could benefit from focused inquiries and review during an on-site risk-focused examination. In some instances, the analyst may want the examiner to determine through limited testing, if the data provided and processes described in the ORSA Summary Report are consistent with the insurer's actual ERM/ORSA operations. Such procedures and issues can be accumulated here for communication and tracking.

Background Information

1.
2.
3.

Section I - ERM Framework

1.
2.
3.

Section II - Risk Assessment

1.
2.
3.

Section III - Risk Capital and Prospective Solvency

1.
2.
3.

Appendix C – U.S. Based IAIG Risk Management Assessment Considerations

While the considerations provided in this template are generally applicable to all insurers/insurance groups filing an ORSA Summary Report, there are additional risk management assessment considerations ~~outlined in the Common Framework (ComFrame)~~ for the ~~S~~supervision of Internationally Active Insurance Groups (IAIGs) that have been incorporated into this template. As such, U.S. ~~L~~lead ~~S~~states functioning as ~~G~~group-~~W~~wide ~~S~~supervisors should document their assessment of specific IAIG risk management practices ~~outlined in ComFrame~~ here, if not already addressed above.

1. Based on the analyst's review of the ORSA Summary Report and any additional information received, assess whether the ~~H~~head of the IAIG ensures that the ~~group-wide~~ risk management strategy and system encompasses the levels of the ~~H~~head of the IAIG and legal entities within the IAIG, promotes a sound risk culture, and covers:
    - diversity and geographical reach of activities;
    - nature and degree of risks in entities/business lines;
    - aggregation of risks across entities;
    - interconnectedness of entities; level of sophistication and functionality of IT/reporting systems at the group level; and
    - applicable laws and regulations.

2. Assess whether ~~a group-wide~~the risk management strategy is approved by the IAIG Board and implemented at the group~~-wide~~ level; with regular risk management reporting provided to the IAIG Board or one of its committees.

3. Assess whether the ~~group-wide~~ risk management function coordinates and promotes consistent implementation of risk management practices at the group and legal entity level, with any material differences in practices being clearly documented and explained.

4. Assess whether the ~~group-wide~~ risk management function is adequately independent from risk taking activities.

5. Assess whether the ~~H~~head of the IAIG reviews, at least annually, the ~~group-wide~~ risk management system to ensure that existing and emerging risks as well as changes in structure and business strategy are taken into account.
    - Assess whether the group-wide risk assessment framework, or components thereof, is independently reviewed[1] at least once every three years, in order to ascertain that it remains fit for purpose.

[1] Independent review could be performed by internal audit function, if deemed independent from risk management functions of the group

- Assess whether necessary modifications and improvements are made to risk management systems in a timely manner.

6. Assess whether the following key elements are appropriately incorporated and addressed within the IAIG's ORSA framework:
   - The ORSA framework measures risks using an economic capital model that takes into account the risks faced in different sectors, jurisdictions and economic environments
   - Risk measurement includes stress testing, including~~and~~ reverse stress testing and scenario analysis, as appropriate ~~deemed relevant to~~for its risk profile ~~as well as the~~to demonstrate resilience of its total balance sheet against plausible macroeconomic stresses
   - Risk measurement also includes an assessment of aggregate counterparty exposures and analyzes the effect of stress events on those exposures through scenario analysis or stress testing
   - The ORSA reports on the IAIG's management of liquidity risks and assesses its resilience against severe but plausible liquidity stresses to determine whether current exposures are within the liquidity risk appetite and limits
     - The ORSA demonstrates that the IAIG maintains an adequate level of unencumbered highly liquid assets in appropriate locations, as well as a contingency funding plan to mitigate potential stresses

Special Note: The following procedures do not supersede state regulation but are merely additional guidance an analyst may consider useful.

The following provides examples of potential risk areas where the lead state or group-wide supervisor (for IAIGs) may want to perform certain limited examination procedures as part of the continual risk assessment process. However, analysts should be aware that in some years, it is highly possible that no risks or changes in risks rise to the level of requiring a specific targeted examination. In addition, certain risks and examination procedures may not be deemed urgent enough to warrant a targeted or limited-scope examination and could therefore be deferred until the next scheduled~~, coordinated~~ examination of the group.

The general purpose of a targeted on-site examination is to focus resources on a particular risk. Such procedures would generally be driven by any change in risks or any weaknesses or concerns. Performing such procedures through an on-site inspection can provide assurances that cannot be provided through off-site monitoring. In some cases, such procedures will focus on collecting information that will provide assurances that the risks that have been portrayed by the group can be relied upon. On-site examinations can also be more effective in understanding the risks of a group that are not easily understood with a regulatory filing, be it through a physical inspection of the group's process or through inspection of supporting documentation. The following provides examples of different risk areas where such assurances can be provided through tailored procedures. However, these are only examples and, again, what should be considered more than anything is the risk or changes in risk of the group and the assurances that can be provided through such an on-site inspection relative to such risks.

Prospective Risks (See Exhibit V – Overarching Prospective Risk Assessment of the Financial Condition Examiners Handbook for a more detailed listing of examples.)

1. New products, or recently developed products that have become more material or that create unique risks to the group. Consider reviewing the process to develop and price the product, as well as monitor its results compared to pricing.
2. New investment vehicle either recently acquired or that recently became more material to the portfolio. Consider reviewing the process by which the investment vehicle became available, the diligence performed to consider its risks, and the process to monitor its results before more monies are invested into the strategy.
3. Risk arising from the group's governance~~.~~ (See Section VI.D. Corporate Governance Disclosures Procedures for a detail of such procedures) or risk management process (see Section VI.E. Enterprise Risk Management Process Risks Guidance for a detail of procedures to apply to groups submitting an Own Risk and Solvency Assessment (ORSA)).

Information Obtained from Filings, etc.

4. Information that supports representations regarding significant investors' expectations.
5. Current and historical consolidating financial statements used to validate information obtained regarding non-insurers.
6. Internal management reports that provide product detail on operations that, when accumulated are supported in total by audited statements.
7. Supporting documentation of internal and external equity target levels, including information from rating agencies, banks or other lenders.
8. Copy of the most recent liquidity strategy and walkthrough of daily monitoring process.
9. Copy of the most recent investment strategy and walkthrough of recent acquisitions or sales made in connection with strategy.

10. Documentation supporting risk management strategy as presented to internal risk committee or board of directors.
11. Copy of group derivatives use plan and walkthrough of daily monitoring process.
12. Copy of debt covenants and internal quarterly calculations.
13. Copy and walkthrough of projected future capital management plans.
14. Copy of any due diligence work performed on potential acquisition and key metrics for the board's consideration.

IAIG Considerations (see additional discussion in FCEH Section …)

15. Risks arising from the holding company's status as an IAIG, including evaluations of the ~~H~~head of the IAIG's corporate governance (See Section VI.D. Corporate Governance Disclosure Procedures), risk management (see Section VI.E. Enterprise Risk Management Process Risks Guidance) and/or internal control (see Section VI.C Insurance Holding Company System Analysis Guidance) frameworks.

Summary and Conclusion

- Develop and document an overall summary and conclusion regarding the targeted examination.
- Analysts should update the Insurance Holding Company System Analysis and Supervisory Plan in the Group Profile Summary.

Special Note: The following procedures do not supersede state regulation but are intended to provide guidance and best practices for Supervisory Colleges; but also, to identify some specific minimum procedures to be used by all U.S. lead states and/or group wide supervisors when leading a Supervisory College.

~~As a lead states reviews this section, it should be well understood that in those holding company structures where the lead state is not the group-wide supervisor (e.g., with groups based outside of the U.S. or where the Federal Reserve is the group-wide supervisor), and in accordance with accreditation standards, lead states may choose to rely on the analysis work performed by international insurance supervisors or another functional regulator (e.g., the Federal Reserve). However, if such reliance takes place, the lead state is still responsible for documenting and distributing to other domestic states an analysis of the overall financial condition of the group, significant events, and any material strengths and weaknesses of the holding company group. Additionally, if the lead state has material concerns with respect to the overall financial condition of the holding company group, they are responsible for notifying all other domestic states. This specific note relates more specific to holding company analysis, but to the extent that the lead state utilizes any work documented from the Supervisory College, that this same principle should be applied to such work.~~

Overview

Background Information

~~In 2009 the Group Solvency Issues (E) Working Group (the working group) of the Solvency Modernization Initiative (E) Task Force endorsed as guidance the IAIS *Guidance Paper on the Use of Supervisory Colleges in Group Wide Supervision* [October 2009] (the IAIS guidance paper). The working group supported the IAIS guidance paper in part because it recognizes the need for flexibility in the design, membership and establishment of Supervisory Colleges in accommodating the organizational structure, nature, scale and complexity of the group risks, and the level of international activity and interconnectivity within the group. The IAIS guidance paper discusses factors to consider in the implementation of a Supervisory College framework, including its form and membership, the role and possible functions of a Supervisory College, and the interrelationship between a designated group-wide supervisor and the Supervisory College.~~

~~Additionally, IAIS document literature indicates that a~~A Supervisory College is a mechanism that intends to foster cooperation, promote common understanding, communication and information exchange, and facilitate coordination for group-wide supervision. ~~The IAIS has also documented that p~~Potential benefits of Supervisory Colleges include:

- Improving all the relevant regulators' understanding of the group and its risks
- Building relationships between relevant regulators, sharing regulatory approaches, and promoting cooperation and consensus
- Interacting more effectively with a group's management to gain insights into the group and to reinforce regulatory messages

~~International Expectations~~

As the business of insurance has expanded globally, insurance regulators worldwide have determined that increased levels of communication, coordination and cooperation among regulators at Supervisory Colleges is vital to understanding risk trends that could adversely impact policyholder protection and solvency oversight in an increasing global insurance market. As a result, the overall objective is to further information exchange, cooperation and coordination amongst relevant regulators as a key component for enhancing the supervision of cross-border financial institutions.[i]

[i] The statement from the G-20 Summit on Financial Markets and the World Economy, held in Washington, DC, in November 2008, states the following: "Supervisors should collaborate to establish Supervisory Colleges for all major cross-border financial institutions, as part of efforts to strengthen the surveillance of cross-border firms."

