Date: 10/11/22

Virtual Meeting

FINANCIAL ANALYSIS SOLVENCY TOOLS (E) WORKING GROUP
Thursday, October 20, 2022
11:00 a.m. – 12:00 p.m. PT / 12:00 p.m. – 1::00 p.m. MT / 1:00 p.m. – 2:00 p.m. CT / 2:00 p.m. – 3:00 p.m. ET

ROLL CALL

Judy Weaver, Chair	Michigan	Lynn Beckner	Maryland
Greg Chew, Vice Chair	Virginia	Debbie Doggett	Missouri
Sheila Travis	Alabama	Patricia Gosselin	New Hampshire
Kurt Regner/David Lee	Arizona	Olga Dixon	New Jersey
Michelle Lo	California	Victor Agbu	New York
Jack Broccoli	Connecticut	Dwight Radel/Tim Biler	Ohio
Nathaniel Kevin Brown	District of Columbia	Ryan Keeling	Oregon
Carolyn Morgan/Nicole Crockett	Florida	Liz Ammerman/Ted Hurley	Rhode Island
Eric Moser	Illinois	Amy Garcia	Texas
Julia Conrad	Indiana	Kristin Forsberg	Wisconsin

NAIC Support Staff: Ralph Villegas / Rodney Good / Bill Rivers

AGENDA

1. Consider Adoption of Financial Analysis Handbook Guidance Related to ComFrame Referred by the Group Solvency Issues (E) Working Group – *Judy Weaver (MI)* — Attachment 1

2. Consider Exposure of Financial Analysis Handbook Guidance – *Judy Weaver (MI)*
   a. Financial Analysis (E) Working Group Referral and Proposed Revisions Related to Enhanced Regulatory Guidance — Attachment 2
   b. Ad Hoc E/F Subgroup Referral and Proposed Revisions Related to Analysis Efficiencies in the Following Areas
      i. Intercompany Pooling — Attachment 3
      ii. Form F and CGAD — Attachment 4
   c. Proposed Revisions Related to Investments Involving Related Parties — Attachment 5
   d. Risk-Focused Surveillance (E) Working Group Referral and Proposed Revisions Related to Enhanced Regulatory Guidance — Attachment 6
   e. Proposed Revisions Related to Actuarial Guideline 53 — Attachment 7

3. Receive Referral from Climate and Resiliency (EX) Task Force – *Judy Weaver (MI)* — Attachment 8

4. Discuss Any Other Matters Brought Before the Working Group – *Judy Weaver (MI)*

5. Adjournment

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Judy Weaver, Chair of the Financial Analysis Solvency Tools (E) Working Group

FROM: Justin Schrader, Chair of the Group Solvency Issues (E) Working Group

DATE: August 11, 2022

RE: Proposed ComFrame Revisions to Financial Analysis Handbook

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Beginning in 2020, the Group Solvency Issues (E) Working Group (GSIWG) has worked to develop proposed revisions to relevant NAIC publications to incorporate elements of the International Association of Insurance Supervisors' (IAIS's) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) deemed appropriate for the U.S. system of solvency regulation. This effort was undertaken by the GSIWG due to its responsibility for monitoring IAIS group-related activities, as well as the need to ensure consistency in implementation of ComFrame elements across financial analysis, financial examination, and ORSA-related processes. This need for consistency resulted in the GSIWG developing proposed changes to the NAIC's Financial Analysis Handbook, Financial Condition Examiners Handbook and ORSA Guidance Manual simultaneously.

The proposed revisions to the Financial Analysis Handbook (see attached) were developed first because holding company analysis processes are viewed as those most directly impacted by ComFrame elements. The proposed analysis revisions were then exposed for two separate public comment periods in 2021, as well as one additional comment period in 2022, with the latter focused on ensuring consistency with changes subsequently developed for the Financial Condition Examiners Handbook and ORSA Guidance Manual.

Members, interested regulators, and interested parties of the Financial Analysis Solvency Tools (E) Working Group were provided notice during each of the public comment periods to ensure open communication and collaboration. All comments received during the exposure periods were fully vetted and addressed by the GSIWG before the guidance was finalized at the 2022 Summer National Meeting.

As the proposed revisions have been thoroughly reviewed and subject to multiple public comment periods, we recommend they be considered by the Financial Analysis Solvency Tools (E) Working Group for adoption without additional public exposure or significant modifications, to ensure the guidance remains consistent with the revisions proposed for the Financial Condition Examiners Handbook and ORSA Guidance Manual.

This memo includes two separate attachments that provide information on the proposed revisions. **Attachment A** provides an overview of the proposed edits to the Financial Analysis Handbook to reflect ComFrame elements incorporated into the IAIS' Insurance Core Principles. **Attachment B** provides the full text (in tracked-change format) of the final proposed edits for consideration of adoption.

If there are any questions regarding this referral, please contact either me or NAIC staff (Bruce Jenson at bjenson@naic.org) for clarification.

Attachment A – Overview of Proposed FAH Edits

ICP	Topic(s)	Proposed Addition(s)
ICP 5	Suitability of key individuals at IAIG	FAH Section VI.D – Corporate Governance Disclosure Procedures • Consideration of obtaining governance information at Head of IAIG level (i.e., CGAD, biographical affidavits) and conducting review and assessment procedures at that level
ICP 7	Corporate governance framework at IAIG	FAH Section VI.D – Corporate Governance Disclosure Procedures • Consideration of obtaining governance information at Head of IAIG level (i.e., CGAD, biographical affidavits) and conducting review and assessment procedures at that level
ICP 8	Risk management system at IAIG	FAH Sections VI.E – ERM Process Risks Guidance and VI.F – ORSA Review Template • Obtain ORSA reports at Head of IAIG level and conducting review and assessment procedures at that level (new Appendix C)
	Internal control system at IAIG	FAH Section VI.C – Insurance Holding Company System Analysis Guidance • IAIG Procedure #5 places primary reliance on exam function for assessment, but includes analysis procedures to follow-up on results and address any significant changes since last exam
	Compliance function at IAIG	FAH Section VI.C – Insurance Holding Company System Analysis Guidance • IAIG Procedure #6 places primary reliance on exam function for assessment, but includes analysis procedures to follow-up on results and address any significant changes since last exam
	Actuarial function at IAIG	FAH Section VI.C – Insurance Holding Company System Analysis Guidance • IAIG Procedure #7 places primary reliance on exam function for assessment, but includes analysis procedures to follow-up on results and address any significant changes since last exam
	Internal audit function at IAIG	FAH Section VI.C – Insurance Holding Company System Analysis Guidance • IAIG Procedure #8 places primary reliance on exam function for assessment, but includes analysis procedures to follow-up on results and address any significant changes since last exam
ICP 9	Group risk assessment	FAH Section VI.C – Insurance Holding Company System Analysis Guidance • • IAIG Procedures #1 – 3 added to provide general considerations unique to IAIG risk assessment, as a supplement to existing group analysis procedures
	Group inspections (examinations)	FAH Sections VI.A, VI.B, VI.I and VI.J • Narrative guidance and procedures reference the fact that some group-wide assessments are more appropriately conducted through coordinated onsite examinations, when relevant
ICP 10	Supervisory measures	FAH Section VI.C – Insurance Holding Company System Analysis Guidance • IAIG Procedure #4 added to provide considerations relevant to any supervisory measures or corrective action that may be necessary to address group-wide solvency concerns FAH Section VI.B – Roles and Responsibilities of Group-Wide Supervisor • Narrative guidance added to clarify the role of the group-wide supervisor in taking any necessary corrective action
ICP 12	Recovery and resolution	FAH Section VI.J – Supervisory Colleges Guidance

ICP	Topic(s)	Proposed Addition(s)
		• Additional guidance on Crisis Management Groups and their role in recovery/resolution FAH Section VI.F – ORSA Review Template • Procedure #7 in the new Appendix C encourages assessment of recovery planning options discussed in the IAIG ORSA filing
ICP 15	Investment selection Cross-border transfer of assets	FAH Section VI.C – Insurance Holding Company System Analysis Guidance • IAIG Procedure #9 places primary reliance on exam function for assessment, but includes analysis procedures to follow-up on results and address any significant changes since last exam FAH Section VI.C – Insurance Holding Company System Analysis Guidance • IAIG Procedures #3 added to provide general considerations related to cross-border issues, as a supplement to existing group analysis procedures
ICP 16	IAIG ERM framework IAIG investment policies and practices IAIG claims management policies and practices IAIG reinsurance policies and practices IAIG Actuarial function IAIG Liquidity exposures	FAH Sections VI.E – ERM Process Risks Guidance and VI.F – ORSA Review Template • Obtain ORSA reports at Head of IAIG level and conducting review and assessment procedures at that level (new Appendix C) FAH Section VI.C – Insurance Holding Company System Analysis Guidance • IAIG Procedure #9 places primary reliance on exam function for assessment, but includes analysis procedures to follow-up on results and address any significant changes since last exam FAH Section VI.C – Insurance Holding Company System Analysis Guidance • IAIG Procedure #10 places primary reliance on exam function for assessment, but includes analysis procedures to follow-up on results and address any significant changes since last exam FAH Section VI.C – Insurance Holding Company System Analysis Guidance • IAIG Procedure #11 places primary reliance on exam function for assessment, but includes analysis procedures to follow-up on results and address any significant changes since last exam FAH Section VI.C – Insurance Holding Company System Analysis Guidance • IAIG Procedure #7 places primary reliance on exam function for assessment, but includes analysis procedures to follow-up on results and address any significant changes since last exam FAH Section VI.F – ORSA Review Template • Review and assessment of liquidity information in ORSA (see Procedure #7 in Appendix C)
ICP 23	IAIG determination Head of IAIG determination	FAH Section VI.B – Roles and Responsibilities of Group-Wide Supervisor • Added guidance from Model Act on IAIG determination into section, as well as some supplemental guidance from ComFrame FAH Section VI.B – Roles and Responsibilities of Group-Wide Supervisor • Added guidance from ComFrame on Head of IAIG determination
ICP 25	Supervisory college expectations for IAIGs	FAH Section VI.J – Supervisory Colleges Guidance • Added guidance from ComFrame on supervisory college expectations for IAIGs

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 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), 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 meet the IAIG criteria. 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 intended 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 intended 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 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 head of the IAIG. For more information on IAIG examination considerations, please see Section 1.I.F 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 customized approaches to financial surveillance staffing for IAIGs. For example, ~~I~~in some jurisdictions, both domestically and internationally, group-wide supervisors 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 to staffing in this area.

Detail Eliminated to Conserve Space

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, 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, in limited circumstances it may be appropriate for the group-wide supervisor 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. 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 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 group~~s~~) 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 the direct ~~supervision~~management/control of the insurance operations of the group.

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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 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 lead state or group-wide supervisor communication and coordination, it is also important for domestic (non-lead) states to communicate and coordinate effectively regarding the group. Of particular importance is that a domestic state notifies the lead 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 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.

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. Certain elements of governance that should be reviewed and assessed at the head of the IAIG level 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 ORSA Summary Report covering all material group-wide insurance operations. In addition, the insurer should work with the U.S. global group-wide supervisor to identify the head of the IAIG and determine which non-insurance operations (if any) within the group should be included within the scope of the ORSA Summary Report. However, for all ORSA filers, the non-insurance operations that present material and relevant risks to the insurer should be included in the scope of the ORSA Summary Report.

Otherwise, the insurer may file ORSA Summary Reports encompassing, at a minimum, the U.S. insurance operations, as long as the lead state receives 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 report received ~~from the global group-wide supervisor~~ to inquire of any concerns and to either confirm that the report was 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.

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.

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 lead 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).

Detail Eliminated to Conserve Space

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

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Additional Procedures for U.S. Based IAIGs

The following general procedures are outlined for the group-wide supervisor of U.S. based IAIGs to use in analyzing the financial condition of 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 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 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 Reference Insurance Capital Standard (ICS) as reported to the IAIS to prepare for discussions with international supervisors participating in a supervisory college. 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 head of the IAIG and coordinate with other involved supervisors and the head of the IAIG to address.

The following procedures (#5 through #11) are outlined 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 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 group examination efforts at the IAIG to understand the 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 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 group examination efforts at the IAIG to understand the 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 compliance function's ability to ensure compliance with relevant legislation and supervisory requirements applicable at both the group 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 group examination efforts at the IAIG to understand the 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 actuarial function's ability to provide oversight of the groups 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 group examination efforts at the IAIG to understand the 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 internal audit function's ability to provide independent assessment and assurance regarding:
        i. 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 group examination efforts at the IAIG to understand the review performed of the 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 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 group examination efforts at the IAIG to understand the review performed of the 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 claims management policies and practices incorporate the following criteria:

      i. Guidelines for claims estimation and settlement; feedback into the group's 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 group examination efforts at the IAIG to understand the review performed on the 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 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 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 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 and GCC to assess group capital, see supporting guidance and review procedures at VI.E, VI.F and VI.H. 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. 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 GCC. 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. The NAIC supports the development of the Aggregation Method as an outcome-equivalent approach for implementation of 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 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 control processes is generally performed during on-site 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 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 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 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 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 claims management policies and practices, including whether they include procedures for: claims estimation and settlement; feedback into the group's 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 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.

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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 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 head of the IAIG level. As such, the group-wide supervisor should request and review additional information from the 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 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 the appropriateness of the corporate governance framework given the structure, business, and risks of the IAIG including the risks of its legal entities, and the reporting lines in place between the material legal entities and the head of the IAIG.

   a. Consider what role or influence the head of the IAIG plays in setting corporate governance expectations at the legal entity level, including establishing the "tone at the top".

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 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 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:

VI.D. Group-Wide Supervision – Corporate Governance Disclosure Procedures

Supervisor Review:	Date:
Supervisor Comments:	

~~*[Insurance Department Letterhead]*~~

~~Crisis Management Plan~~

~~For the [Group Name] Supervisory College~~

Commented [NAIC1]: The Drafting Group is recommending this entire section for removal from the Handbook and posting online to be updated and maintained for regulator use as a best practice tool, but not official NAIC guidance.

~~Introduction~~

~~The Insurance Department, as lead regulator ("Group Supervisor" or "Group Lead Regulator") of the **[group name] ("Group")** insurance holding company system, and other regulators of the group and its regulated affiliates (collectively "regulators" each a "regulator" or "college members" each a "member") may refer to this Crisis Management Plan ("plan") for managing communication, responsibilities and coordinating regulatory actions relating to the groups regulated and non-regulated affiliates within the framework of the group holding company system.~~

~~This plan for this group will support the management of an arising crisis situation by the Department standing as the group lead regulator, and the college participants as defined by the memorandum of confidentiality pertaining to this specific college.~~

~~This document is designed to provide a framework for managing communication, responsibilities and coordinating regulatory actions by:~~

- ~~Defining the responsibilities and channels for sharing information between college members~~
- ~~Providing a current contact list of supervisory college members (Appendix 1)~~

~~College Members shall cooperate closely in a crisis situation, in order to coordinate the actions of the supervisory authorities responsible for the management and resolution of the crisis. This cooperation will be according to their national law and may include other relevant supervisors involved in the crisis management process as necessary.~~

~~The Department will coordinate crisis management activities, encouraging the cooperation of actions as well as the exchange of information.~~

~~Definition of a Crisis Situation~~

~~A crisis situation is defined as any situation or event, regardless of its origin, that happens unexpectedly, demands immediate attention, and could materially affect or impair the financial condition of either the overall group or an insurance entity in a country or jurisdiction with a potential cross-border impact on one or more entities of the Group.~~

~~Whenever a potential emergency situation is identified by a member of the Supervisory College regarding an entity that it supervises, the regulator should inform the Department as soon as possible. In any case, if any of the circumstances listed below occur at an entity level, the member regulator should alert the Department.~~

- ~~Significant deterioration in a legal entity's risk-based capital ratio~~
- ~~Significant deterioration in a legal entity's solvency position (below locally accepted criteria)~~
- ~~Major violation of legal requirements, e.g. coverage of technical reserves~~
- ~~Danger of failure of a utilized reinsurer (external or internal)~~
- ~~Public investigation against managing body of an undertaking (e.g. fraud)~~
- ~~Macro economic and financial developments as well as insurance sector specific developments which may affect the financial soundness of the group (contagion risk, etc.)~~

~~The Department will share the above information with the other college members within a reasonable time frame.~~

~~The Department should also provide information to the college members pertaining to:~~

- ~~Significant deterioration in the group's solvency position~~
- ~~Unbalanced distribution of available statutory capital and surplus within the group, which is an indicator of problems at a specific legal entity~~
- ~~Major violation of legal requirements~~
- ~~Liquidity problems caused by the corporate structure or member entities~~
- ~~Imminent danger of insolvency of an undertaking of the group~~
- ~~Major downgrading of a significant subsidiary's financial strength rating or group debt rating~~
- ~~Macro-economic and financial developments as well as insurance sector specific developments that may affect the financial soundness of the group (contagion risk, etc.)~~

~~Crisis Contact List Procedures~~

~~All college members involved in the supervision of the group will have specific personnel and contact information as listed in the crisis contact list in Appendix 1. This contact list should be updated as each annual supervisory college is held, or as requests are made to the Department by members of the college.~~

~~Communication Tools~~

~~The participating regulators will provide the Department with the necessary information to allow for an accurate understanding of the nature of the situation. The Department will then distribute its understanding of the situation to the college members.~~

~~In order to manage the exchange of information smoothly and efficiently during a crisis situation, the college may use the most efficient means depending on the situation, such as:~~

- ~~Conference calls /video conference~~
- ~~E-mails~~
- ~~Bilateral or multilateral meetings among College Members~~

~~This communication will be coordinated by the Department or by other college members as may be deemed appropriate by the Department for a particular crisis.~~

~~Crisis Assessment~~

~~Based on the information received, the Department will assess the nature of an emergency situation and its implications for the group in conjunction with the college members. Regulators should perform their own assessment of the crisis and implications to both their legal entity and the group as a whole. Discussions between the Department and college members should include discussion for the crisis at hand and what actions should be undertaken. The decision may be made to monitor the situation or specific factors, contacting other regulators who may have involvement or jurisdiction over portions of the group. Or the determination may be made to intervene, and the discussion should include the intervention mechanisms available to regulators.~~

~~Crisis Management~~

~~The Department is responsible for planning and coordinating the management of the emergency situation. This will be performed in close cooperation with the college members so that a consistent and coordinated plan of action can be drafted and implemented.~~

~~After having assessed and reached a common understanding of the nature of the crisis and its implications, the Department may wish to establish within the college a smaller supervisory team for handling the crisis situation and designate, on the basis of the contact list in Appendix 1, a crisis management team. This might be especially useful if only part of the group is affected. The Department will inform the college members of the establishment of such a team.~~

~~Led by the Department, based on the common assessment, the crisis management team should analyze the need, scope and conditions for any supervisory actions to be taken. The analysis should define the following elements:~~

~~Which actions are needed?~~

- ~~What cooperative measures with the company exist that may be helpful?~~
- ~~What regulatory measures are available at either a holding company level or at a legal entity level (in various involved jurisdictions)?~~
- ~~If multiple actions may be required, what would the ideal sequence and implementation schedule be?~~
- ~~What would the ideal outcome be of such actions?~~
- ~~Would these proposed actions generate unintended consequences and what would their impact be on?~~
  - ~~The company~~
  - ~~The regulator~~
  - ~~The marketplace~~
  - ~~The industry~~
- ~~How would these actions be communicated to the company and college participants, as well as other potentially involved parties?~~

~~Supervisory actions and information sharing should be coordinated within the supervisory college in order to avoid inconsistencies.~~

~~Other Communication Items~~

~~The Department is in charge of coordinating the College internal communication at each stage of the crisis.~~

~~College members should coordinate the external communication of crisis-related information. The Department is normally responsible for co-coordinating the public communication, as required, at each stage of the crisis. Again, this should be done in conjunction with the college members and should consider the possibility of exercising discretion over the information to be to ensure that market confidence is not adversely affected.~~

~~In the case when one regulator is obliged to make a separate public statement, it should be ensured:~~

- ~~Maximum possible coordination with the other regulator and college members, which should be prepared to respond promptly.~~
- ~~All Regulators should be informed about the statement before its release.~~
- ~~No use of information delivered by one regulator to another will be made without the consent of the authority delivering the information.~~

Detail Eliminated to Conserve Space

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 for the supervision of Internationally Active Insurance Groups (IAIGs) that are outlined in the ORSA Guidance Manual. As such, U.S. lead states functioning as group-wide supervisors should document their assessment of the specific IAIG risk management practices 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 group-wide supervisor may need to request and review additional information from the 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 head of the IAIG level. The group-wide 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 group-wide 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 head of the IAIG since the last examination, as appropriate.

Detail Eliminated to Conserve Space

Detail Eliminated to Conserve Space

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 for the supervision of Internationally Active Insurance Groups (IAIGs) that have been incorporated into this template. As such, U.S. lead states functioning as group-wide supervisors should document their assessment of specific IAIG risk management practices 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 head of the IAIG ensures that the risk management strategy and framework (whether located at the Head of the IAIG or within another legal entity of the IAIG) encompasses the levels of the 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 within the IAIG;
    - interconnectedness of entities within the IAIG; level of sophistication and functionality of IT/reporting systems at the group level; and
    - applicable laws and regulations.

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

3. Assess whether the risk management function, the actuarial function and the internal audit function are involved in the risk management of the IAIG and which activities they perform.

4. Assess whether the 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 across the group being clearly documented and explained.

5. Assess whether the risk management function is adequately independent from risk taking activities.

6. Assess whether the head of the IAIG reviews, at least annually, the risk management framework 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 the risk profile, structure and business strategy of the IAIG.
- Assess whether necessary modifications and improvements are made to risk management framework in a timely manner.

7. Assess whether the following key elements are appropriately incorporated and addressed within the IAIG's ORSA framework:
   - The ORSA should describe how risks are managed in a cross-border context across the IAIG. These risks should include at least: insurance risk, market risk, credit risk, liquidity risk, concentration risk, operational risk, group risk and strategic risk. The ORSA should also explain how assets are properly diversified and asset concentration risk is mitigated across the IAIG.
   - Mechanisms to keep track of intra-group transactions that have a significant impact on the IAIG, the risks arising from these transactions and the qualitative and quantitative restrictions on these risks.
   - The ORSA framework measures risks using an economic capital model that takes into account the risks faced in different sectors, jurisdictions and economic environments
   - The ORSA shows both the economic and the regulatory capital at the Head of the IAIG level and it includes a discussion of the fungibility of capital and the transferability of asset within the group
   - Risk measurement includes stress testing, including reverse stress testing and scenario analysis, as appropriate for its risk profile
   - Risk measurement demonstrates resilience of the total balance sheet against plausible macroeconomic stresses
   - Risk measurement also includes an assessment of aggregate investment 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
   - The ORSA discusses at a high-level the severe stresses that could trigger a recovery plan and should summarize the recovery options available. The ORSA should also discuss how the

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

management information systems are able to produce information relevant to the recovery plan on a timely basis.

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 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 1.I.F)

15. Risks arising from the holding company's status as an IAIG, including evaluations of the 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 guidance 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 Supervisory Colleges*[ii]. Information from these

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

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

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.

  ~~"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 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.~~

Commented [BEJ1]: Now addressed in VI.B

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 is 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[iiii] 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 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~~

[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.

~~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 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 group-wide 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~~

Commented [NAIC2]: The Drafting Group is proposing that this guidance be removed from the Handbook and be posted online for use as a best practice tool for regulators, as opposed to official guidance.

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.)~~

Commented [NAIC3]: Covered in bullet form above, additional guidance not deemed necessary.

~~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.~~

Commented [NAIC4]: The Drafting Group is proposing that this guidance be removed from the Handbook and be posted online for use as a best practice tool for regulators, as opposed to official guidance.