~~In April 2008, the Financial Stability Forum (now known as the Financial Stability Board FSB) issued a report to the G7 Finance Ministers and Central Bank Governors setting out a comprehensive set of recommendations for strengthening the global financial system. One key recommendation therein was the operationalization and expanded use of Supervisory Colleges for certain global financial institutions.~~[ii]

~~The International Monetary Fund (IMF) through its Financial Sector Assessment Program (FSAP) is assessing whether jurisdictions have enhanced regulatory cooperation and coordination through the development of Supervisory Colleges. The IMF 2010 FSAP of the U.S. financial sector made several recommendations for the insurance sector relating to this issue, stating that, "the U.S. should ensure that colleges of supervisors for the U.S. groups with major international operations are established and functioning effectively—and led by U.S. regulators with appropriate insurance expertise." The FSAP, relating to the insurance sector, assesses U.S. compliance with the Insurance Core Principles (ICPs) of the IAIS. The NAIC's Solvency Modernization Initiative (SMI) was put in place in 2008 and represents a critical self-examination of the U.S.' insurance solvency regulation framework and includes a review of international developments regarding insurance supervision, banking supervision, and international accounting standards and their potential use in U.S. insurance regulation. In this regard, state regulators have considered what international approaches are appropriate for the U.S. system by including aspects of ICP 23-Group-wide Supervision, and ICP 25-Supervisory Cooperation and Coordination.~~

~~Regarding the role and duties of the group-wide supervisor, the primary role of the group-wide supervisor is to facilitate coordination and communication between regulators. State insurance regulators recognize that the legal framework with regard to the role of the group-wide supervisor differs sometimes significantly from one jurisdiction to another and, therefore, the role of a group-wide supervisor within a Supervisory College will depend on the jurisdictions involved and should be specifically outlined at the outset to meet the expectations of the members of the Supervisory College. The working group's support for the IAIS guidance paper can also be attributed to the fact that Supervisory Colleges by definition are consistent with state insurance regulators view regarding group supervision.~~ In the U.S., the *Insurance Holding Company System Regulatory Act* (#440) provides ~~a more specified approach to be used when determining a group-wide supervisor, which is also consistent with the approach discussed in this Handbook.~~the commissioner the authority to participate in a Supervisory College for any domestic insurer that is part of an insurance holding company system with international operations. The powers of the commissioner with respect to supervisory colleges include, but are not limited to, the following:

- Initiating the establishment of a Supervisory College;
- Clarifying the membership and participation of other supervisors in the Supervisory College;
- Clarifying the functions of the Supervisory College and the role of other regulators, including the establishment of a group-wide supervisor;
- Coordinating the ongoing activities of the Supervisory College, including planning meetings, supervisory activities, and processes for information sharing; and
- Establishing a crisis management plan.

In addition to U.S. guidance, the International Association of Insurance Supervisors (IAIS) has developed ~~standards,~~ guidance ~~and expectations~~for regulators in conducting and participating in supervisory colleges, which are primarily presented in *Insurance Core Principle (ICP) 25 – Supervisory Cooperation and Communication*, as well as additional considerations and best practices in the IAIS' *Application Paper on*

[ii] "Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience," Financial Stability Forum, April 2008.

Supervisory Colleges[ii]. Information from these sources has been utilized in developing this chapter and regulators are encouraged to reference the source documents as necessary to gather additional insight. However, IAIS materials are not deemed authoritative and should not be viewed as official NAIC guidance if they are not directly incorporated into this chapter.

~~The various ICPs include standards and guidance with respect to Group-Wide Supervision. The following summarizes one of those key concepts:~~

- ~~At a minimum, the group-wide supervision framework includes, as a supplement to legal entity supervision, extension of legal entity requirements, as applicable according to the relevant ICPs, on:~~
  - ~~Solvency assessment (group-wide solvency)~~
  - ~~Governance, risk management and internal controls (group-wide governance)~~
  - ~~Market conduct (group-wide market conduct)~~

~~As it relates to the above and any following references to the ICPs and their standards and guidance, this should not be read as a requirement for states, but rather should be used by the state to understand the expectation that other jurisdictions may have on a lead state serving as a group-wide supervisor.~~

ICP 25~~ Supervisory Cooperation and Communication~~ provides among other things, the following guidance related to supervisory colleges that is hereby incorporated into this chapter:

- ~~"At present, it is not generally possible to consider or establish international legislation which grants legal power and authority to a group-wide supervisor across jurisdictional borders. It is important, therefore, that there are clear agreements (formal or otherwise) between all involved supervisors in order to allow the group-wide supervisor to fulfill its tasks and to ensure support from involved supervisors."~~
- ~~"Involved supervisors determine the need for a group-wide supervisor and agree on which supervisor will take on that role (including a situation where a Supervisory College is established)."~~"Supervisors of the different insurance legal entities within an insurance group with cross-border activities should coordinate and cooperate in the supervision of the insurance group as a whole."
- "Supervisors may draw upon several supervisory practices to facilitate cross-border cooperation and coordination. These practices include the identification of a group-wide supervisor and the use of coordination arrangements, including supervisory colleges."
- "The procedures for systematic or ad hoc information exchange should be agreed with the other involved supervisors. The sharing of information by the group-wide supervisor and the other involved supervisors should be subject to confidentiality requirements."
- "Once identified, the group-wide supervisor should be responsible for coordinating the input of insurance legal entity supervisors in undertaking group-wide supervision as a supplement to the existing insurance legal entity supervision. Responsibilities of the group-wide supervisor should include chairing of the supervisory college (where one exists), or consider establishing one if not in place yet."
- "The group-wide supervisor, in cooperation and coordination with other involved supervisors, should consider establishing a supervisory college where, for instance: the nature, scale and complexity of the cross-border activities or intra-group transactions are significant and associated risks are high; group activities or their cessation could have an impact on the overall stability of the insurance markets in which the insurer operates; and the insurance group has significant market share in more than one jurisdiction.

[ii] Located on the IAIS website: https://www.iaisweb.org/home

~~"The designated group-wide supervisor takes responsibility for initiating discussions on suitable coordination arrangements, including establishing a Supervisory College, and acts as the key coordinator or chairman of the Supervisory College, where it is established."~~

- ~~"The designated group-wide supervisor establishes the key functions of the Supervisory College and other coordination mechanisms."~~
- "The group-wide supervisor ~~takes steps to put in place adequate~~sets out the coordination arrangements in a written coordination agreement and puts such arrangements in place.~~with involved supervisors on cross-border issues on a legal entity and a group-wide basis in order to facilitate the comprehensive oversight of these legal entities and groups. Insurance supervisors cooperate and coordinate with relevant supervisors from other sectors, as well as with central banks and government ministries.~~"
- "A written ~~C~~coordination agreement~~s~~ should cover activities including~~include establishing effective procedures for~~: information flows between involved supervisors; communication with the head of the group; convening periodic meetings of involved supervisors; ~~and~~ conduct of a comprehensive assessment of the group, including the objectives and process used for such an assessment; and supervisory cooperation during a crisis."
- ~~"The designated group-wide supervisor understands the structure and operations of the group. Other involved supervisors understand the structure and operations of parts of the group at least to the extent of how operations in their jurisdictions could be affected and how operations in their jurisdictions may affect the group."~~
- ~~"The designated group-wide supervisor takes the appropriate lead in carrying out the responsibilities for group-wide supervision. A group-wide supervisor takes into account the assessment made by the legal entity supervisors as far as relevant."~~

Structure

The guidance contained in this and the following sections apply generally to all supervisory colleges of insurance groups involving foreign jurisdictions. Additionally, colleges for insurance groups that meet the IAIG criteria are subject to additional expectations ~~contained within ComFrame~~ that are separately outlined towards the end of the chapter.

~~Determination of the Group-Wide Supervisor~~

~~The IAIS ICPs also contain the following guidance regarding determination of the group-wide supervisor. This is not meant to be read as a requirement for states, but rather should be used by the state to understand the expectation that other jurisdictions may have on a lead state serving as a group-wide supervisor.~~

- ~~"In principle the supervisor in the jurisdiction where the group is based and where that supervisor has the statutory responsibility to supervise the head of the group should be first considered to take the role of the group-wide supervisor."~~
- ~~"The location of the group's head office, given that this is where the group's Board and Senior Management is most likely to meet, and ready access of the group-wide supervisor to the group's Board and Senior Management is an important factor."~~
- ~~"Where the registered head office is not the operational head of the group, the location where the main business activities of the group are undertaken; and/or main business decisions are taken; and/or main risks are underwritten; and/or group has its largest balance sheet total."~~

~~In addition to the above, other criteria to consider include where the group has the most substantial insurance operations, the origin of the insurance business and regulatory resources available for serving as the group-wide supervisor. Once there is some clear distinction, to the extent the criterion suggests it's a state insurance~~

~~regulator, discussion with the insurance group should take place and the state insurance regulator should consider establishing the first Supervisory College. In general, once the group-wide supervisor is determined, it generally should not be changed, unless there is a material change in the group's business or operations that were considered in originally determining the group-wide supervisor. As previously noted, in the U.S., Model #440 provides a more specified approach to be used when determining a group-wide supervisor for an internationally active insurance group as defined within that model, but the approach in that model is consistent with the approach discussed in this Handbook to be used in determining the lead state for a group. Note however that few jurisdictions have adopted the specific section being referred to as of date of this publication. The following excerpt from Model #440 provides the specifics for those that have an interest (analysts should refer to the entire Model #440 to better understand the entire context for the following):~~

~~The commissioner shall consider the following factors when making a determination or acknowledgment under this subsection:~~

1. ~~The place of domicile of the insurers within the internationally active insurance group that hold the largest share of the group's written premiums, assets or liabilities;~~
2. ~~The place of domicile of the top-tiered insurer(s) in the insurance holding company system of the internationally active insurance group;~~
3. ~~The location of the executive offices or largest operational offices of the internationally active insurance group;~~
4. ~~Whether another regulatory official is acting or is seeking to act as the group-wide supervisor under a regulatory system that the commissioner determines to be:~~
5. ~~Substantially similar to the system of regulation provided under the laws of this state, or~~
6. ~~Otherwise sufficient in terms of providing for group-wide supervision, enterprise risk analysis, and cooperation with other regulatory officials; and~~
7. ~~Whether another regulatory official acting or seeking to act as the group-wide supervisor provides the commissioner with reasonably reciprocal recognition and cooperation.~~[BEJ1]

Organizational Procedures Performed Before Conducting a Supervisory College

~~The information included in ICP 25 and the application paper show some of the key considerations of organizing a Supervisory College before the college meets for the first time.~~ Although there is no international legislation that provides that the group-wide supervisor has any authority over the sovereign authority of the jurisdiction, insurance regulators across the world have agreed that having one group-wide supervisor that is responsible for coordination and communication among supervisors within the group strengthens the global insurance regulatory system. ~~The international criterion for determining a group-wide supervisor and similar expectations internationally does not materially differ from the criteria contained within Model #440 and this Handbook for determining the Lead State. Various information from the IAIS guidance paper is discussed throughout this document.~~

Supervisory College Membership

Supervisory College members are generally the states/jurisdictions where the largest insurance entities within a group are domiciled, premium underwritten and key corporate decision-makers in the organization are located. However, also worth considering is the materiality that the group has for a particular jurisdiction. The group-wide supervisor or U.S. Lead State should consider who the appropriate invitees to the college should be; recognizing that determining the materiality of a group to a particular jurisdiction may be difficult. Ultimately, it is the responsibility of the group-wide supervisor, in cooperation with other involved supervisors, to determine which jurisdictions participate in the college and to review membership on a regular basis to reflect changing circumstances in the insurance group.

While there is a need to include as many members as possible, it must be balanced with the need to maintain a manageable, operational Supervisory College. In this regard, it may be appropriate to establish a tiered membership approach. This approach suggests that regulators that attend a Supervisory College be referred to as "Tier 1 or Tier 2" jurisdiction. If jurisdictions that have primary authority (e.g., state/country of domicile) for insurers that have direct or gross premium greater than 5 percent of the entire group it may be appropriate for this tier 1 cutoff. The state insurance regulator should also consider requesting feedback from the insurance group regarding who it believes should be included in the "Tier 1," because they will have more specific data on the premiums written in each jurisdiction. In most cases, this type of approach will limit the number of jurisdictions involved. However, it may also be appropriate to place a limit on the total number of individuals participating from each jurisdiction. Some state insurance regulators suggest a maximum of 75 regulators attending a Supervisory College and believe that 50 is a more manageable number to maximize the effectiveness of the college.

In some cases, trying to maintain a specific size may result in some smaller jurisdictions that may be small to the group, but whose market is materially impacted by the group, being excluded from the actual college meeting. However, the group-wide supervisor must determine a means for such jurisdictions to be involved with the college through other means (e.g., follow up correspondence with all jurisdictions after a college meeting has taken place which could include the use of different secure IT tools).

States that are group-wide supervisors should consider developing, or requesting the group to develop, a map of ~~the~~ all of the entities within the group and the corresponding jurisdiction for each entity. This mapping can be further enhanced by providing additional information that identifies the actual primary contact for each jurisdiction, as well as other participants from the same jurisdiction, and various contact information. When developing such a list, it i~~'~~s important to consider branches or other aspects of the group that may not be included on an organizational chart. All of this information should be kept up to date at all times, and made available through correspondence to all college members, and may be more easily distributed through a secure IT tool.

The use of such tools is becoming more common, and in addition to requiring confidentiality of data and controls around the sharing and updating of information, they must also allow for the permanent storage of data and they must be efficient to administer. Similar issues may exist as it pertains to other forms of communication, such as conference calls.

Coordination and Information-Sharing Agreements

One of the most critical~~, and often one of the most time consuming~~ and lengthy tasks undertaken by the group-wide supervisor is drafting, distributing and obtaining executed coordination and information sharing agreements from the participating supervisory college membership. U.S. Group Wide Supervisors have experienced significant delays in getting information sharing agreements drafted and completed with college members, which can span a period of months. Therefore, sufficient lead time is absolutely critical to ensuring that all agreements are obtained prior to the distribution of any materials for the college meeting. Consequently, this activity should be initiated at the outset of planning and organizing a supervisory college.

A written coordination agreement should cover activities including:

- Information flows between involved supervisors
- Communication with the head of the group
- Convening periodic meetings of involved supervisors
- The conduct of a comprehensive assessment of the group, including the objectives and process used for such an assessment
- Supervisory cooperation during a crisis

In addition, the coordination agreement may also include information on membership of the college, the process for appointing a supervisor to chair, roles and functions of the college and its members, frequency and location of meetings, and the scope of activities of the college.

The group-wide supervisor is responsible for the regulatory information collected by the Supervisory College and any notifications that should be made to it (from supervisors and the group). The Supervisory College should agree to the frequency of which information is provided and any information gathering should be coordinated in a way so as to avoid duplicative requests and to reduce the burden on a group. State insurance regulators should understand the difficulty and the amount of time it may take to get these agreements in place. This difficulty can lead to significant delays in beginning a new Supervisory College; therefore, state insurance regulators should take action to complete these coordination and information sharing agreements as soon as possible. The group-wide supervisor must recognize however that such agreement is needed not only for college meetings, but also correspondence that may be made available to all college members (sometimes a wider group than the jurisdictions attending the meetings) subsequent to a meeting.

A written information-sharing and confidentiality agreement between the involved supervisors must be agreed upon and entered into by all parties ~~wishing to participate~~prior to participating in the Supervisory College, which may be covered through a broader coordination agreement. Th~~is~~ information sharing and confidentiality agreement can be achieved in various ways, such as: 1) through bilateral memorandums of understanding (MoUs) among all of the jurisdictions involved; 2) through a Supervisory College-specific agreement; or 3) through the IAIS multilateral memorandum of understanding (MMoU), which establishes a formal basis for cross-border cooperation and information exchange amongst supervisors around the world to enhance supervision of Internationally Active Insurance Groups (IAIGs). The Department should note that in selecting the best agreement to utilize, while the NAIC Master Information Sharing and Confidentiality Agreement (Master Agreement) addresses the sharing of information between state insurance departments, it does not include information sharing with other functional regulators, such as federal or international regulators, that may be participating in supervisory colleges.

The objective of the MMoU is for a signatory authority[iii] to be able to request from and provide to any other signatory authority having a legitimate interest, information on all issues relevant to regulated insurance companies (including licensing, ongoing supervision and winding-up where necessary) and to other regulated entities such as insurance intermediaries, where appropriate. The MMoU is essentially designed as an alternative vehicle for having every jurisdiction sign a bilateral confidentiality agreement with every other jurisdiction. Further, it facilitates the exchange of confidential information in the Supervisory College context. If all members of a Supervisory College are also signatory authorities of the IAIS MMoU, it would effectively eliminate the need for every Supervisory College member to enter into a bilateral agreement with every other Supervisory College member and/or the drafting of a Supervisory College specific agreement in order to ensure that confidential information can be freely exchanged between Supervisory College members. This mechanism has the potential to significantly improve and expedite the cross-border exchange of information between supervisors. The execution of a memorandum of understanding on either a bi-lateral or multi-lateral basis does not supersede state or federal law governing disclosure of information. The legal obligations and regulatory requirements concerning information sharing and disclosure placed on state insurance regulators remain in effect.

~~In addition to the legal requirements for information sharing, there are also practical requirements or expectations to consider. It should be understood that some jurisdictions and some insurance groups may have~~

[iii] A "signatory authority" is defined in the IAIS MMoU Article 2 as "any insurance industry supervisor who is an IAIS member or is represented by an IAIS member [reference made here to the NAIC per the IAIS Bylaws Article 6 No. 2(b)] and following a successful qualification procedure has acceded to the MMoU by its signature." Each U.S. state insurance regulator, as an IAIS member or represented by an IAIS member (the NAIC), is eligible to be a signatory authority.

~~different views on communication. For example, some jurisdictions exclude people such as the holding company analyst, or the examiner in charge of the group. Therefore, it may be appropriate to describe to other regulators why department financial regulation staff may be involved in the college. In some jurisdictions, regulators seek permission from the insurance group before releasing certain group information that may be sensitive. These are simply examples of the items to consider since they can have an impact on trust, which is key to any successful long-standing relationship.~~

Chairing the Supervisory College/other Supervisory Duties

As previously noted, ~~an immediate expectation of~~it is generally expected that the group-wide supervisor ~~is serving~~will serve as the chair of all Supervisory Colleges, although there are situations where this may not be the case. In addition to serving as the leader for the college, the chair is expected to complete a number of activities prior to and subsequent to each college. The following lists some of these activities:

- Set the date for the meeting ~~(See below for further discussion)~~.
- Conduct a group-wide supervisory review of the IAIG, including a group-wide risk assessment, and communicate the results to members of the supervisory college and, as appropriate, concerns or areas of focus to the ~~H~~head of the IAIG to assist in college planning
- Set the agenda for the meeting in coordination with other involved supervisors and ~~distributing~~ distribute ~~at least one week~~it in advance ~~(See below for further ideas)~~. The potential list of agenda topics and company presenters should be discussed with the insurer for input to help maximize the effectiveness of the college.
- Record outcomes that are achieved at each meeting including points arising from the meeting (specifically, the individual to whom each task is assigned and the deadline when an action should be complete)~~; consider documenting in the form of minutes. It will be the responsibility of the Supervisory College~~ to allow the college to track individual items to make sure that the necessary action has been carried out.
- Liaison with insurer's designated college coordinator in obtaining information, their participation in the college and any related correspondence.
- Develop a preliminary crisis management plan (see below for further discussion)
- Consider for larger colleges preparing and updating a coordinated work plan. Consider using U.S. Supervisory Plan as starting point.
- Prepare, update and circulate as changes occur, a contact list of members.
- Require a periodic self-assessment of the effectiveness of the college ~~(See below for further discussion)~~

In addition to these items ~~identified in ICP 25~~, it is important to recognize that other expectations may exist from regulators and the US state should determine how to address such expectations. The following may be common examples of such other expectations of the group-wide supervisor:

- Set reporting requirements for the college, including specifying frequency (e.g., annual, quarterly, etc.) and type (technical provisions, issues raised as a result of on-site inspections, intra-group transactions, outsourced activities)
- Analyze data received from the group
- Promote willingness to work together with other regulators
- Provide guidance to other regulators on particular issues
- Improve college effectiveness not within the group-wide supervisor's purview. Therefore, it may be appropriate to encourage maximum participation from all members of the college.