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 considerations and requirements for IAIG supervisory colleges that should be followed by U.S. group-wide supervisors 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:
  - 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 may include information provided through the Aggregation Method, or the Reference Insurance Capital Standard (ICS) as reported to the IAIS, if applicable and available.
  - The discussion by group-wide supervisors and supervisory colleges 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 the group-wide supervisor consider~~s~~ 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.
  - Regardless of whether a formal recovery plan is required, the ORSA Summary Report should discuss at a high-level the severe stresses that could trigger a recovery plan and the recovery options available
- 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

[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)

~~COORDINATION AGREEMENT/TERMS OF REFERENCE~~

~~for the COMPANY Supervisory College~~

~~**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.~~

Commented [BEJ5]: The Drafting Group is proposing that this guidance be removed from the Handbook and be posted online for use as a best practice tool for regulators, as opposed to official guidance.

~~**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.~~

Attachment 1

~~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~~

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Judy Weaver, Chair, Financial Analysis Solvency Tools (E) Working Group

FROM: Justin Schrader, Vice Chair, Financial Analysis (E) Working Group

DATE: May 9, 2022

RE: Enhanced Regulatory Guidance

As you may be aware, the Financial Analysis (E) Working Group (FAWG) meets annually in Kansas City to discuss among other things, potentially troubled insurers and insurance groups. During this meeting, FAWG also discusses issues and industry trends, including identifying any that are potentially adverse or might warrant communication and coordination with other NAIC groups. As a result of the issues and trends discussed, FAWG would like to refer the following items to the attention of your group.

1. **Guidance on Terrorism Reinsurance** – The FAWG has elected to remove guidance on the federal Terrorism Risk Insurance Act from the regulator-only Solvency Monitoring Risk Alert (Risk Alert) as the guidance is no longer deemed urgent or emerging. However, as the topic is not currently addressed in the Financial Analysis Handbook (FAH), it is being referred to the Working Group for consideration of whether any of it should be incorporated into the FAH (see Appendix A).

2. **Affiliated Agents** – While the FAH already includes information on assessing uncollected premiums/amounts due from agents, FAWG recently discussed troubled companies where a significant amount of affiliated agent balances (often in premium trust accounts) was subject to misappropriation and ultimately led to solvency issues. As such, FAWG recommends that the Working Group consider whether additional guidance is necessary to emphasize the importance of understanding and evaluating affiliated relationships in monitoring the services provided by and receivable balances due from key agents and producers.

3. **Monitoring of Startup Insurers** – FAWG has identified a recent trend of startup insurers that grow rapidly but are consistently reporting significant underwriting and net losses. While such losses are generally offset by capital contributions from a parent company, concerns have been raised as to whether the parent company will be able to continually fund operations until the insurer can achieve profitability. As such, FAWG recommends consideration of additional guidance in the FAH related to obtaining, reviewing, and evaluating the reasonableness of an insurer's business plan and projections. Of particular importance is the projected timeline to profitability and the level of funding necessary to reach that target.

4. **Redomestication Communication** – FAWG discussed recent troubled company situations where licensed states were not notified of plans to redomesticate a troubled insurer prior to the redomestication being finalized. Given the importance of communication in these instances, it is recommended that best practice guidance be developed for the FAH to encourage information sharing with all licensed states before a priority (i.e., NAIC 1 or 2) insurer is approved for redomestication to a new jurisdiction.

In considering these issues, FAWG recommends consideration of additional guidance for the NAIC's *Financial Analysis Handbook* to ensure these concerns are adequately addressed, if necessary. Please note that topics 1-3 are also being referred to the Financial Examiners Handbook (E) Technical Group, and topic 4 is also being referred to

National Treatment and Coordination (E) Working Group, for their consideration. If there are any questions regarding the proposed recommendation, please contact me or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification.

Appendix A

Terrorism Risks (PR/UW, ST) – Under several lines of business and policy types (most notably commercial property), P/C insurers can be exposed to significant losses resulting from acts of terrorism. Before the attacks of Sept. 11, 2001, insurers generally neither charged for nor specifically excluded terrorism coverage. The scope of the 9/11 attacks and the resulting $46 billion estimated insured loss changed these practices dramatically as the availability of commercial reinsurance dried up in the wake of the attacks. In an effort to discourage insurers from excluding terrorism coverage from existing policies and ensure that sufficient coverage continued to be available, the federal government enacted the Terrorism Risk Insurance Act (TRIA) in 2002. The Act creates a federal "backstop" for insurance claims related to acts of terrorism and provides for a transparent system of shared public and private compensation for these claims. However, before this backstop can be accessed, several stipulations and limits are applied, many of which were adjusted under subsequent extensions of the Act to limit the support available to insurers. Therefore, certain insurers may be exposed to significant losses related to acts of terrorism even with the federal backstop in place. In 2019, the CIPR provided a summary that can help in illustrate the complexities of coverage under TRIA. State insurance regulators should carefully consider the impact of terrorism exposures in assessing the solvency of relevant insurers.

A. Possible Procedures – After reviewing premium writings and the lines of business offered by the insurer, state insurance regulators should consider performing additional procedures if significant risks/concerns are identified in this area. For example:

   i. Request additional data/information to get an understanding of the insurer's exposure to terrorism risks. If the insurer is subject to ORSA reporting, review information provided on terrorism exposure and risk assessment in the ORSA Summary Report or obtain the lead state's review of such (if applicable).
      a. If the insurer appears to be significantly exposed to terrorism risks, obtain and review additional information on terrorism risk modeling and stress testing performed by the insurer.
         1. Gain an understanding of the level of mitigation available to the insurer through TRIA.
         2. Assess the reasonableness of the ultimate exposure based on the company's business strategy and capital position.

   ii. If concerns related to the insurer's ultimate terrorism risk exposure are identified, obtain and review information on the company's plans to limit exposures.
      a. Consider the reasonableness/sufficiency of the insurer's plans to limit exposures, which may include policy limits, policy exclusions, location-based risk limits, pricing modifications, non-renewal of certain policies, plans for diversification, etc.

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

Premium Production, Concentration and Writings Leverage

2. Determine whether concerns exist regarding changes in the volume of premiums written, changes in the insurer's mix of business (lines of business and/or geographic location) and changes in writing leverage.

	Other Risks	*Benchmark*	*Result*	*Outside Benchmark*
a. Change in gross premiums written		>25% or <-25%	[Data]	[Data]
b. Change in net premiums written		>25% or <-25%	[Data]	[Data]
c. Change in direct premiums written (DPW) for any line of business		>33% or <-33%	[Data]	[Data]
d. Ratio of DPW for any new lines to total DPW		>5%	[Data]	[Data]
e. Change in DPW in any one state when DPW is greater than 10% of total DPW in either the current or prior year-end		>50% or <-50%	[Data]	[Data]
f. Ratio of DPW in a new state to total DPW		>5%	[Data]	[Data]
g. Gross premiums written to surplus [IRIS #1]	ST*	>900%	[Data]	[Data]
h. Net premiums written to surplus [IRIS #2]	ST*	>300%	[Data]	[Data]

	Other Risks
i. If significant changes in premium volume are identified, consider the following procedures: i. Request and review additional information from the insurer (if necessary) to understand and evaluate the source(s) of significant changes in premium volume. ii. Evaluate the impact of the sources of changes on the underwriting/marketing strategy, profitability and solvency position of the insurer.	ST
j. Review, by line of business, premiums written by year in the Financial Profile Report for shifts in the mix of business between years and to gain an understanding of lines of business written.	ST
k. Determine whether the insurer has material exposure to losses resulting from acts of terrorism. If concerns are identified, consider the following procedures: i. Request additional data/information from the insurer to gain an understanding of its exposure to terrorism risk. ii. If the insurer is subject to ORSA reporting, review information provided on terrorism exposure and risk assessment in the ORSA Summary Report or obtain the lead state's review (if applicable). iii. Gain an understanding of the insurer's mitigation of terrorism risk through TRIA coverage. iv. Assess the reasonableness of the ultimate exposure based on the insurer's business strategy and capital position.	ST

v. Consider the reasonableness of the insurer's plan to limit exposures, such as policy limits, policy exclusions, location of risks, pricing modifications, non-renewal of certain policies, plans for diversification, or other risk mitigation strategies.	
~~k.~~l. Review the Five-Year Historical Data of the Annual Financial Statement. Has there been a shift in the mix of gross premiums written or net premiums written from property lines to liability lines within the past five years? If so, evaluate the underwriting/marketing strategy of the insurer and its expertise in writing liability lines of business.	
~~l.~~m. Review Annual Financial Statement, Schedule T for new direct business written in any state where the insurer is not licensed and verify that the insurer is authorized to write all lines of business written.	LG
~~m.~~n. Review Annual Financial Statement, Schedule T and the writings section in the Financial Profile Report to evaluate the top states in terms of direct premiums and the percentage of total DPW in those states. Based on the lines of business written, determine whether large concentrations of premiums are written in areas prone to catastrophic events.	ST
~~n.~~o. Is the company diversified in terms of product lines and geographical exposure? If not, request and review information from the insurer regarding mitigation strategies to limit exposure concentrations.	ST
~~o.~~p. Review the insurer's underwriting/marketing strategy included in its business plan. i. If 2.e is "yes," evaluate the insurer's marketing and expansion plans in that state. ii. Is the insurer planning expansion into new states or premium growth in the future? iii. Has the insurer applied for or received new licenses in other states? iv. Has the insurer reported that it has ceased writing new business, a line of business or writing in a certain geographical location? v. Does the insurer have closed block operations? vi. Does the insurer's marketing strategy and projected premium growth match actual results reported in the current period? If materially different, evaluate the reasons why, or ask the insurer for an explanation.	ST
~~p.~~q. Determine whether the insurer has expertise (e.g., distribution network, underwriting, claims, and reserving) in the lines of business written. Consider reviewing the insurer's MD&A, business plan and/or additional information from the insurer to determine the expertise in the lines of business written.	
~~q.~~r. Review the insurer's gross and net writings leverage positions to assist in evaluating risk exposure. Consider the following specific procedures in this area: i. Compare the gross writings leverage and net writings leverage ratios to the industry averages and determine any significant variances. ii. If the insurer is a member of a group, compute the gross premiums written to surplus ratio and the net premiums written to surplus ratio on a consolidated basis to determine if the group appears to be excessively leveraged. iii. Obtain an explanation from the insurer for unusual results for P/C IRIS ratios #1 and #2.	ST

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

Discussion of Annual Procedures

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

Quantitative and Qualitative Data and Procedures – Property & Casualty

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

Premium Production, Concentration and Writings Leverage

PROCEDURE #2 assists analysts in determining whether concerns exist regarding changes in the volume of premiums written or changes in the insurer's mix of business. Significant increases or decreases in premiums written may indicate a lack of stability in the insurer's operations. In addition, a significant increase in premiums written may be an indication of the insurer's entrance into new lines of business or sales territories, which might result in financial problems if the insurer does not have expertise in these new lines of business or sales territories. Significant increases in premiums written might also be an indication that the insurer is engaging in cash flow underwriting. Cash flow underwriting is the practice of writing a significant amount of business in order to invest and earn a greater investment return than the costs associated with potentially underpriced business. Cash flow underwriting can be a serious concern if it is accompanied by a shift in business written from short-tail property lines of business to long-tail liability lines.

Analysts should consider reviewing premiums written by line of business to determine which lines increased or decreased significantly and whether any new lines of business are being written. Analysts should also consider verifying that the insurer is authorized to write all lines of business being written. If new lines of business are being written, or if premiums are being written in new states, analysts should consider determining whether the insurer has expertise in the new lines of business or new sales territories. This would include expertise in distribution, underwriting, claims, and reserving. There is no information in the Annual Financial Statement to assist analysts in making this determination. However, there may be helpful information in the insurer's Management's Discussion and Analysis (MD&A). Otherwise, information may be requested from the insurer. Analysts should also consider determining if, as a result of changes in the mix of business, the insurer's business is concentrated in specific geographic areas, which could result in the insurer being potentially exposed to catastrophic losses.

Within several lines of business and policy types (most notably commercial property), property/casualty insurers may be exposed to losses resulting from acts of terrorism. Following the September 11, 2001 attacks on the New York World Trade Center and the U.S. Pentagon, terrorism coverage became prohibitively expensive, if offered at all. In response, the U.S. Congress passed the Terrorsim Risk Insurance Act (TRIA) of 2002. TRIA was initially created as a temporary three-year federal program that required insurers to offer commercial policyholders with terrorism coverage, while allowing the Federal Government to share monetary losses with insurers on commercial property/casualty losses from a terrorist attack. Since then, it has been renewed four times and is due to expire on December 31, 2027. Before this backstop can be accessed, several stiupulations and limits are applied, many of which have been adjusted under subsequent extensions of the Act to limit the support available to insurers. Analysts should assess the insurer's exposure to losses related to acts of terrorism and consider any mitigation by TRIA.

Procedure #2 also assists analysts in determining whether the insurer is excessively leveraged due to the volume of premiums written. Surplus can be considered as underwriting capacity, and the ratios of gross and net writings leverage measure the extent to which that capacity is being utilized and the adequacy of the insurer's surplus cushion to absorb losses due to pricing errors and adverse underwriting results. A gross writings leverage ratio result greater than 900% may indicate that the insurer is excessively leveraged, and special attention should be given to the adequacy of the insurer's reinsurance protection and the quality of the reinsurers. A net writings leverage ratio greater than 300% may also indicate that the insurer is excessively leveraged and lacks sufficient surplus to finance the business currently being written. In evaluating these ratios, analysts should also consider the nature of the insurer's business. For example, an insurer that has historically written primarily short-tail property lines of business might not be considered excessively leveraged even though it has higher ratio results, because the risk of significant underpricing or adverse underwriting results is less than that of an insurer that writes primarily volatile long-tail liability lines of business such as medical professional liability.

Analysts should consider reviewing the net premiums written by line to determine which lines of business are being written. An insurer that writes primarily short-tail property lines may be able to write at higher levels of premiums to surplus than an insurer that writes primarily long-tail liability lines, because the risk of underpricing and significant adverse underwriting results is less with the short-tail property lines of business. Analysts should also consider comparing the ratios of gross and net writings leverage to industry averages to help evaluate the insurer's leverage. If the insurer is a member of an affiliated group of insurers, analysts might want to compute the net and gross writings leverage ratios on a consolidated basis to help evaluate whether the affiliated group of insurers is excessively leveraged. If the net and gross writings leverage ratios results are high, analysts should consider determining whether the insurer has adequate reinsurance protection against large losses and catastrophes and that the reinsurers are of high quality.

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

NOTE – THE SAME CHANGES BELOW WOULD BE APPLIED TO THE LIFE/HEALTH AND HEALTH REPOSITORIES (III.B.1.b and III.B.1.c)

Uncollected Premium and Agents' Balances

12. Review and assess uncollected premiums and agents' balances for potential collectability issues.

	Other Risks	*Benchmark*	*Result*	*Outside Benchmark*
a. Ratio of uncollected premiums and agents' balances to surplus [IRIS ratio #10]	LQ	>40%	[Data]	[Data]
b. Change in uncollected premiums and agents' balances from the prior year		>25% or <-25%	[Data]	[Data]
c. Ratio of uncollected premiums to net premium income	LQ	>5%	[Data]	[Data]
d. Ratio of non-admitted uncollected premiums to total uncollected premiums	LQ	>10%	[Data]	[Data]
e. Net agents' balances and premium balances charged off and recovered to total uncollected agents' balances and premium balances		>5%	[Data]	[Data]

	Other Risks
f. Review amounts non-admitted and compare to prior years.	
g. With respect to agents' balances, verify the creditworthiness of the agent.	

Additional Analysis and Follow-up Procedures

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Uncollected Premium and Agents' Balances:

- Explanation for the significant balance
- Listing of balances of subscribers, which individually account for 10% or more of the premiums uncollected and compare to a similar list from prior years
- Amounts of any uncollectable balances that have been written off in the current period. Compare the write-offs to those of the prior reporting period, if any
- Written procedures for monitoring and collecting uncollected premiums, including amounts already written off
- If the insurer has factored or sold its uncollected premium balances to a third party, note whether the receivables were discounted in the transaction
- Concerns over uncollected agents' balances warrants further investigation to ensure that adequate controls are in place and that trust accounts are properly managed. An increase or trend of material non-admitted agents' balances or write-offs may be a sign of mismanagement or misappropriation of premium

trust accounts by the agency. If there are concerns in this area, consider the following:

- Request additional data/information from the insurer to identify the source(s) of the balances and the reason(s) for the non-admitted or charged-off amounts.
- Request the insurer to provide a summary of the controls in place over agencies and ensure proper management and oversight of trust accounts.
- Request monthly reports from the insurer.
- Discuss concerns with the exam team, including whether a targeted exam is necessary.

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Discussion of Annual Procedures

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Other Receivables

Property/Casualty #	*Life/A&H/Fraternal #*	*Health #*
11, 12	*N/A*	*8, 9, 10*

The procedures assist analysts in reviewing receivable assets of an insurer that may have limited collectability.

Uncollected Premiums and Agents' Balances

The asset for uncollected premiums and agents' balances in the course of collection includes amounts receivable that have been billed, but have not yet been collected.

Agencies and brokers receive premium payments from insureds in a fiduciary capacity. Most states have laws that require the agent or producer to maintain trust accounts for the premiums they collect, which must be kept separate from their business operating funds. The premiums, net of commissions, are then remitted to the insurer or general agents from the accounts, leaving an audit trail.

Although agents are used by health entities, they are generally used more extensively with P/C insurers or even life insurers. Agents' balances are admitted to the extent that the assets conform to the requirements of *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts due from Agents and Brokers*, which also requires that premiums owed by agents should be reported net of commissions and are non-admitted under a 90-day rule. Remaining amounts that are determined to be uncollectable must be written off. Generally, if a contract with an agent permits offsetting, amounts payable to an agent may be offset against a receivable from that agent. Agents' balances carry credit risk and can have a material impact on the net income and capital and surplus of an insurer if the balances are significant. Significant or growing balances can also lead to liquidity problems if the insurer is unable to convert the receivables into cash to be used to pay claims.

Irrespective of the type of business written, inadequate systems and controls over the collection process can lead to uncollectable premiums. Uncollected premium balances on non-government business that are over 90 days due are non-admitted under SSAP No. 6. On all business, an evaluation of any remaining asset balance is required to determine any impairment. Amounts deemed uncollectable are required to be written off against income in the period the determination is made. These accounting requirements are designed to limit the total impact that collectability issues can have on an insurer at a given point in time.

Despite the efforts to mitigate the impact of uncollected premiums and agents' balances, write-offs and non-admitted unpaid premium assets can still have a material impact on the net income and capital and surplus of an insurer. These issues can lead to liquidity problems if the insurer is unable to convert the receivable into cash to be used to pay claims. Analysts should monitor the level of this asset as well as the change in the balance to help identify potential collection problems that can ultimately lead to significant decreases in surplus.

A material amount of uncollected agents' balances warrants further investigation to ensure that adequate controls are in place and that trust accounts are properly managed. An increase or trend of material non-admitted balances or write-offs may be a sign of mismanagement or misappropriation of trust accounts by the agency and should be investigated. Although this could occur at any agency, the risk is greater at affiliated agencies for the following reasons:

- The same owner controls both sides of the transaction
- There is a lack of internal controls in relation to management overrides
- Affiliated agency balances are often more material to small or medium-sized insurers

- Affiliated agencies may not be subject to the same level of oversight as unaffiliated agencies
- In the event of financial stress to the insurer or the agency, there may be an inherent conflict of interest

If the analyst has concerns about the timely collection of agents' balances, the additional procedures related to premium trust accounts in the repository should be considered.

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Business Plans

5. Evaluate the effectiveness of the insurer's business/strategic planning process and whether the current plan adequately addresses the significant solvency risks facing the insurer.

	Other Risks
a. Review previous business plans and financial projections filed with the state insurance department, and determine the following: i. Have significant changes in business plan or philosophy occurred? If "yes," explain. ii. Assess if initiatives outlined in the business plan have been accomplished. iii. Compare actual with projected financial results. Are actual results consistent with management's expectations? If not, explain. iv. Request an explanation for the variance including an explanation of whether management believes it has achieved its goals for the period and if any noted risks or challenges were not considered in the business plan. v. Request a revised business plan. vi. Describe any events, transactions, market conditions and/or strategic management decisions that have occurred (or are planned) that may cause a significant positive or negative variance from projections, including new product development or enhancements, changes in sales volume, product mix, or geographical locations. vii. Are there internal and/or external prospective risks that have the potential to impact the overall business plan?	OP
b. If necessary, request and review an updated strategic business plan, note any areas of concern and if necessary, request additional explanations from the insurer. i. Does the new business plan reflect significant changes in the strategic goals or philosophies compared to the prior plan? If "yes," explain. ii. Describe the insurer's strategic and annual planning process. iii. Describe the board of directors' involvement in developing and implementing the business plan. iv. Assess the insurer's ability to attain the expectations of the business plan and projections. Does the business plan reflect changes that appear unrealistic for the current market environment, financial position of the insurer or other circumstances? If "yes," explain. • Reasonableness of underwriting assumptions • Current and anticipated interest rate and economic environment • Growth objectives • Stability of capital and ability to access additional capital, if needed • Quality and sources of earnings (trends and stability) • Dividends and dividend payout policy	OP
c. For startup insurers that project rapid growth and material losses, consider the following:	OP

i. Obtain a five-year business plan and assess the insurer's current and projected capital adequacy relative to its growth plans. ii. If future growth is to be funded by capital contributions from the parent, assess the parent's ability to meet future funding expectations. iii. Determine whether growth and capital financing expectations are sustainable until the insurer becomes profitable.	

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Discussion of Annual Procedures

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Quantitative and Qualitative Data and Procedures

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Business Plans

PROCEDURE #5 directs analysts to evaluate the effectiveness of the insurer's business/strategic planning process and whether the current plan adequately addresses the significant solvency risks facing the insurer. After obtaining and reviewing a current business plan from the insurer, analysts should determine whether any changes have been made in the business goals or philosophies. Analysts should consider the overall planning process (e.g., who is involved, how frequently it occurs, etc.) and how the overall initiatives are determined. In addition, analysts may consider discussing with the insurer any assumptions used in establishing the goals. Analysts should assess whether the current management team has the expertise to attain the goals of the business plan. Through communication with the insurer, analysts should document any detailed explanations regarding variances in projected financial results and the insurer's intended plan to address variances. If analysts determine the goals of the business plan are not attainable and/or projections are unreasonable, a revised business plan may be requested.

Special consideration should be given to startup insurers that project rapid growth and significant underwriting and net losses. In many cases, startups rely heavily on the parent company's capital contributions to finance operations until the insurer can achieve profitability. The analyst should evaluate the reasonableness of the insurer's business plan and projections and determine whether the plan is atainable.