- Allow college members to submit written comments prior to the college meeting if they are unable to attend due to resource constraints, timing of the meetings, language barriers, or any other reason, even though regulators of entities that are significant to the group are generally expected to attend.
- Draft minutes or action points for approval by the members
- Circulate presentations and other materials for the meeting once information sharing-agreements are obtained from all college participants

~~**Understanding the Regulatory Roles of Supervisory College Members**~~

~~It is important for all participants in a Supervisory College to have a clear understanding of the regulatory mission of each of the regulatory bodies which are being considered for any Supervisory College. There can be important and significant differences amongst regulatory bodies which may be encountered by a diverse group of regulators if comprised of federal agencies and members from other countries. The regulated group's organizational structure and the personalities of the regulators involved will also have a large tendency to direct how the group organizes and conducts itself. This information could be accumulated and summarized into a Terms of Reference document, or some other related document.~~

Key Functions of the Supervisory College Including Coordination Agreement/Terms of Reference and Work Plan

One of the primary purposes of Supervisory Colleges is to facilitate coordination and communication between regulators. Consequently, one of the key functions of the college is to create the means to facilitate communication. Making this happen begins with the actions of the group-wide supervisor. As previously stated, state insurance regulators should be aware that other regulators may have other expectations when it comes to the group-wide supervisor. Specifically, Article 248 of the *European Union Solvency II Directive* indicates that the group-wide supervisor has a significant planning and coordination role, but also a more defined supervision review and assessment role and significantly more decision-making capacity. State insurance regulators should understand and be aware of these possible differences and seek to establish agreed upon expectations with the other involved supervisors. Understanding the specific expectations may be communicated through conference calls by the college members. These expectations once documented are often referred to as a "Coordination Agreement" or "Terms of Reference". A ~~Terms of Reference document~~Coordination Agreement can serve as defining the expectations of the members of the purpose of the college, and can include clarification on why a particular supervisor was determined to be the lead supervisor(s), group membership, agreement on frequency and location of meetings and finally, the role and responsibilities of the group-wide supervisor. ~~As it relates to frequency and location of meetings members should strive to physically attend the meetings however members should be given the ability to participate by conference call. A sample "Terms of Reference" document is included in the appendix to this section. The supervisory work plan sets out timelines and deliverables and any tasks to be completed by college members based on key areas related to risks that are to be monitored within a certain time frame. Regular review and updating should be made to the supervisory work plan on a periodic basis.~~

Different Approaches to College Structures

In general, the majority of colleges that states attend, and lead are known as inclusive colleges. Under an inclusive college, there are no differences for the group-wide supervisor and other college members regarding participation in college work or access to information. More specifically, under this approach, the college would not use sub-colleges (e.g., regional colleges) or topical colleges where only certain members are invited to participate. This approach does not preclude the use of joint examinations between jurisdictions where two or more jurisdictions believe that they have a similar issue that applies to their legal entities. Other approaches can include a tiered approach, where there may be a US regional college, or a European college, or some other regional, with a separate world college. In these situations, the group-wide supervisor may be expected to attend each of these, or at least that has become the practice. Consequently, this may be more demanding. Finally, in some cases there may be core colleges that only involve the college members most significant to the

business of the group. These may be useful in targeting discussions but may also create additional work for communicating the results back to other members of the world college. States should also be careful to consider the ramifications of these types of approaches on the existing information sharing agreements, as they may require additional more inclusive agreements if jurisdictions carry that opinion.

~~Minimum~~ College Expectations - As ~~(For U.S. States Determined to Be~~ the Group-Wide Supervisor~~)~~

College Requirements for U.S. States Determined to be the Group-Wide Supervisor

The following sets forth ~~a minimum set of~~examples of regulatory procedures to be used by U.S. lead states when leading a Supervisory College. ~~Many of these items are further discussed in prior parts of this document but some are not and require additional judgment.~~ States that act as ~~G~~group-~~W~~wide ~~S~~supervisors are encouraged to develop additional internal processes for meeting planning and logistics to supplement these procedures.

Initial College Procedures (most likely not applicable after first college meeting)

- ❑ Begin to plan all of the relevant logistical items that are important to a successful college, including considering the schedule of other Supervisory Colleges as posted to the Supervisory College Calendar on iSITE+.
- ❑ Identify the entities that would fall within the scope of the group, either based upon information from annual holding company filings or through direct communication with the group, or both.
- ❑ Determine through various means if your jurisdiction may be considered the group-wide supervisor and proceed under this assumption.
- ❑ Make initial contact with other regulators that may also be considered the group-wide supervisor and informally suggest your state may be the group-wide supervisor. If there are no objections, proceed to planning the first Supervisory College.
- ❑ Develop and execute information sharing agreements necessary for the protection of confidential information that will be shared among college members. Acceptance of the wording of these agreements and the protections they provide are key to the insurer releasing college materials.
    - Consider establishing and maintaining a confidential information sharing tool or portal, with an appropriate level of access controls and monitoring in place, to collect and share information among college members that have entered into a Coordination/Information Sharing Agreement.
- ❑ At the college, present an initial Coordination Agreement or Terms of Reference document that summarizes various important aspects of the college collected prior to the college meeting, then discuss and adjust as deemed appropriate by members.
- ❑ At the college, present an initial Crisis Management Plan for discussion then adjust as deemed appropriate by members.
- ❑ At the college, direct a short discussion by each jurisdiction of their respective legal entity(ies), and the impact it (they) may have on the group. This type of discussion is not to be repeated after the initial meeting unless the impact is material, or if it is from the perspective of what is driving particular performance for the group as a whole.
- ❑ Develop a preliminary Supervisory Work Plan based on information gathered at the college with input from the college members.

Initial and Ongoing College Meetings

- ❑ Send to all of the appropriate jurisdictions, initial information regarding the potential for a Supervisory College meeting approximately six to nine months before the intended date (two to three months each

conference calls) and modify the date to fit the needs of as many regulators as possible. Use of conference calls to discuss specific issues raised regarding the insurer will enable the regulator-to-regulator meeting immediately preceding the college meeting to be more efficient.

- ❑ Develop a tentative agenda and distribute it eight weeks before the college to all other regulators who plan to attend, asking for changes in order to ensure each jurisdiction's needs are met. Refine the agenda as needed and redistribute to all regulators four weeks prior to the college.
  - The agenda should be focused on a regulators' shared view of the primary risks of the group. At the end of the meeting, college members should reach consensus upon the updated shared view of the primary risks of the group.
    - The primary risks of the group will vary but will require the same general understanding of the group's business strategy, risk management and governance processes, in addition to its financial, legal and regulatory position. Therefore, initial colleges should have an agenda that develops this same general understanding of each of these items. Primary risks can be determined prior to such an understanding, but such a list is expected to be modified over time as the college gathers more information each meeting.
  - The agenda should include presentations from the group regarding those topics selected by the regulators when voting on the agenda (either to the entire group, or breakout sessions on more specific topics). This can include things such as the following:
    - Strategic and financial overview
    - Material changes to the group since last meeting
    - Material plans and projects for the coming year
    - Governance and risk management
    - Identification of key risks
    - Capital planning and management
    - Stress testing
    - Interconnectivity
    - Non-regulated entities
    - Succession planning
  - The meeting should include targeted discussions on the primary risks of the group, or trends that suggest a modification to such a list. The ~~lead state~~group-wide supervisor should consider utilizing a Group Profile Summary, or a similar document ~~in a form similar to such document or the Insurer Profile Summary,~~ to meet this objective and summarize the results of their group-wide risk assessment. This specifically includes a document that would focus on the branded risk classifications of the group.
    - Exchange/discuss qualitative and quantitative information and data either prepared by the regulator or by the group. The information shared should be based upon the regulators shared view of the primary risks of the group, including any evolving or new potential material risks identified by any member. Discuss at each college if the information is adequate or if further information is appropriate for ongoing review of the group.
    - The group should present on the implications and readiness of the group for work adopted within various jurisdictions (e.g., ORSA, reporting or model development for Solvency II, etc.)

- ❑ After the agenda topics/insurer presenters are identified by the college participants, contact the insurer's designated college coordinator to make certain the key personnel are available for the appropriate portions of the college meeting before finalizing the date.
- ❑ Discuss and agree on feedback to the group and where appropriate, solo/legal entities.
- ❑ Update and reach consensus upon a modified Coordination Agreement/Terms of Reference document.
- ❑ Update and reach consensus upon a modified Crisis Management Plan.
- ❑ Update and agree upon a modified Supervisory Work Plan including updates to risks and identification of individuals and the jurisdiction to whom each task is assigned and the deadline or frequency when an action should be complete. The updated Supervisory Work Plan should be updated and distributed to all members of the college ~~within approximately three weeks of the college meeting, or something more flexible if that is agreeable to college members~~.
- ❑ Record a summary of each meeting, documenting decisions that were reached. Distribute the summary to the participants ~~within approximately two weeks~~ following each college meeting~~, or something more flexible if that is agreeable to college members~~.
- ❑ Distribute an updated contact list of members ~~within approximately one week~~ following each college meeting, or something more flexible if that is agreeable to college members.
- ❑ Have each member of the college meeting discuss the effectiveness of the college and the need for any changes, and have each member complete a survey of its effectiveness.
- ~~❑ Using the information from the survey, prepare a summary of the self-assessment of the effectiveness of the college and distribute to all members of the college within approximately four weeks following the college meeting, or something more flexible if that is agreeable to college members.~~

With regard to agendas, the above tries to capture the need for agendas that are focused on the risks of the group, which can be different from one group to the next. However, as Supervisory Colleges are intended to employ best practices because participating members are expected to attend other colleges, emphasis should be placed on asking all jurisdictions to provide suggestions to draft agendas.

~~**General College Guidance for U.S. State Determined to be the Group-Wide Supervisor**~~

~~As colleges evolve, providing consistency for what is appropriate in order that colleges are functioning effectively is important. Therefore, it is appropriate that the NAIC enhancements for Supervisory Colleges be updated to reflect the most current views. This Handbook encourages all states that have participated in international Supervisory Colleges to consider on an ongoing basis, the changes that should be made to this section of this Handbook, and to submit them to NAIC staff for discussion and possible adoption.~~

Group Risks Perspective from Each Supervisory College Member

As discussed previously, the Coordination Plan/~~t~~Terms of ~~r~~Reference document is intended to capture the specific expectations of each member of the Supervisory College. Understanding each member's expectation is critical to having a successful college. In order to meet the majority members expectations, it is suggested that the group-wide supervisor request input from other college members as necessary to identify group risk exposures and tailor the college agenda and supervisory workplan as necessary to address concerns. ~~state insurance regulator consider having some time set aside at the very first college where each college member is afforded the time to share their perspective with the group. The following is a list of the things the college may want to ask each member to provide, perhaps in a five-to-0-minute presentation.~~

~~Presentation of the Entities~~

- ~~Simplified holding company chart of the local entities~~
- ~~Premium written by local regulated insurer by line of business and/or by product~~

- ~~Affiliated relationships and any major transactions, including pooling arrangements and other reinsurance relationships~~

~~Market Share~~
- ~~Major lines of business~~
- ~~Gross written if not identified above~~
- ~~Share of the local market (at the branch or state level if possible) and rank in the country~~

~~Key Financial Information~~
- ~~Size of the balance sheet for most recent two years (or more current if available)~~
- ~~Profit and loss statement for most recent two years (or more current if available)~~

~~Risks~~
- ~~Reserves - gross and net of reinsurance for most recent two years~~
- ~~Primary risks to which the entity is exposed~~
- ~~Exposure to other entities within the group~~
- ~~Any other material risks~~

~~Specific Issues of the Insurer~~
- ~~Status of any current or recent financial or market conduction examinations~~
- ~~Any recent or pending material transactions including mergers, acquisitions and/or reorganizations~~
- ~~Any regulatory action~~[NAIC2]

Crisis Management Plan – (Note: Sample Plan is available within iSITE+ – FAH Report Links)

Many regulators believe that Supervisory Colleges are most effective when mutual cooperation and mutual trust is achieved. This attribute proves most beneficial and perhaps needed in times of financial difficulties or financial distress for the company. Although regulators ~~are constantly trying to avoid situations of distress on the company~~take steps to encourage companies to avoid financial trouble and distress, they must all be prepared for such situations to occur. To that end, the Supervisory College should engage in a conversation about the issue and how the college will work in these situations. The intent is for these discussions to occur at the inception of the college itself, and then be documented and approved formally as early as possible. Such plans should attempt to be flexible and should consider the need to adapt to the particular individual company situation. ~~In fact, in most Supervisory Colleges, it's difficult to define a crisis plan because it is impossible to know how the college will react. In most cases, the college will agree that a physical meeting would be desirable as soon as practical, but that it may be necessary to meet by conference call as soon as possible.~~

~~Regular Assessment of Effectiveness~~

~~At the outset of establishing a Supervisory College, the group-wide supervisor should discuss the need to regularly assess the effectiveness of the Supervisory College. Such an evaluation may consider the original "Terms of Reference" document as this outlines the participating member expectations. In addition, the college should determine the extent to which it believes there could be some regulatory gaps in the supervisory process, or areas of the group that have not been considered. Once the group-wide supervisor completes this assessment, it should share with all members of the college allowing the involved regulators to provide input into the assessment. The group-wide supervisor should also consider any prior college experience, and consider improvements for that "baseline" meeting (e.g., what worked, what did not, etc.)~~[NAIC3]

~~College Meetings – As the Group-Wide Supervisor~~

~~Setting the Date for the Meeting~~

Setting the date for the Supervisory College is critical and requires extensive planning. It is suggested by state regulators that have planned Supervisory Colleges that plenty of advance notice is given to participants of each meeting to attendees with 90 days representing the optimal minimum amount of notice. However, many of these same regulators have suggested that it is better to establish the date of the college, or approximate date, six months in advance. As a result, it is suggested that state insurance regulators start planning the Supervisory College nine months before its expected date. The below section on other logistical aspects for the meeting demonstrate the significance of the various items that must be considered in planning the meeting, and therefore the need for extensive planning to occur far in advance of the actual meeting. Planning should also include the insurer. It is important to discuss the general time frame with the insurer, as set time tables are often in place for board meetings, and it may be productive to have the flexibility of using the most current board presentations in the college materials, as applicable, provided those same materials are expected to also meet the expectations of the collective supervisors.

Experienced regulators have also noted that the length of the meeting should be specific, with consideration given to allowing each member to fully explain its viewpoints, methods and processes. Supervisory college meetings should always have a clear purpose (See note regarding the chairs responsibility to record outcomes/assignments for each meeting). In many cases, the portion of the meeting with the insurer can be addressed in one full day college meeting. However, specific circumstances may differ.

Planning Other Logistical Aspects for the Meeting

Tentative research should be completed by the lead state to determine the availability of hotel facilities prior to ascertaining how many regulators may be attending. Once a decision has been made that the content for a college is sufficient to substantiate the costs, state insurance regulators may want to consider the timing of such college, and some states suggest that a Supervisory College only be scheduled during the spring or the fall to avoid potential weather-related concerns. The primary reason it is important to schedule a college during the spring or the fall is to increase the chances of regulators from other countries to attend the college and therefore have a successful one. Clearly, the amount of work and costs that must be undertaken to administer a college is significant therefore, it is unreasonable to think that another Supervisory College could be administered on short notice due to a lack of participation from a couple of other countries.

Another reason to schedule a college well in advance of its expected date is to ensure that senior management of the insurance group is available the while the college is taking place. Most state insurance regulators believe that it is critical that the CEO, CFO, CRO and Chief Legal Counsel are all available during the college when appropriate senior regulators are also in attendance. The scheduling of the college should begin with establishing a range of dates to ensure attendance of these officers. If the management/officers are not in attendance at certain times of the college, it should be communicated and made clear that they need to be available to supervisors if questions arise that requires their immediate explanation.

Once the general dates and the potential number of college attendees are identified, the insurer's designated college coordinator can then locate appropriate meeting accommodations. The best site would allow meals and refreshments to be brought into the meeting, which would reduce the need for participants to travel away from the site for meals. Further, consideration should include facilities that allow participants to communicate with their home office and include breakout rooms with phone, computer, and printer capabilities that can also be used for subgroup meetings as needed. It has also been suggested that the meeting space be set up in a "U" shape to maximize the ability to engage each of the participants. A "U" shape room also works well with the need for projectors and screens (for presentations) and use of whiteboards and markers for discussion points. These details are usually worked out between the lead state and the insurer's designated college coordinator.

Once the location of the meeting is identified, the state insurance regulator should immediately proceed to obtain hotel accommodations that can support all of the attendees and is in close proximity to the meeting location, seeking assistance from the group designated college coordinator as deemed appropriate between the lead state and the group. Hotels which provide for a portal website that gives each participant the ability to

make their reservations online is ideal. The dates selected should allow attendees adequate travel time to and from the meeting site.

An evening group dinner is an excellent way for Supervisory College participants to better acquaint themselves and enhance the flow of communication both during and after the Supervisory College. Another important point is to determine the communication that will be provided. Specifically, it will be important to establish that most of the college communication will occur in English. However, it may be appropriate to arrange for translators to be engaged for some other languages, and then for booths to be established where such communication will occur within the room set up. Again, this may be necessary to consider before establishing the location, and as evidenced with the various important details above, may require the type of lead time suggested previously for establishing such logistics.

As part of its preliminary duties, the group-wide supervisor should determine if the other Supervisory College participants will seek to recoup expenses for attending the Supervisory College, and if so, how the group-wide supervisor be involved with this activity. Many jurisdictions do not seek direct reimbursement for expenses associated with attending a Supervisory College. The group-wide supervisor should identify the process it will use early in the planning stages of a Supervisory College and communicate this to the other states that will be participating in the college.

One final logistical consideration for colleges is the costs associated with them. Some within the industry have suggested budgets be used by regulators related to Supervisory Colleges. This position may be driven from the standpoint that in the U.S., Model #440 provides that the state's costs associated with college may be charged to the company. The inclusion of this provision within that NAIC model was intended to prevent limited state resources as a reason that may otherwise preclude key state regulators from attending such meetings regarding the risks of the group with other key national and international regulators. Given its desirable that all major jurisdictions coordinate their understanding and work related to the group or the insurers within the group, this generally has not been disputed. However, the costs themselves can be significant; therefore, it is reasonable that the states' attending the college do what they can to limit such costs to what is reasonable. It may also be helpful if the group-wide supervisor can provide information to the group that allows the members to make estimates of the costs and manage the costs to the extent that is feasible. For this reason, some state regulators have suggested a group designated college coordinator can be used by an insurance group as a means to handle different logistical aspects of the meeting in a manner that helps to keep costs to a reasonable level.

Setting Agendas

In the initial college, the focus will be on establishing the college, the group-wide supervisor, the membership, the "Terms of Reference" document, and related details. Some state insurance regulators may wish to complete these activities of the college via conference calls, or e-mail in order to minimize costs and maximize effectiveness by fitting the college into busy schedules. However, some believe that face-to-face communication cannot be replaced in order to make sure every member of the college is completely engaged in the discussion and issues. Some even suggest that a phone-in number should not be an option for attending a college, because it is likely that a phone attendee would not be as engaged and would be easily distracted. One downfall to full engagement by all members is the difficulty in setting an agenda that can be adhered to within the allotted time. In some cases, this may result in the need to establish approximate time allotments per topic. Most state insurance regulators agree with the practicality of setting such limits, provided the discussion on a particular important topic is not artificially ceased and the group-wide supervisor attempts to find an appropriate place to end the discussion on a topic.