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Redomestication and Acquisition—Communication of Regulatory Actions and Analysis

Communication between states in situations where a company has redomesticated or is being acquired by a party that owns other insurers since the last annual analysis is an important step in conducting effective solvency oversight. In addition to the review of the application for redomestication or Form A, the state insurance regulator should engage the domestic state insurance regulator of the former state in the case of redomestication or the lead state or domestic state(s) of other insurers in the new group in the case of Form A in communication to request the Insurer Profile Summary (IPS), supervisory plan and other relevant solvency monitoring information to effectively incorporate insights from the other domestic state's supervisory plan into the current analysis. In these situations, it is imperative that state insurance regulator concerns and supervisory plans be appropriately transitioned to avoid losing regulatory insights accumulated over years of oversight. Communication should include (but not be limited to) such items as:

- IPS and supervisory plan, including analysis detail for significant risks
- History of regulatory actions
- History of communication with the insurer/group
- Assessment of senior management, board of directors and corporate governance
- Findings (i.e., Summary Review Memorandum (SRM), exam report and management letter) from the most recent financial and market conduct examinations, including the status of the resolution to issues identified
- Assessment of Enterprise Risk Management (ERM)
- Group Profile Summary (GPS) and Supervisory Plan from the holding company analysis, including detail on any significant risks obtained from the lead state
- Assessment of Own Risk and Solvency Assessment (ORSA) Summary Report, if applicable, and Form F

In situations where the company seeking redomestication is considered a priority company (i.e., NAIC 1 or 2) by the current domestic state, the department should communicate the company's intent to redomesticate with all licensed states prior to approval. This type of communication will ensure that all licensed states are informed of the company's plan and encourage an open dialogue between all interested regulators as part of the approval process.

Discussion of Analysis for Intercompany Pooling Arrangements

Intercompany pooling arrangements involve the establishment of a quota share reinsurance agreement under which pooled business is ceded to a lead entity and then retroceded back to pool participants in accordance with stipulated shares (if any). This generally results in pool participants sharing exposure to the various insurance risks ceded into the pool. Because of this structure, financial analysts may be able to gain efficiencies by conducting and documenting the analysis of insurance risks associated with the pooled business on a combined basis and then leveraging the results of that work to complete legal entity analysis. For example, in situations where the majority of the group's writings are ceded into the intercompany pool and there are few unique legal entity risks, analysts may choose to create and maintain a combined risk assessment and/or IPS for all of the legal entities participating in the pool~~ (if domiciled in the same state)~~. In other situations, it may be more appropriate to maintain separate risk assessment worksheets and/or IPSs for each legal entity, but to reference work completed in the pool lead's documentation or include substantially similar information in each legal entity's risk assessment worksheet and IPS.

While insurers participating in intercompany pooling arrangements often share exposure to pooled insurance risks, differences in the overall risk exposure of participants may arise due to a number of factors including, but not limited to, the following:

- Surplus/RBC levels
- Balance sheet composition
- Pool participation percentages
- The timing of pool participation
- Premiums not ceded to the pool
- Reinsurance arrangements outside of the pool (e.g., facultative placement prior to cessions to the pool lead)
- Current or legacy risks (e.g., asbestos exposure) disclosed within the financial statement

Regardless of the method utilized to assess and document the analysis of the pool, the financial analyst should ensure that all significant, unique exposures of each pool participant are separately assessed and addressed within analysis documentation.

If pool participants are domiciled in various states, communication and coordination across states is ~~strongly encouraged~~needed to achieve efficiencies in analysis. For example, ~~it might be appropriate for~~ the domestic state of the pool lead would generally be expected to indicate to the analysts of the other insurers in the pool ~~that~~if it intends to complete a combined risk assessment and IPS and specifically when both will be provided to the other domestic states for their review. This will ~~complete the analysis of the pooled insurance risks early in the analysis cycle to~~ enable other states with domestics in the pool to leverage the completed work. To allow sufficient time for this coordination to take place, domestic states that intend to place reliance on the work of the pool lead state will have 30-days from the receipt of completed analysis work from the pool lead to complete the analysis of their legal entity or until the end of the prescribed analysis timeline, if longer. During this 30-day review period, prior to accepting the risk assessment and the IPS from the pool lead as satisfying all legal entity analysis requirements, each domestic state should consider and document the following:

- The extent to which they are satisfied with the quality of work performed by the pool lead state and willing to be judged on that work from an NAIC Accreditation perspective (if relevant);
- The extent to which the work performed by the pool lead addresses all relevant and material solvency risks of the individual legal entity, including common differences in the risk exposure of pool participants noted above; and

- The completion of any supplemental, state specific analysis procedures (compliance or otherwise) that are necessary to finalize the legal entity analysis.

In situations where an insurer cedes business to an intercompany pool but does not participate in retrocession, the analysis of the pooled business should be obtained/reviewed to evaluate reinsurance credit risk. If the pool is troubled or potentially troubled, this may require more in-depth analysis to evaluate the potential impact of claims associated with the insurer's direct writings not being covered by the pool.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Judy Weaver, Chair of the Financial Analysis Solvency Tools (E) Working Group

FROM: Ad Hoc E/F Subgroup

DATE: September 30, 2002

RE: Form F and CGAD Review Expectations

The Ad Hoc E/F Subgroup was formed to study issues related to solvency monitoring resources and make recommendations to improve process efficiency, if deemed necessary. Through recent discussions, the Subgroup has identified an opportunity to promote additional efficiency in holding company analysis by encouraging non-lead states to place greater reliance on the Lead State in reviewing Form F and the Corporate Governance Annual Disclosure. As such, the Subgroup encourages the Working Group to consider updating the guidance in the NAIC's *Financial Analysis Handbook* (Handbook) following the general principles outlined below.

Form F Guidance

Lead State Form F Guidance

The Lead State should take primary responsibility for reviewing the Form F filing and should incorporate any takeaways or concerns into the GPS. Takeaways should be incorporated into the ERM summary in the GPS and/or the discussion of various branded risks, as deemed appropriate. There should be no requirement or expectation to create a separate Form F checklist or create additional review documentation for sharing with another state or for internal documentation purposes.

If the Form F highlights any issues or risks that are only relevant to a particular insurance entity in the group, the Lead State should notify the domestic state of the issue and share the relevant information from the Form F with that state in a timely manner.

Non-Lead State Form F Guidance

The non-lead state should be encouraged to review the ERM summary and other information provided by the Lead State in the GPS to access relevant information shared through Form F. There should be no expectation of additional information shared by the Lead State in this area, unless Form F highlights any issues or risks that are only relevant to a particular insurance entity in the group. In that case, the non-lead state(s) should rely on the Lead State to proactively provide this information in a timely manner.

If there are material concerns noted in the GPS and additional information is needed, the non-lead state should request additional information from the lead state or company, if available. Such information could include additional information from the Form F filing, if relevant.

Upon the receipt of any additional information, the non-lead state should document any material concerns regarding enterprise risk that could impact the financial condition of the domestic insurer and conclude whether any of the risks identified pose an immediate material risk to the insurer's policyholder surplus or risk- based

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capital position, insurance operations (e.g., changes in writings, licensure, and organizational structure), balance sheet, leverage, or liquidity.

CGAD Guidance

Lead State CGAD Guidance

The Lead State should take primary responsibility for reviewing the CGAD filing, if it is filed on a group basis, and should incorporate any takeaways or concerns into the GPS. Takeaways should be incorporated into the corporate governance summary in the GPS and/or the discussion of various branded risks, as deemed appropriate. There should be no requirement or expectation to create a separate CGAD checklist or create additional review documentation for sharing with another state or for internal documentation purposes.

If the CGAD highlights any issues that are only relevant to a particular insurance entity in the group, the Lead State should notify the domestic state of this issue and share the relevant information from the CGAD with that state in a timely manner.

Non-Lead State CGAD Guidance

If the CGAD is filed on a group basis, the non-lead state should be encouraged to review the corporate governance summary and other information provided by the Lead State in the GPS to access relevant information shared through the CGAD. There should be no expectation of additional information shared by the Lead State in this area, unless CGAD highlights issues that are only relevant to a particular insurance entity in the group. In that case, the non-lead state(s) should rely on the Lead State to proactively provide this information in a timely manner.

If there are material concerns noted in the GPS and additional information is needed, the non-lead state should request additional information from the lead state or company, if available. Such information could include additional information from the CGAD filing, if relevant.

Upon the receipt of any additional information, the non-lead state should document any material concerns regarding corporate governance that could impact the financial condition (e.g., operations, policyholder surplus or capital position) of the domestic insurer.

The Subgroup encourages the Working Group to consider these principles in updating existing Handbook guidance to promote greater efficiency in this area. If there are any questions regarding the principles outlined in this referral, please contact NAIC staff (Dan Daveline or Bruce Jenson) or the Subgroup’s leaders (Justin Schrader or Amy Malm) to discuss. Thanks for your consideration of this important topic.

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Redomestication and Acquisition—Communication of Regulatory Actions and Analysis

Communication between states in situations where a company has redomesticated or is being acquired by a party that owns other insurers since the last annual analysis is an important step in conducting effective solvency oversight. In addition to the review of the application for redomestication or Form A, the state insurance regulator should engage the domestic state insurance regulator of the former state in the case of redomestication or the lead state or domestic state(s) of other insurers in the new group in the case of Form A in communication to request the Insurer Profile Summary (IPS), supervisory plan and other relevant solvency monitoring information to effectively incorporate insights from the other domestic state's supervisory plan into the current analysis. In these situations, it is imperative that state insurance regulator concerns and supervisory plans be appropriately transitioned to avoid losing regulatory insights accumulated over years of oversight. Communication should include (but not be limited to) such items as:

- IPS and supervisory plan, including analysis detail for significant risks
- History of regulatory actions
- History of communication with the insurer/group
- Assessment of senior management, board of directors and corporate governance
- Findings (i.e., Summary Review Memorandum (SRM), exam report and management letter) from the most recent financial and market conduct examinations, including the status of the resolution to issues identified
- Assessment of Enterprise Risk Management (ERM), including risks from Form F that are provided in the GPS or provided by the lead state
- Group Profile Summary (GPS) and Supervisory Plan from the holding company analysis, including detail on any significant risks obtained from the lead state
- Assessment of Own Risk and Solvency Assessment (ORSA) Summary Report, if applicable~~, and Form F~~

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Group-Wide Supervision

The Group-Wide Supervision procedures establish guidance for lead state use in the analysis of insurance company holding systems. This includes a risk-focused approach to group regulation where specific risks that are relevant to insurance holding company structures are addressed.

- **INSURANCE HOLDING COMPANY SYSTEM ANALYSIS DOCUMENTED IN THE GROUP PROFILE SUMMARY (GPS) (LEAD STATE)**:
    - Understanding the insurance holding company system (lead state)
    - Addressing lead state analysis considerations
    - Evaluating the overall financial condition of the holding company system by completing a detailed analysis through the group's exposure to each of the nine branded risk classifications
    - Assessing corporate governance and enterprise risk management
    - Documenting material concerns or conditions in the group that affect the lead state's domestic companies
    - Performing additional procedures on key risk areas, as needed
    - Sharing the results of the analysis, through the GPS, with other impacted regulators on a timely basis
- **CORPORATE GOVERNANCE DISCLOSURE PROCEDURES**
  The *Corporate Governance Annual Disclosure Model Act* (#305) and *Corporate Governance Annual Disclosure Model Regulation* (#306) require 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. The Lead State should take primary responsibility for reviewing the CGAD filing, if it is filed on a group basis, and should incorporate any takeaways or concerns into the GPS. Any concerns relevant only to a specific insurance entity in the group should be communicated to the domestic state in a timely manner.~~As of the date of this publication, most states had not adopted such legislation. These procedures are applicable to only those states that have adopted such legislation.~~
- **OWN RISK AND SOLVENCY ASSESSMENT (ORSA) PROCEDURES**
  The *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.
- **FORM F PROCEDURES**
  The Form F is filed with the lead state commissioner of the insurance holding company system for every insurer subject to registration under the *Insurance Holding Company System Regulatory Act* (#440). The Form F review is to be completed by the lead state in conjunction with the review of Form B. The lead state analyst should identify the material risks within the insurance holding company system that could pose enterprise risk to the insurers in the group. Takeaways and concerns from the review should be documented in the GPS. Any concerns relevant only to a specific insurance entity in the group should be communicated to the domestic state in a timely manner. ~~The Form F is filed with the lead state commissioner of the insurance holding company system for every insurer subject to registration under the *Insurance Holding Company System Regulatory Act* (#440).~~
- **PERIODIC MEETING WITH THE GROUP PROCEDURES**
  These procedures are intended to demonstrate the type of potential questions a lead state may want to consider when it conducts a periodic meeting with the group.