There are a number of other considerations for what should be discussed and considered within the first initial Supervisory Colleges. The following enumerates some potential agenda items for the group-wide supervisor to consider:

Initial Supervisory College Agenda Topics

- Introductions

- Discuss individual college members' views regarding role and responsibilities of the group-wide supervisor
- Discuss plans for documenting agreements into a Terms of Reference document
- Hear initial high-level presentation from the insurance group regarding its business structure, significant operations, interconnectivity (including non-insurance affiliates), including ownership and management structure and overall operating results
- Discuss material risks of the group and format for future discussion
- Discuss a preliminary Supervisory Work Plan
- Discuss/establish a crisis management plan
- Set the date and time for the next meeting

Next Meeting of Supervisory College Agenda Topics

- Introductions
- Review and reach consensus on the "Terms of Reference" document
- Recap discussions regarding material risks of the group
- Secondary presentation/deeper dive from the insurance group regarding its business plan, financing strategy and perceived risks and risk mitigation strategies. Consider requesting specific presentations regarding:
  - Underwriting strategies
  - Investment strategy
  - Reinsurance strategy and program
  - Capital adequacy at the group level including a discussion of internal model development and assumptions (group's Own Risk and Solvency Assessment)
  - Corporate governance and internal fit and proper requirements
  - Interconnectivity (including reinsurance, guarantees, securities lending and non-insurance affiliates)
  - Updated operating results
- Discuss the possibility of a regulator-to-regulator session with external auditors to discuss their audit approach, and material risks (obtain clearance from the insurance group before proceeding)
- Discuss the group-wide supervisor's initial assessment of the group
- Share views and assessments on the group as a whole on those risks deemed significant to the members
- Develop common understanding amongst supervisors on the overall group-wide risk profile relative to the major insurance aspects of the group
- Identify a consensus regarding any changes in the assessments of the company's group-wide risks (strengths and weaknesses)
- Identify any group-wide efforts that the members need to focus on
- Update the Supervisory Work Plan
- Identify any correspondence deemed necessary to be distributed to all members of the group
- Set the date and time for the next meeting

~~Ongoing Meetings of the Supervisory College Agenda Items~~

- ~~Introductions~~
- ~~Recap discussions and follow up from past meeting~~
- ~~Invite the group-wide supervisor to share an assessment of the group~~
  - ~~Continue to share views and assessments of both specific insurers and of the group as a whole on those risks deemed significant~~
    - ~~Discuss modifications to the preliminary group-wide assessment by the group-wide supervisor, including changes to the format of the assessment regarding business structure and overview, assessment of profitability, leverage, liquidity and overall financing position/capital adequacy~~
    - ~~Consider added documentation for discussion of reinsurance and other forms of risk transfer where material to the perceived risks of the group~~
    - ~~Consider added documentation for other intragroup transactions and exposures, including intragroup guarantees, possible legal liabilities, and any other capital or risk transfer instruments~~
    - ~~Consider added documentation for internal control mechanisms and risk management processes, including reporting lines and fit-and-proper assessment of the board, senior management and the propriety of significant owners~~
- ~~Selected ongoing presentations from the insurance group regarding its risks and changes. This may include but should not be limited to, having each of the business unit heads present on each of their areas.~~
- ~~Continue to refine the assessments of the company's group-wide risks (strengths and weaknesses)~~
- ~~Identify any group-wide efforts that the members need to focus on~~
  - ~~Consider coordinated efforts (examinations) of a particular area (e.g., internal audit, actuarial function or risk management processes)~~
  - ~~Consider break out groups to hear presentations on specific topics (e.g., specific product or economic trends in the industry and company plans for addressing)~~
  - ~~Breakout groups can also be used as a mechanism for focused discussions. These can be organized by region, type of business, risks, and can present brainstorming sessions where the group lists various issues or concerns, prioritizes them, and then the breakout groups separately present their views to all of the supervisors attending the college meeting.~~
- ~~Update the Supervisory Work Plan~~
- ~~Identify any correspondence deemed necessary to be distributed to all members of the group~~
- ~~Discuss the effectiveness of the Supervisory College~~
- ~~Set the date for the next meeting~~

~~Output~~

~~Most state insurance regulators agree that it is important for each participant of a Supervisory College to leave with clear outputs and takeaways. Specifically, the college members should agree on the primary risks of the group and how the supervisors are going to monitor such risks. Additionally, most state insurance regulators believe that each insurance group should set up a secure website where the insurance group can post information that may have been requested by the college, or that the insurance group believes is important to~~

~~provide an update to the various college participants. As part of the Supervisory College, the group-wide supervisor should obtain contact information for each participant and share the information with all the participants during or immediately after the college. State insurance regulators may want to consider providing such information to the insurance group, so it can tabulate such information to minimize the resource impact of this effort. This information can be useful and valuable in facilitating subsequent communication with members regarding follow-up issues.~~ ~~[NAIC4]~~

College ~~Meetings~~ Expectations - As the Lead State but Not the Group-wide Supervisor

The following are suggestions relating to the role of the U.S. lead state to function as the U.S. contact for parent holding companies domiciled in other countries.

- Communicate on a consistent basis with applicable international regulators ~~through the voluntary submission of information via the Web-based NAIC International Supervisory Colleges Request Form~~
- Attend Supervisory Colleges and ~~for~~ informal conference calls
- Provide consistency in who participates in the Supervisory College for continued building of international relationships

The U.S. lead state plays a key role in coordinating communication to and from the international holding companies to the non-lead states.

The U.S. lead state also provides a financial review of the international holding companies, and must:

- Have a good understanding of the holding company organizational structure
- Keep current of the financial review of the ultimate controlling person's financial statements and those of key subsidiaries
- Keep current of the significant events that impact the holding company system (e.g., financial, market, stock, catastrophic, etc.)
- Maintain contact with the international holding companies and the international regulators
- Coordinate the sharing and requesting of information where appropriate

After participating in a supervisory college session, the U.S. lead state is encouraged to:

~~Summary and Conclusion~~

- Develop and document an overall summary and conclusion regarding the college
- Describe structure of college, attendees, key risks identified, etc.
- Identify key observations and risk noted during the Supervisory College
- Coordinate and communicate follow-up on key takeaways to relevant regulators, including in-house state departments (such as examination, actuarial, rates and forms, etc.)
- Update the Holding Company System Analysis if there are observations from the college that have a material impact on the view of the group
- Update the Group Profile Summary and Supervisory Plan if there are observations from the college that have a material impact on the view of the group.

U.S. Based IAIG Considerations

While the guidance included in this chapter is generally applicable to all supervisory colleges, there are some specific ~~expectations~~considerations and requirements for IAIG supervisory colleges that should be followed by U.S. group-wide supervisors ~~outlined in ComFrame~~ as summarized below. For additional background information and best practice suggestions, please see ICP 25.

- **Frequency of College Sessions** – IAIG college sessions are expected to be conducted at least annually (in-person or via conference/video call), with the first session taking place in a timely manner after the identification of the IAIG.
- **Initial College Session** - Priorities for the initial supervisory college meeting should include:
  - Confirming the group-wide supervisor and the structure of the supervisory college
  - Describing the scope of group-wide supervision including an explanation from the group-wide supervisor on the scope of group supervision and any entities excluded
  - Discussing proposed coordination agreements
- **Ongoing College Sessions** – The group-wide supervisor should ensure that the IAIG's supervisory college discusses the most relevant elements of the group-wide supervisory process and the supervisory plan by coordinating with other involved supervisors. The agenda set by the group-wide supervisor should provide for discussion of at least the IAIG's:
  - ~~Group-wide c~~Corporate governance framework
  - Enterprise risk management
  - Main risks and intra-group transactions
  - Financial position
  - Regulatory capital adequacy and compliance with supervisory requirements
  - Coordination of ongoing supervisory oversight activities and examinations (if appropriate)
- **Communication and Information Exchange** – The members of the IAIG's supervisory college should communicate and exchange information on an ongoing basis (i.e., in conjunction with and outside of formal college sessions) in accordance with information sharing and confidentiality agreements.
- **Review and Assessment of Group Capital** – The members of the IAIG's supervisory college should obtain, discuss and assess group capital information from the IAIG, including information provided in the GCC and ORSA Summary Report. In addition, a discussion of group capital ~~which~~ may include information provided through the Aggregation Method ~~(or the Group Capital Calculation)~~, or the Reference Insurance Capital Standard (ICS) as reported to the IAIS, if applicable and available.
  - The ~~assessment~~discussion by group-wide supervisors and supervisory colleges ~~sh~~could include: 1) a comparison of group capital calculations (current or under development) to the Reference ICS; 2) the extent to which material risks of the IAIG are captured; 3) the appropriateness and practicality of the calculations required, and 4) any difficulties in implementing the group capital calculations by the IAIG or the group-wide supervisor.
- **Crisis Management Group (CMG)** – The group-wide supervisor establishes a CMG for the IAIG with the objective of enhancing preparedness for, and facilitating the recovery and resolution of, the IAIG.
  - There should be clear membership conditions and members should include the group-wide supervisor, other relevant involved supervisors, and relevant resolution authorities (if possible)
  - The CMG should keep under active review the process for sharing information within the CMG and with host resolution authorities not represented, the processes for recovery and resolution planning for the IAIG and the resolvability of the IAIG.

- The group-wide supervisor, in consultation with the CMG, should determine whether to require that the IAIG develop a formal recovery plan[iv] to establish in advance the options to restore the financial position and viability of the IAIG in a crisis situation, as well as how and when the plan should be updated on an ongoing basis. The role, priorities, and approach of any CMG should be proportional to each group's organization, capital structure, characteristics, and financial condition.
  - The recovery plan should be utilized by the CMG and the IAIG to take actions for recovery if the IAIG comes under severe stress.
  - It is recommended ~~T~~the group-wide supervisor considers~~-~~ the IAIG's nature, scale and complexity when setting recovery plan requirements, including the form, content and detail of the recovery plan and the frequency for reviewing and updating the plan.
  - The head of the IAIG should maintain management information systems that are able to produce and communicate information relevant to the recovery plan on a timely basis.
- Resolution plans[v] are put in place at IAIGs where the group-wide supervisor and/or resolution authority, in consultation with the crisis management group, deems necessary. Where a resolution plan is required, the group-wide supervisor and/or resolution authority, in coordination with the IAIG CMG should:
  - Determine whether a resolution plan is necessary, including consideration of factors such as size and complexity of the IAIG;
  - Require relevant legal entities within the IAIG to submit necessary information for the development of resolution plan;
  - The head of the IAIG should maintain management information systems that are able to produce and communicate information relevant to the recovery plan on a timely basis.
  - Regularly undertake resolvability assessments to evaluate the feasibility and credibility of resolution strategies, in light of the possible impact of the IAIG's failure on policyholders and the financial system and real economy in the jurisdictions in which the IAIG operates; and
  - Require the IAIG to take prospective actions to improve its resolvability.
- The group-wide supervisor puts in place a written coordination agreement between the members of the IAIG Crisis Management Group, which covers the following:
  - Roles and responsibilities of the respective members of the IAIG CMG
  - The process for coordination and cooperation, including information sharing, among members of the IAIG CMG

~~COORDINATION AGREEMENT/TERMS OF REFERENCE~~

[iv] Refer to ICP CF 16.15 and the IAIS "Application Paper on Recovery Planning" for more background information and possible best practice guidance regarding: governance, monitoring, updating the recovery plan, and key elements of a recovery plan (e.g, stress scenarios, trigger frameworks to identify emerging risks, recovery options, communication strategies, and governance). (https://www.iaisweb.org/home)

v Refer to ICP CF 12.2 and 12.3 and the Application Paper on Resolution Powers and Planning for more background information and possible best practice guidance including: approach to determining if resolution plans are needed, and key elements of a plan (e.g., resolution strategies, financial stability impacts, governance, communication, impact on guaranty fund systems). (https://www.iaisweb.org/home)

for the COMPANY Supervisory College[BEJ5]

General Statement: The purpose of this Supervisory College is the development and implementation of an ongoing flexible mechanism to coordinate the exchange of valuable information pertaining to [COMPANY NAME] and its subsidiaries, amongst and for the benefit of those regulatory supervisory authorities responsible for the financial regulation of [COMPANY NAME] and its subsidiaries. The Supervisory College serves as a permanent platform for facilitating the exchange of information, views, and assessments enabling its members to gain a common understanding of the risk profile of the group to enhance risk-based supervision and thereby enhance solo supervision efforts.

Terms of Operation: Supervisory College members shall ensure the safe handling of confidential supervisory information by signing the Confidentiality Agreement specific to the College of Supervisors of [COMPANY NAME] (the "Confidentiality Agreement") thereby facilitating the efficient exchange of information among its members. The Supervisory College has the flexibility in its operation to identify and address immediate, developing, actual and prospective risks. The Supervisory College will discuss efforts to involve Supervisory College members in possible future coordinated supervisory actions and/or arrangements when deemed suitable.

Membership: Supervisory College membership will change over time due to Changes in [COMPANY NAME's] operations, size and complexity. A current listing of the Tier I, Tier II, and Tier III members are identified in Schedule A attached hereto. The Tier I members will continually evaluate whether any changes in membership are required based on changes related to the nature, size and complexity of [COMPANY NAME].

Chair of the College: Tier I members will appoint a supervisor (group-wide chair) as the chair of the Supervisory College and may appoint sub-group chairs when deemed appropriate. The chair is responsible for organizing and scheduling meetings as well as ensuring that appropriate information is disseminated to members. The chair should propose the agenda for the meetings and incorporate the views and opinions of other Supervisory College members. A chair need not be a specific person as the chair could be a particular supervisory authority or title of a person at such supervisory authority.

Scope of Activities: The Supervisory College will strive to have a central focus on the following issues at a group level:

- Solvency and financial stability of the insurance group
- Assessment of intragroup transactions and exposures
- Internal control and risk management within the insurance group
- Appropriate actions to mitigate risks identified
- Crisis management

To assist in these central activities, the Supervisory College members will discuss possible arrangements for managing crisis situations based on the risk profile of the group. In addition, where applicable, Supervisory College members will discuss possible procedures for dealing with issues such as breaches of solvency positions and/or the crystallizing of risk exposures.

Information from the Supervisory College will attempt to incorporate references towards the applicability of [COMPANY NAME] and the stated overall strategic plans of its insurance subsidiary(ies).

Supervisory College members are encouraged to continuously notify their fellow Supervisory College members through the Supervisory College mechanism on any matters deemed relevant to enhance risk-based supervision.

Frequency and Locations of Meetings: The Tier I members will attempt to agree to meeting dates and locations that are likely to ensure the participation of as many of the members as possible. When it is not feasible for supervisors to be present at a meeting, best endeavors will be made to allow participation by other means such as by conference call or other electronic means. Tier I members will attempt to meet quarterly, and will attempt

~~to conduct at least one meeting annually in person. The Tier I members may call a meeting together on short notice in the event of an emergency situation. Participation and/or involvement of Tier II and Tier III members will be addressed at least annually.~~

~~**Meetings:** At each meeting, each Tier I member should attempt to provide an update on any relevant material event(s) and/or any new information which could have a significant impact on the group-wide risk profile.~~

~~**Schedule A**~~

~~**(Supervisory College Members)**~~

~~**as a part of the**~~

~~**Terms of Reference**~~

~~**for the COMPANY Supervisory College**~~

~~**Tier I Members:**~~

~~COUNTRY~~

~~COUNTRY~~

~~UNITED STATES – STATE~~

~~UNITED STATES - STATE~~

~~**Tier II Members:**~~

~~COUNTRY~~

~~UNITED STATES - STATE~~

~~**Tier III Members:**~~

~~COUNTRY~~

~~UNITED STATES - STATE~~

ACLI
Financial Security for Life

Justin Schrader
Chief Financial Examiner, Nebraska Insurance Department
Chair, NAIC Group Solvency Issues (E) Working Group
[via-email: bjenson@naic.org]

October 8, 2021

Re: Exposure of Proposed Revisions to NAIC Financial Analysis Handbook to Implement ComFrame

Dear Mr. Schrader,

The American Council of Life Insurers appreciates the opportunity to provide comments on the NAIC Group Solvency Issues (E) Working Group's September 8 re-exposure of proposed revisions to the NAIC's *Financial Analysis Handbook* to incorporate elements of the IAIS's Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame).

ACLI welcomes the many improvements to the guidance in response to the earlier comments of ACLI and other interested parties. Nevertheless, we continue to have concerns with two elements and believe the following additional changes should be made:

1. References to the ICS should be removed

We appreciate the updates made to emphasize the priority of GCC and ORSA review when assessing group capital of U.S. IAIGs. However, we continue to find the references to the ICS to be problematic. We note the following:

- The updated text mentions that the ICS "may assist supervisors in ongoing risk assessment" of a U.S. IAIG. Yet the NAIC and other U.S. stakeholders have broadly acknowledged material shortcomings of the ICS framework such as its excessive sensitivity to near-term market movements that are inconsequential to insurer cash flows and solvency strength over time and resulting inclination to provide inaccurate signaling. Given the shortcomings of the ICS framework and NAIC's conscious decision to develop a more appropriate lens for assessing group capital (i.e., the GCC), we disagree with any inference that the ICS could or should be used as part of an assessment of risk.
- Furthermore, by suggesting that *voluntarily* reported ICS results could or should assist supervisors in their ongoing risk assessment of a U.S. IAIG the Handbook would unintentionally introduce a disincentive for U.S. companies to participate in the Monitoring Period.

- Finally, the updated text mentions that "understanding the group capital information reported to the IAIS can assist the analyst in communicating with international supervisors and participating in discussions on the ICS at supervisory college sessions." ACLI supports steps to ensure that relevant supervisors of a U.S. IAIG understand the shortcomings of the ICS and are positioned to engage in international discussions. However, the addition of this text fails to account for the infrastructure that is in place for supervisors and firms that voluntarily participate in the Monitoring Period. This infrastructure includes a detailed review of the IAIG's results by the group-wide supervisor prior to submission to the IAIS and completion of an extensive "ICS Data Collection Submission Supervisory Review" check-list that the IAIS has developed to ensure completeness of submissions.

For the above reasons, we continue to believe references to the ICS are inappropriate and strongly encourage the NAIC to remove all references to the ICS before finalizing the revisions to the Financial Analysis Handbook.

2. General references to IAIS supervisory material should be removed

In Section VI, ACLI supports the proposed incorporation of guidance on supervisory colleges that is taken directly from ICP 25, with appropriate modifications. We continue to have concerns, however, with general references to ComFrame material and application papers. Regarding such references, the updated draft has changed the framing language from "standards" and "expectations" to "additional considerations and [possible] best practices," along with a note that "IAIS materials are not deemed authoritative and should not be viewed as official NAIC guidance if they are not directly incorporated into this chapter."

Although we appreciate the efforts to address ACLI's concerns, we find this solution insufficient. The text of the ICPs or IAIS application papers has not been thoroughly vetted or formally adopted by state regulators. We also consider that the line between "official" guidance and "best practice" guidance is unclear. Again, removal of these general references is ACLI's recommended path.

We appreciate the opportunity to comment and look forward to working with the GSIWG to finalize these documents.

Best Regards,

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October 8, 2021

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Re: Re-Exposure of Proposed ComFrame Revisions to Financial Analysis Handbook

Dear Ms. Weaver and Mr. Schrader:

The American Property Casualty Insurance Association (APCIA) is pleased to submit to you and the other members of your Working Groups our comments on the re-exposure of draft ComFrame Revisions to the NAIC's Financial Analysis Handbook. APCIA is the primary national trade association for home, auto, and business insurers. The association promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

We appreciate the extensive work that has gone into the re-exposure. APCIA submitted detailed comments to the original exposure in our previous letter of July 16, 2021. Based on our review of the re-exposed version, it is apparent to us that drafting group members accepted many of APCIA's comments, which we sincerely appreciate. We do, however, have a few remaining comments pertaining to the re-exposure for your consideration which are described in the attachment to this letter (items 1, 4, 6 and 10).

We appreciate the NAIC's participation in the work of the International Association of Insurance Supervisors (IAIS) that produced the Common Framework for Supervision of Internationally Active Insurance Groups (ComFrame). The re-exposure has made much progress toward an appropriate implementation of ComFrame by the states. This will facilitate the ability of IAIGs to compete on a nondiscriminatory basis in foreign markets and enhance our own healthy and competitive market, in a manner that is consistent with and enhances the U.S. regulatory system.