- **TARGETED EXAMINATION PROCEDURES**
  The targeted examination procedures provide examples of potential risk areas where the lead state may want to perform certain limited examination procedures as part of the continual risk assessment process.

LEAD STATE REPORT

The Lead State Report is located in iSite+, within Summary Reports, and is designed to improve communication and coordination between state insurance regulators. It provides a list all insurance groups and the companies within each group, which can be sorted in various ways. 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 insurance department staff.

Legal Risk: 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.

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Fraud

3. Assess if any material fraudulent activity has been identified and evaluate the financial impact of such activity.

	Other Risks
a. Were any fraud concerns disclosed during the review of the Annual Financial Statement, including the Notes to Financial Statements, Audited Financial Statement, and Examination findings (i.e., Exhibit G)?	
b. Contact the state insurance department's Fraud Unit (if applicable). Has the state insurance department concluded any fraud investigations involving the insurer? If so, identify the following: • Nature and scope of the investigation and its findings • Regulatory and/or corrective actions required of the insurer • Insurer's plan to address the fraudulent activity • Financial impact of the investigation and corrective actions	
c. Do any news and media reports, information from the insurer or other information available to the analyst indicate the insurer is under investigation by any regulatory body other than the state insurance department? If so, identify the nature and scope of the investigation and impact on the insurer to determine if further information should be requested from the other regulatory body.	RP
d. Review Regulatory Actions (Regulatory Information Retrieval System—RIRS) on iSite+. Were any regulatory actions taken by other states identified as fraud? If so, and if not communicated to the state insurance department, contact the reporting state insurance department to obtain information regarding the regulatory action.	
e. Contact other regulatory agencies that have regulatory authority over the business of the insurer (e.g., federal agencies where the insurer is engaged in government contracts). Have any regulatory authorities concluded any fraud investigations involving the insurer? If so, request the following information: • Nature and scope of the investigation and its findings • Regulatory and/or corrective actions required of the insurer • Insurer's plan to address fraudulent activity • Financial impact of the investigation and corrective actions	RP
f. Review the GPS and any other information provided by the lead state for any legal risks of the group or the insurance entity (e.g., from the Form F - Enterprise Risk Report)~~ filed with the lead state~~. Were any investigations, regulatory activities or litigations that may impact the insurer or holding company reported?	
g. If the above analysis indicates concerns related to current or prior fraud, inquire of the	

insurer regarding its internal processes and controls for preventing fraud.	

Compliance with Code of Ethics Standards

4. Assess the insurer's compliance with code of ethics standards.

	Other Risks	*Benchmark*	*Result*	*Outside Benchmark*
a. Identify if senior officers are subject to code of ethics standards [Annual Financial Statement, General Interrogatories, Part 1, #14.1 and #14.11]		=NO	[Data]	[Data]
b. Identify if the code of ethics has been amended [Annual Financial Statement, General Interrogatories, Part 1, #14.2 and #14.21]		=YES	[Data]	[Data]
c. Identify if the code of ethics has been waived [Annual Financial Statement, General Interrogatories, Part 1, #14.3 and #14.31]		=YES	[Data]	[Data]
				Other Risks
d. Determine if the responses provided in 4.a, 4.b, or 4.c identify any concerns with the insurer's compliance with code of ethics.				
e. Corporate Governance Annual Disclosure (CGAD): i. If filed on an insurance entity basis~~available~~, does the information provided in the ~~Corporate Governance Annual Disclosure~~CGAD filing on ethics policies identify any concerns with the insurer's ethics standards or conflict with information reported in Annual Financial Statement, General Interrogatories, Part 1, #14? ii. If filed on a group basis, does the information provided in the GPS or provided by the lead state identify any concerns with the insurer's ethics standards or conflict with information reported in the Annual Financial Statement, General Interrogatories, Part 1, #14?				

Audit Committee

Every insurer is required to have designated an Audit Committee, a percentage of whose members should be independent from the insurer depending upon premium volumes.

14. Assess compliance with audit committee requirements.

	Other Risks	*Benchmark*	*Result*	*Outside Benchmark*
a. Did the insurer fail to establish an Audit Committee in compliance with the domiciliary state insurance laws? If "yes," review information for an explanation. [Annual Financial Statement, General Interrogatories, Part 1, #10.5 and #10.6]		=YES	[Data]	[Data]
b. Has the insurer been granted any exemptions under Sections 7H, or 18A of the NAIC *Annual Financial*		=YES	[Data]	[Data]

Reporting Model Regulation? If "yes," review information about the exemption. [Annual Financial Statement, General Interrogatories, Part 1, #10.1, #10.2, #10.3 and #10.4]				
				Other Risks
c. Does the Audit Committee membership meet independence requirements of the domicilary state insurance laws?				
a. Corporate Governance Annual Disclosure (CGAD): i. If filed on an insurance entity basis, does the information provided in the CGAD ~~If available, does the information provided in the Corporate Governance Annual Disclosure filing~~ on auditor independence identify any concerns or conflict with information reported in the Annual Financial Statement, General Interrogatories, Part 1, #10? ii. If filed on a group basis, does the information provided in the GPS or provided by the lead state identify any concerns with the insurer's ethics standards or conflict with information reported in the Annual Financial Statement, General Interrogatories, Part 1, #14?				

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Compliance with Code of Ethics Standards

4. Assess the insurer's compliance with code of ethics standards.

	Other Risks	*Benchmark*	*Result*	*Outside Benchmark*
a. Identify if senior officers are subject to code of ethics standards. [Quarterly Financial Statement, General Interrogatories, Part 1, #9.1]		=NO	[Data]	[Data]
b. Identify if the code of ethics has been amended. [Quarterly Financial Statement, General Interrogatories, Part 1, #9.2]		=YES	[Data]	[Data]
c. Identify if the code of ethics has been waived. [Quarterly Financial Statement, General Interrogatories, Part 1, #9.3]		=YES	[Data]	[Data]
				Other Risks
d. Determine if the responses provided in 4.a, 4.b, or 4.c identify any concerns with the insurer's compliance with the code of ethics.				
e. Corporate Governance Annual Disclosure (CGAD): i. If filed on an insurance entity basis, does the information provided in the CGAD filing on ethics policies identify any concerns with the insurer's ethics standards or conflict with information reported in Annual Financial Statement, General Interrogatories, #9? ii. If filed on a group basis, does the information provided in the GPS or provided by the lead state identify any concerns with the insurer's ethics standards or conflict with information reported in the Annual Financial Statement, General Interrogatories, #9?~~If available, does the information provided in the Corporate Governance Annual Disclosure filing on ethics policies identify any concerns with the insurer's ethics standards or conflict with information reported in General Interrogatory #9?~~				

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Legal Risk Assessment

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Quantitative and Qualitative Data and Procedures

Compliance with Code of Ethics Standards

PROCEDURE #4 directs the analyst to identify and evaluate risks related to the insurer's compliance with code of ethics standards. This procedure references information provided in the General Interrogatories of the Annual Statement related to the code of ethics. The analyst is encouraged to use this information, as well as information provided in the Corporate Governance Annual Disclosure (CGAD) (if filed on an insurance entity basis~~ available~~), to identify and assess risks in this area. If the CGAD is filed on a group basis, rely on the information provided in the GPS for group risks or provided by the lead state if risks apply to the insurance entity. If concerns regarding an insurer's failure to implement or abide by a code of ethics are identified, the analyst should correspond with the company to address these concerns and/or identify other compensating controls in place.

Audit Committee

PROCEDURE #14 directs the analyst to assess compliance with audit committee requirements. As mandated by the *Annual Financial Reporting Model Regulation*, every insurer required to file an audited financial report is also required to have an audit committee that is directly responsible for the appointment, oversight and compensation of the auditor. Insurers with less than $500 million in direct and assumed premium may apply for a waiver from this requirement based on hardship. Based on various premium thresholds, a certain percentage of the audit committee members must be independent from the insurer. However, if domiciliary law requires board participation by otherwise non-independent members, such law shall prevail and such members may participate in the audit committee. This procedure references information provided in the General Interrogatories of the Annual Statement related to whether the insurer has established an audit committee in accordance with state insurance laws and requires the insurer to report if it has been granted any exemptions in this area. In assessing compliance with these requirements, the analyst is encouraged to compare other information received on the corporate governance practices of the insurer, including the CGAD (if filed on an insurance entity basis~~available~~), to information provided in the interrogatories. Note, if the CGAD is filed on a group basis, the analyst should rely on the information provided in the GPS or provided by the lead state if material risks are only relevant to specific insurance entities.

------------------------ *DETAIL HAS BEEN ELIMINATED TO CONSERVE SPACE* ------------------------

NOTE – THE SAME CHANGES BELOW WOULD BE APPLIED TO THE LIFE/HEALTH AND HEALTH REPOSITORIES (III.B.5.b and III.B.5.c)

Corporate Governance

2. Determine whether the corporate governance practices of the insurer provide effective oversight of operations.

	Other Risks
a. If the Corporate Governance Annual Disclosure (CGAD) is filed to your state as either the domestic state of a legal entity (not part of a group) or the lead state of a group, review and assess information on the insurer's or insurance group's corporate governance practices as provided in the CGAD to identify and follow up on any issues noted that could affect the insurer's or the group's ability to adequately oversee operations. If your state is the lead state, document information and risk from the CGAD in the Group Profile Summary (GPS , and if materials risks relate only to a insurance entity, contact the domestic state in a timely manner.	
b. If your state is not the lead state and the CGAD is filed to the lead state, review the corporate governance assessment included in the lead state's ~~Group Profile Summary~~ ~~(~~GPS~~)~~ and contact the lead state with any questions, concerns or follow-ups. Upon the receipt of any additional information, the non-lead state should document any material concerns regarding corporate governance that could impact the financial condition (e.g., operations, policyholder surplus or capital position) of the domestic insurer.	
c. Review and follow up on any issues noted in the department's documentation of corporate governance in the most recent examination reports, other examination documentation or summaries, communication with the examiner-in-charge, or the most recent communication with the insurer. Note any observations or follow-up analysis performed.	
d. Obtain a copy of and review the most recent board of directors' meeting minutes (i.e., may refer to last quarterly, monthly, etc., depending on the frequency of the meetings). Has the board of directors taken any significant actions that may result in changes in operations, business structure, or management that may result in a material financial impact on the insurer?	
e. Based on the above procedures, does the board of directors and management provide a sufficient level of oversight and support? Explain.	

Additional Analysis and Follow-Up Procedures

Corporate Governance:

If the CGAD is filed to your state as either the domestic state of a legal entity (not part of a group) or the lead state of a group and if concerns related to the corporate governance practices of the insurer or insurer group are identified:

- Consider reviewing internal resources on file related to the following, and if not on file, request the following information from the insurer:
  - For the board of directors and each committee established by the board of directors request a copy of

the charter/policy, the business ethic policy, code of conduct policy, and conflict of interest policy

- The most recent conflict of interest statement, or its equivalent, for each member of the board of directors and committees established by the board of directors including an explanation of any conflicts reported
- Financial expertise or statutory accounting principles expertise of the audit committee
- Reporting structure of the internal audit function
- Copy of the company's by-laws currently in effect
- If part of a holding company system, discussion on the level of oversight the parent company maintains over the insurer
- Discussion of compliance with corporate governance statutes
- Discussion of compensation policies, bonus/incentive programs, and management performance and assessment programs
- Discussion of the board of directors' and management's responsibilities and authority

- If your state is not the lead state and the CGAD is filed to the lead state, review the information provided in the GPS or other information provided by the lead state. ~~c~~Contact the lead state with any questions, concerns or follow-ups. Upon the receipt of any additional information, the non-lead state should document any material concerns regarding corporate governance that could impact the financial condition (e.g., operations, policyholder surplus or capital position) of the domestic insurer.

------------------------ *DETAIL HAS BEEN ELIMINATED TO CONSERVE SPACE* ------------------------

Operational Risk Assessment

Operational Risk: The risk of financial loss resulting from inadequate or failed internal processes, personnel and systems, as well as unforeseen external events.