We look forward to continuing to work with you and your Working Groups as they work to finalize the proposed text in the Handbook. If you, other members of the Working Groups, or NAIC staff have any questions about our comments, please feel free to contact me or other APCIA staff at your convenience.

Sincerely,

Stephen W. Broadie

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1. References to ComFrame or the Insurance Core Principles (ICPs): In our prior letter, APCIA observed that the Financial Analysis Handbook (FAH) text as initially exposed contained numerous such references and commented that such references would have the effect of incorporating IAIS guidance by reference into state-based regulation. We are pleased to see that in the current re-exposed text, all but one of those references have been removed.

The reference to ComFrame that has been retained in the current re-exposure is noted in underlined italics, below:

> **IAIG**: In addition to the general governance and risk management considerations and the targeted procedures related to specific concerns incorporated into financial examinations, there are additional considerations *highlighted in ComFrame* that may be appropriate for incorporation into ongoing IAIG financial exams led by the group-wide supervisor. These considerations generally relate to *ComFrame* elements that are more effectively evaluated through on-site examination activities, such as the effectiveness of corporate governance, risk management and internal control frameworks in place at the head of the IAIG. For more information on IAIG examination considerations, please see section XXX of the NAIC's *Financial Condition Examiners Handbook*.

Inasmuch as it appears that the specific considerations will be listed in the NAIC's *Financial Condition Examiners Handbook* (FCEH), we believe the underlined phrases in the paragraph cited above can be deleted, as was done with other references in the FAH to ComFrame and the ICPs.

2. Corresponding guidance in the Financial Condition Examiners Handbook: APCIA's prior letter commented that the GSIWG should defer adoption of any amended language related to concepts contained in ComFrame-related guidance in the NAIC's handbooks (the FAH, Examiners Handbook and the ORSA Guidance Manual) until they have all been exposed, viewed as a complete package, and discussed in that light. We appreciate that the drafting group has apparently accepted our comment and has indicated that it will wait to finalize the FAH revisions until corresponding FCEH and ORSA Guidance Manual revisions are complete so that cross-references can be updated and work compared for consistency.

APCIA appreciates the drafting group's response.

3. A more integrated approach to on-site/exam and off-site/analysis for IAIGs: APCIA's prior letter commented that such an approach may be beneficial but would benefit from one or more pilot exam projects. In response, the drafting group noted that "certain states are already employing a customized approach to IAIG staffing and have seen benefits in doing so."

APCIA appreciates the drafting group's response.

4. Expanding regulatory authority through the FAH v. underlying models: APCIA's prior letter observed that there were instances in the initial exposure where authority under Models/laws would appear to be expanded through drafting in the FAH.

In response, the drafting group noted that the authority provided in Section 7.1 of Model #440 allows for additional reporting to be required at the group level as deemed necessary to fulfill the role of group-wide supervisor.

Model #440, section 7.1 E, subsections (1), (2) and (3) pertain to the authority of the group-wide supervisor to obtain information from the group. These sections provide that a commissioner who is the group-wide supervisor for an internationally active insurance group is authorized to engage in any of the following group-wide supervision activities:

> "(1) Assess the enterprise risks within the internationally active insurance group to ensure that:
> (a) The material financial condition and liquidity risks to the members of the internationally active insurance group that are engaged in the business of insurance are identified by management, and
> (b) Reasonable and effective mitigation measures are in place;

(2) Request, from any member of an internationally active insurance group subject to the commissioner's supervision, information necessary and appropriate to assess enterprise risk, including, but not limited to, information about the members of the internationally active insurance group regarding:
(a) Governance, risk assessment and management,
(b) Capital adequacy, and
(c) Material intercompany transactions;
(3) Coordinate and, through the authority of the regulatory officials of the jurisdictions where members of the internationally active insurance group are domiciled, compel development and implementation of reasonable measures designed to ensure that the internationally active insurance group is able to timely recognize and mitigate enterprise risks to members of such internationally active insurance group that are engaged in the business of insurance;"

The sections of Model #440 cited above do not specifically allow the group-wide supervisor to request group-level information, but rather what is necessary to assess enterprise risks. How enterprise risks are assessed is covered by another NAIC model, #505, Risk Management and Own Risk and Solvency Assessment Model Act (RMORSA). RMORSA, and the related Implementation Guide, do not require group-level reporting, allowing groups the flexibility to provide an "ORSA Summary Report or any combination of reports that together contain the information described in the ORSA Guidance Manual, applicable to the insurer and/or the insurance group of which it is a member."

APCIA thus requests that where the FAH text suggests that a group-wide ORSA of CGAD be requested, that language also be included to cite the aforementioned text of Model #440 and to include guidance such as that which has been added to the first page of the FAH re-exposed text, i.e., that "analysts must not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group."

5. Coordinated exams of IAIGs: APCIA's prior letter observed that the initial exposure of the FAH text suggested that it may be beneficial for examiners to work cross-border on coordinated targeted exams, and that much of what was proposed in the text pertaining to group-wide functions (compliance, actuarial, internal audit, etc.) is predicated on a coordinated exam having been performed. APCIA commented that coordinated exams on a cross-border basis would entail many challenges and should be piloted by one or more states before adopting it as guidance for the states.

The drafting group responded that its intent in using "coordinated group exam" throughout was to stress the importance of coordination of U.S. domestic states in conducting group exams, not to create an expectation that IAIG exams should regularly coordinate with and involve international supervisors. However, the drafting group understands how this could cause confusion and has therefore updated language to remove "coordinated" in references to exam work and add "in certain circumstances" to caveat the frequency of expected coordination with international supervisors in exam activities.

APCIA appreciates the drafting group's response.

6. References to the Insurance Capital Standard (ICS)/Aggregation Method (AM): APCIA's prior letter noted such references in the initial exposure of the FAH text and commented that using an inappropriate (ICS) or incomplete (AM and ICS) metric during the monitoring period for "ongoing risk assessment" would be fraught with the risk of misleading conclusions. Rather, the FAH should include guidance for the analyst to refer to the NAIC's Group Capital Calculation (GCC) and refer the analyst to the (currently under separate exposure) guidance on use of the GCC that will be incorporated in the FAH.

In response, the drafting group did not agree with our recommendation to eliminate all references to the ICS, stating that some background information on the ICS can be beneficial to IAIG financial analysts. However, the drafting group did incorporate updates to the guidance to clarify that the focus of group capital review should be on GCC and ORSA information and that consideration of IAIS filings (i.e., Aggregation Method and/or ICS) should be for purposes of communication with other jurisdictions in supervisory college discussions.

APCIA's view is that the FAH should clearly inform analysts that the NAIC has rejected the ICS as inappropriate for the U.S., that both the ICS and the AM are works-in-progress, and that any discussions in colleges with supervisors from other jurisdictions should not aim at trying to assess what a U.S. group's ICS or AM result may be, or mean, but should emphasize by comparison the advantages of the GCC and to help college members to evaluate group solvency using the GCC and in that light.

7. Internal control-related measures: APCIA's prior letter observed that such measures had been imported from ComFrame in the initial exposure of the FAH text, but that it was unclear whether the GSIWG considered other measures that have been implemented in the U.S., but which are not in ComFrame, such as Sarbanes-Oxley Act (SOX) provisions which apply to public firms and the NAIC's Model Audit Rule which includes SOX-like internal control reporting to the states. In addition, general references were made to ComFrame for the analyst to consider relating to various functions that purportedly exist at group level.

The drafting group removed the direct references to ComFrame, as APCIA recommended. It also noted that the analyst is expected to defer to exam assessments of control functions, in accordance with existing functional responsibilities, and that the Examiners Handbook drafting group is expected to develop guidance in this area and determine how reliance on existing regulatory requirements (i.e., SOX or MAR) should be incorporated into the process. As such, this drafting group will await the results of that work before updating the language in the FAH on this topic.

APCIA appreciates the drafting group's response, and likewise will await the work of the Exam drafting group for any further comment in this area.

8. Group-wide controls, processes, and functions: APCIA's prior letter noted that the initial exposure of the FAH text presumed such functions exist, or should exist, on a group-wide basis. Further the text did not consider the "overarching concepts" section in the Introduction to ComFrame which states that "IAIGs have different models of governance (i.e., more centralised or more decentralised). ComFrame does not favour any particular governance model and is intended to be read to apply to all models. The organisation of an IAIG can be structured in various ways as long as the outcomes are achieved."

Further, the initial draft of the FAH listed numerous areas from ComFrame that should be assessed, all framed in context of a group-level function, and which could become a de facto requirement since the expectations of state insurance regulators will be framed by the FAH guidance.

In response, the drafting group incorporated the suggested language on different models of governance. In addition, the drafting group removed references to "group-wide" functions throughout the guidance to allow the analyst more flexibility in determining whether the nature, extent and level of processes are sufficient considering the group structure and risks.

APCIA appreciates the response of the drafting group.

9. Clarity of responsibilities of the state: APCIA's prior letter observed that the initial exposure of the FAH text appeared to be written from the standpoint of providing guidance to the analyst of a lead state acting in its capacity as the group-wide supervisor, and commented that should be made more clear at the outset, i.e., that it be explicitly stated that the IAIG-related procedures in the FAH are intended for use of a lead state acting in its capacity as a group-wide supervisor.

In response, the drafting group noted that the existing guidance makes it clear that IAIG procedures added to FAH are for use by the group-wide supervisor. Additional references were added throughout the guidance to clarify that IAIG procedures are to be conducted by the group-wide supervisor for "U.S. based groups."

APCIA appreciates the response of the drafting group.

10. Use of a confidential information sharing tool or portal between jurisdictional supervisors: APCIA's prior letter commented that such a tool may be appropriate to consider, but could introduce other concerns regarding confidential and secure access. APCIA commented that this language should be omitted from the FAH for now and referred to a working group that is focused on confidentiality protections and tied to the confidentiality provisions in the model law(s).

The drafting group retained the concept of an information sharing portal in the FAH as such a tool is being used by multiple states and is generally more secure than email exchange, but added new language to stress the importance of controls and confidentiality protections in establishing information sharing portals.

APCIA appreciates the drafting group's response and will discuss with its members whether they have adequate knowledge about such tools that are being used by state insurance regulators, the extent to which company information or data is being shared, and whether more information should be sought regarding protocols over confidentiality and security.