The objective of Operational Risk Assessment analysis is to focus on risks inherent in the company's daily operations. As such, although operational risk encompasses overall profitability, other risks in this area may not be identified through traditional financial statement review. Therefore, analysts may require additional investigation and information requests to understand and assess the potential impact of these risks. For example, analysst may need additional information to assess the insurer's exposure to cybersecurity risks. In addition, information presented in the Enterprise Risk Report (Form F) and Own Risk and Solvency Assessment (ORSA) Summary Report (if available), which are reviewed and risks documented by the lead state, ~~-~~may assist analysts in identifying and assessing the insurer's exposure to operational risks.

Discussion of Annual Procedures

Corporate Governance

Property/Casualty #	*Life/A&H/Fraternal #*	*Health #*
2, 3	*2, 3*	*2, 3*

PROCEDURE #2 assists analysts in determining whether concerns exist regarding the insurer's corporate governance practices. Analysts are asked to review the Corporate Governance Annual Disclosure (CGAD) filing (if filed on an insurance entity basis~~available~~) to identify and assess the governance practices in place at the insurer. If the CGAD is filed on a group basis, the analyst should rely on the information provided in the GPS or provided by the lead state if material risks are only relevant to specific insurance entities. In addition, analysts is encouraged to review the results of the corporate governance assessment conducted during the last on-site examination to identify issues or concerns to be considered or addressed. If concerns are identified, analysts may elect to request a copy of recent board minutes to review and/or contact the insurer regarding actions taken to address the concerns identified.

Additional Analysis and Follow-Up Procedures

CORPORATE GOVERNANCE directs analysts to use the CGAD and/or request additional information from the insurer (if filed on an inurance entity basis or your state is the lead state) to review and evaluate relevant policies and processes such as board/committee charters, code of conduct policy, conflict of interest policy, bylaws, compensation policies, etc. If your state is not the lead state, rely on information provided in the GPS or provided by the lead state.

------------------------- *DETAIL HAS BEEN ELIMINATED TO CONSERVE SPACE* -------------------------

NOTE – THE SAME CHANGES BELOW WOULD BE APPLIED TO THE LIFE/HEALTH AND HEALTH REPOSITORIES (III.B.8.b and III.B.8.c)

Additional Analysis and Follow-Up Procedures
Inquire of the Insurer: If concerns exist, consider requesting information from the insurer regarding: • Request a copy of the qualified actuary's actuarial report and review the actuary's comments regarding the analysis performed and conclusions reached.   ○ If additional questions or concerns are noted after reviewing the report, contact the appointed actuary to discuss the nature and scope of the reserve valuation procedures performed. • Request a copy of the insurer's business plan, and review the insurer's plans to assess and mitigate reserve risks. • Request information regarding any significant changes in reserve methodologies and assumptions, underwriting practices, case reserving, or claims handling practices with the potential to affect reserve setting. • Request information on who ultimately determines the insurer's carried reserves and the Board of Director's role in overseeing the reserving process. • If filed on an insurance entity basis or if your state is the lead state ~~available~~, review the insurer's Corporate Governance Annual Disclosure (CGAD) filing to understand and assess the board of director's role in overseeing the reserving process. If your state is not the lead state, rely on the information provided in the Group Profile Summary (GPS) or provided by the lead state.

------------------------- *DETAIL HAS BEEN ELIMINATED TO CONSERVE SPACE* -------------------------

Strategic Risk Assessment

Strategic Risk: Inability to implement appropriate business plans, make decisions, allocate resources or adapt to changes in the business environment that will adversely affect competitive position and financial condition.

The objective of Strategic Risk Assessment analysis is to focus on risks inherent in the company's business strategy and plans. As such, risks in this area are often prospective in nature and may require additional investigation and information requests to understand and assess their potential impact. For example, analysts may require an up-to-date business plan from the insurer to assess emerging risk exposures and prospective risks that could prevent the insurer from meeting its strategic goals. In addition, information presented in the Enterprise Risk Report (Form F) and Own Risk and Solvency Assessment (ORSA) Summary Report (if available) which the lead state reviews and documents risks, may assist analysts in identifying and assessing the insurer's exposure to strategic risks.

------------------------ *DETAIL HAS BEEN ELIMINATED TO CONSERVE SPACE* ------------------------

Corporate Governance

As part of the risk-focused surveillance approach, analysts should work with the examination staff to assess the quality and reliability of corporate governance in order to identify, assess and manage the risk environment facing the insurer. This assessment will assist in identifying current or prospective solvency risk areas. Corporate Governance Disclosures ~~(if required in your state)~~ will assist in assessing corporate governance of the insurer or the insurer group~~.~~ (See section VI.D. Corporate Governance Disclosure Procedures). By understanding the corporate governance structure and assessing the "tone at the top," analysts 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. To assist in this assessment, analysts may utilize:

- Board and audit committee minutes
- List of critical management and operating committees, the members and meeting frequencies
- Examination findings related to the insurer's risk assessment and risk management activities
- Sarbanes-Oxley filings and similar filings through the NAIC Model Audit Rule, as applicable

Discussion of Annual Procedures

INFORMATION REQUEST PROCEDURE #11: In order to effectively enhance risk-focused financial analysis, state insurance regulators may need to gain a greater understanding of the insurer's strategies, risk exposures and business operations. While a general understanding of the insurer can be obtained through a review of regulatory filings and publicly available information, additional information may be needed on certain strategies, risk exposures and business operations before the insurer can be fully understood and evaluated.

State insurance regulators should first review existing sources of information available to the department (e.g., annual and quarterly statement Notes to Financial Statements and General Interrogatories, MD&A, filed business plans, recent examination results, etc.). Additionally, if the insurer is part of a holding company group and the department is not the lead state, if not already provided by the lead state, the ~~state insurance regulator~~non-lead state should contact the lead state to obtain analysis already prepared by the lead state for additional holding company group information ~~(e.g.,~~ i.e., the Group Profile Summary~~Holding Company Analysis~~, and ORSA Summary Report analysis~~, Form F, and Corporate Governance Annual Disclosure (CGAD) analysis)~~. For Corporate Governance Annual Disclosure (CGAD) filed on a group basis and the Enterprise Risk Report (Form F), the non-lead states should rely on the information provided in the GPS or other information provided by the lead state on material risk relevant to the insurance entity. Contacting the lead state first will help eliminate the duplicate requests for holding company group level information.

If it is determined that additional information is still needed, state insurance regulators may choose to conduct in-person meetings with the insurer, hold conference calls, submit written information requests or take other steps necessary to obtain a sufficient understanding of the insurer. If meetings or conference calls are scheduled with the insurer to gather additional information, state insurance regulators should give consideration to the level at which the meetings should be conducted (i.e., legal entity, intermediate holding company, or ultimate controlling parent) and involve the lead state and other affected state insurance regulators in the process as appropriate. If a meeting is conducted at the group level, lead states may also wish to consider topics and questions outlined in V.H. Periodic Meeting with Group.

The following table highlights topics where the information available through regulatory filings may not be sufficient to provide an adequate understanding of the insurer.

XX DEPARTMENT OF INSURANCE
INSURER PROFILE SUMMARY
COMPANY NAME
As of 12/31/20XX
Updated as of XX/XX/20XX

Insurer's Group Number
List here

Lead State/Groupwide Supervisor
List here

State Prioritization
List X out of X

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

Insurer's Financial Strength/Credit Ratings
List here

Contact at Insurer
List name here
List phone here
List e-mail here

Key Personnel
List name here – CEO
List name here – CFO
List name here – CRO
List name here – Other

CPA Firm
List here

Appointed Actuary
List here

Analyst
List here

Date of Last Exam
List here

Examiner In Charge
List here

BUSINESS SUMMARY

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

ABC is an independently owned property and casualty insurance organization based in state X that specializes primarily in writing private passenger automobile insurance coverage. Through its subsidiaries, DEF Insurance Company, GHI Insurance Company, JKL Underwriters, and MNO Premium Finance Company, the group offers a variety of insurance related services including premium finance and claims processing.

REGULATORY ACTIONS

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

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

FINANCIAL SNAPSHOT (SUMMARY DATA) – OPTIONAL

Assets and Liabilities **Years Ended December 31 (Dollars in millions)**	**20XX**	**20XX**
Total Invested Assets	219	253
Other Assets	111	131
TOTAL ASSETS	330	384
LIABILITIES		
Insurance reserves	97	95
Other liabilities	169	193
TOTAL LIABILITIES	266	288
Capital and Surplus	64	96
TOTAL LIABILITIES AND C&S	330	384
Operations	**20XX**	**20XX**
Premiums	218	233
Investment income (net of gains/losses)	1	8
Other income	0	0
Total revenues	219	241
LOSSES, BENEFITS AND EXPENSES		
Policyholder Benefits	177	157
Expenses	77	80
Total losses, benefits and expenses	254	237
Other	0	2
NET INCOME	(35)	2

BRANDED RISK ASSESSMENTS

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

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

Credit	Legal	Liquidity	Market	Operational
Pricing/UW	Reputation	Reserving	Strategic	Other

Branded Risk Classification Heat Map

Trend	1: Minimal Concern	2: Moderate Concern	3: Significant Concern
A: - Increasing		Reputation	Reserving, Strategic, Pricing/UW, Other
B: ↔ Static	Market	Operational, Credit	Liquidity
C: ↓ Decreasing		Legal	

Assessment

Credit: This risk is considered moderate, driven primarily by a fairly conservative investment mix (96.4% of bonds are NAIC 1 with 28% US government, 14% US states, most of the rest high quality corporates) and limited exposure to equities, offset by a relatively high amount of real estate ($33 million), growing agent balances ($99 million) and significant reinsurance recoverables (paid and unpaid) of $81 million. However, the reinsurance recoverables are diversified across a number of highly rated reinsurers.

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

Legal: The Company has a vested interest in the outcome of the case of GEI v. Virtual Imaging which is before the State Supreme Court. This case pertains to a change in statutes, effective January 1, 2008, that affected the manner in which insurers, including the Company, have paid claims. Subsequent to the statutory change, cases have been brought and trial courts have concurred that the statutes and resulting payments are ambiguities in the statutes. These cases are collectively known as the "Fee Schedule" matter. The Company began receiving lawsuits on this matter in May 2010, some of which were closed at high cost. Since that time, the Company has modified its strategy for handling these cases and has received multiple trial victories from juries that ruled no further payments were owed to the plaintiffs. Exam results indicate that the Company's legal team tracks and monitors outstanding lawsuits and involves experienced external counsel in representing the Company in these matters.

Minimal Concern	Moderate Concern	Significant Concern	Trend
Effectiveness of legal counsel			↔
	Fee Schedule lawsuits		↓
Overall Legal Assessment: Moderate Concern		**Overall Trend:**	↓

Liquidity: The Company is subject to high liquidity risk due to the lines of business written and the corresponding need to meet short-term obligations. The Company's high exposure to the volatile PIP market and related losses has reversed the trend of improved liquidity in recent years. Trends in the Company's five-year liquidity ratio are shown in the following chart, which was indicating improvements before a negative shift in the current year:

	CY	PY	PY1	PY2	PY3
Liquidity Ratio	108.5%	98.3%	101.4%	107.1%	113.0%

Minimal Concern	Moderate Concern	Significant Concern	Trend
		Exposure to PIP Market	↔
		Liquidity Ratio	↔
Overall Liquidity Assessment: Moderate Concern		**Overall Trend:**	↔

Market: Market risk includes equity risks, changes in credit spreads, and also interest rate risks. Most of these risks are not inherently significant to the Company due to its relatively conservative investment portfolio and relatively short-term policies (typically 6 months or 1 year), which allow the Company to reprice fairly easily to align with shifts in the market. However, as shown during the financial crisis, some of the Company's products are more sensitive to general economic downturns, which can impact the Company's performance.

Minimal Concern	Moderate Concern	Significant Concern	Trend
Equity			↔

Changes in Credit Spreads			↔
	Economic Downturn		↑
Overall Market Assessment: Moderate Concern		**Overall Trend:**	↔

Operational: The results of the last exam indicated that the Company has a reliable IT environment and effective internal controls in most areas. However, concerns were raised regarding segregation of duty issues relating to the handling of claims and cash disbursements during the last exam. In addition, a recent news report indicated that one of the Company's independent agents has been charged with committing fraudulent activities. Due to the Company's heavy reliance on independent agents to generate business and manage policyholder relations, even though the report might be an isolated incident it represents a moderate concern in this category.

Minimal Concern	Moderate Concern	Significant Concern	Trend
IT Environment			↔
	Segregation of Duties		↔
	Agent Fraud		↑
Overall Operational Assessment: Moderate Concern		**Overall Trend:**	↔

Pricing/Underwriting: Although the Company is primarily engaged in short-term products (6 months or 1 year), it is subject to highly competitive price pressure and has shown historically weak underwriting results. Underwriting results have shown a negative trend over the past 6 periods as losses incurred continue to rise, a sign that pricing pressures are influencing the bottom line. The Company appears to be utilizing cash flow underwriting as a way to bolster earnings through investment income, which leads to a concern regarding the adequacy/appropriateness of rates used by the Company. In addition, the last financial exam noted a lack of documented underwriting guidelines at the Company, which is in the process of being corrected. However, the lack of documented, detailed underwriting guidelines represents a moderate concern in this area. Overall, this risk category represents a significant ongoing concern for the Company.

Minimal Concern	Moderate Concern	Significant Concern	Trend
	Underwriting Guidelines		↔
		Rate Adequacy	↑
Overall Pricing/Underwriting Assessment: Moderate Concern		**Overall Trend:**	↑

Reputation: The Company's business is not rating sensitive, but the Company is highly dependent upon business produced by agents. As noted above, a recent concern has been identified regarding potential fraud committed by one of the Company's agents. In addition, findings of a recent market conduct examination lead to numerous violations. These violations related to claims handling issues, such as failure to comply with timely payments and denial of legitimate claims. Although the Company has disputed these findings, gross writings continue to suffer as several agents have stopped writing on behalf of the Company.

Minimal Concern	Moderate Concern	Significant Concern	Trend
	Agent Fraud		↑
	Market Conduct Findings		↑
Overall Reputation Assessment: Moderate Concern		**Overall Trend:**	↑

Reserving: The Company is subject to high reserving risk, as shown in the following reserve trending of information. The Company historically has been overly optimistic in the forecasting of future liabilities and reserving, where actual reported results have failed to meet projections. The types of business written and geographic regions in which coverage is provided leave the Company vulnerable to high losses and a greater than industry average risk for adverse reserve development.

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

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

Minimal Concern	Moderate Concern	Significant Concern	Trend
		Lines of Business	↔
		Loss Development	↑
Overall Reserving Assessment: Moderate Concern		**Overall Trend:**	↑

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

- As discussed above, the Company has experienced weak underwriting, which has resulted in material losses and material reductions in capital. Underwriting losses have been reported in each of the past five years. Consequently, profitability and capital are considered weak as investment activity has been used to prop-up the bottom line, in addition to capital contributions from the Company's parent. The Company has not yet finalized and presented an updated business plan to demonstrate how it will address these strategic issues going forward.
- The Company indicated in its Form F that it was changing its mix of business in states other than State X and Y. This could create a risk as the Company has only been writing in the other states for a few years; therefore there is limited historical development available for these states. This should be considered in the context of the targeted examination.

Minimal Concern	Moderate Concern	Significant Concern	Trend
	Expansion in new jurisdictions		↑
		Profitability/capital concerns	↑
Overall Strategic Assessment: Significant Concern		**Overall Trend:**	↑

Other: The following other issues have been identified that don't clearly fit into one of the branded risk classifications highlighted above:

- The company has consistently been out of compliance with one or more laws, regulations or requirements of the Department and other states.

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

IMPACT OF HOLDING COMPANY ON INSURER

Summarize the evaluation of the impact of the holding company system on the domestic insurer. See Domestic and/or Non-Lead State Analysis Holding Company Procedures for further discussion.

EXAMPLE:

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

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

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

OVERALL CONCLUSION AND PRIORITY RATING

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

EXAMPLE:

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

SUPERVISORY PLAN

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

EXAMPLE:

Analysis Follow Up

- Obtain further detail regarding the impact of proposed rate increases and monitor through monthly financial reporting.
- Obtain further detail regarding the insurer's liquidity strategy.
- Assess the reasonableness of the Company's business plan as soon as it is received, given the inability to execute the most recent strategy. Consider attending board meetings to reflect the concern regarding the future viability of the Company.

Examination Follow-Up

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

------------------------- *DETAIL HAS BEEN ELIMINATED TO CONSERVE SPACE* -------------------------

Planning Meeting Between the Financial Analyst and Financial Examiner – Agenda Items

1. **Business Summary** – Discuss a summary of the business operations and lines of business of the insurer.
   a. Discuss whether the department has received a recent business plan from the company and has identified any significant changes in strategy/operations.
   b. Discuss any recent meetings with the company and their potential impact on the examination.
   c. Discuss the corporate governance in place at the company and any recent changes or concerns identified.
2. **Regulatory Actions** – Discuss any significant recent steps taken in supervising the company, including, but not limited to:
   a. Granting of permitted practices
   b. Identification of issues of non-compliance
   c. Follow-up on items from the last financial examination
   d. Review of items filed with the department for approval
3. **Financial Snapshot/Overview of Financial Position** – Discuss the company's recent financial results, including, but not limited to:
   a. Changes in profitability trends.
   b. Deterioration in asset quality, liquidity or capital adequacy.
   c. Changes in investment holdings and strategy.
   d. Changes in key annual statement balances.
   e. Changes in reinsurance balances and program structure.
   f. Significant results noted in financial analysis solvency tools.
4. **Branded Risk Assessments** – Discuss individual branded risk assessments with a focus on moderate and significant areas of concern. For example:
   a. Discuss a summary of detailed analysis work performed to address key issues.
   b. Discuss the status of any outstanding inquiries or requests for the company.
   c. Discuss any management representations to the department that should be verified or corroborated during the exam.
   d. Discuss any recommended exam procedures and/or follow-up on key issues.
5. **Impact of Holding Company on Insurer** – Discuss the impact of the holding company system on the domestic insurer. For example:
   a. Discuss and obtain the Group Profile Summary and non-lead state holding company analysis work as necessary.
   b. If the lead state, ~~D~~discuss whether the analyst's review of the group's Corporate Governance Annual Disclosure (CGAD), if applicable, Own Risk and Solvency Assessment (ORSA) Summary Report and/or Form F reporting indicate a need for additional follow-up and review during the exam.
   c. If not the lead state, discuss whether your state's review of the following indicate a need for additional follow-up and review during the exam.

i. As applicable, either the insurance entity's CGAD, or the lead state's review of the group's CGAD provided in the GPS and other information provided by the lead state

ii. The lead state's analysis of Own Risk and Solvency Assessment (ORSA) Summary Report

~~i.~~iii. The lead state's analysis of the Form F provided in the GPS or other information provided by the lead state

~~b.~~d. Discuss any developments or follow-up items resulting from recent supervisory college sessions.

6. **Overall Conclusion and Priority Rating** – Discuss the analyst's overall conclusion on the company's financial condition, strengths, weaknesses, and priority rating assigned to the company.

7. **Supervisory Plan** – Discuss the analyst's plans for the ongoing supervision of the company, including any specific examination procedures identified.

8. **Access to Work Papers and Company Documents** – Discuss the best way that the analyst's work can be reviewed/obtained. As the number of files that examiners wish to review and obtain increases, they may consider obtaining access to the analyst's workpapers and receiving specific locations (i.e., workpaper references) for all requested documents.

9. **Input from Other Areas of the Department** – Discuss whether the analyst has received recent communications from other areas of the insurance department regarding issues that could affect the financial examination including, but not limited to, units in charge of:

   a. Approving rates and forms filings

   b. Legal and administrative matters

   c. Market conduct examinations/filings

10. **General Observations** – Depending on the information already provided, determine whether there are any additional topics relevant for discussion, such as:

    a. If you were going on-site to examine this company, where would you focus your time?

    b. What are your biggest concerns in terms of things that could go wrong at this company to result in a solvency concern?

    c. Are you aware of any fraud allegations or concerns at the company? Are there any fraud risk factors that the exam team should be aware of?

------------------------ *DETAIL HAS BEEN ELIMINATED TO CONSERVE SPACE* ------------------------

Assess the Impact of the Holding Company Group on the Domestic Insurer

Assessment of Group Profile Summary from the Lead State

5. Obtain a copy of the lead state's Group Profile Summary (GPS).

6. Consider the GPS's branded risk assessment in determining the impact of the holding company on the domestic insurer.

7. Review the conclusion and supervisory plan of the GPS. Did the lead state identify any holding company risks impacting the domestic insurers' in the group and/or supervisory plans that impact your state's domestic insurer?

8. Consider the nature of the domestic insurer(s)' interdependence on the holding company group or affiliated entities for business operations or financial stability (e.g., employees, services provided, reinsurance and/or capital support in the near term). (OP, CR, ST)

9. Consider the level of reputational risk that the holding company (as a group) poses to the domestic insurer(s). (RP)

10. Determine if income of the domestic insurer(s) is being used to service holding company debt or other corporate initiatives (e.g., acquisitions). (OP, ST)

11. Review the information provided in the GPS regarding the Corporate Governance Annual Disclosure (CGAD) and other related corporate governance information provided by the lead state. Does it identify any risk or concerns that require questions or follow-up to the lead state? Does it highlight any issues that are only relevant to your state's domestic insurance entity? Do any material concerns exist regarding corporate governance that could impact the domestic insurer's financial condition (e.g., operations, policyholder surplus or capital position)?

12. Review the information provided in the GPS regarding risks or concerns noted in the Enterprise Risk Report (Form F) or any other related information provided by the lead state. Does it identify any risk or concerns that require questions or follow-up to the lead state? Do any material concerns regarding enterprise risk have the potential to impact the financial condition of the domestic insurer risks or pose an immediate material risk to the domestic insurer's policyholder surplus or risk- based capital position, insurance operations (e.g., changes in writings, licensure, and organizational structure), balance sheet, leverage, or liquidity?

Assessment of Form B (and C)

1~~1~~3. Based upon a review of the registration statement, were any significant and/or unusual items noted, such as, but not limited to, the following?

   a. Person(s) holding 10% or more of any class of voting security who also have a history of transacting business of any kind directly or indirectly with the insurer. (OP, ST)

   b. Biographical information about directors or officers, which may elevate concerns such as convictions of crimes. (OP, ST)

   c. Any litigation or administrative proceeding involving the ultimate controlling entity or any of its directors and officers, such as criminal prosecutions or proceedings which may have a material effect upon the solvency or capital structure of the ultimate holding company, such as bankruptcy, receivership, or other corporate reorganization. (LG)

d. The absence of an affirmative statement that transactions entered into since the filing of the prior year's annual registration statement are not part of a plan or series of like transactions to avoid statutory threshold amounts. (OP, ST)

Assessment of Affiliated Risks on the Domestic Insurer

~~12.~~ 14. Were any material deficiencies or risks noted during the annual review of the domestic insurer's Notes to Financial Statements, Interrogatories, Schedule Y – Part 2, Holding Company Forms B & C, or recent examination reports with respect to affiliated transactions? (CR, LQ, OP, ST)

a. Management agreements

b. Third-party administrative agreements

c. Managing general agent agreements

d. Investment management pools

e. Reinsurance agreements and pools

f. Consolidated tax sharing agreements

g. Other

~~13.~~ 15. If any of the following forms have been filed with the domestic regulator since the last review, indicate if risks or concerns were noted in any of the reviews of these forms.

a. Form A (Acquisition of Control or Merger)

b. Form D (Prior Notice of a Transaction)

c. Form E (Pre-Acquisition Notification) or Other Required Information

d. Extraordinary Dividend/Distribution

~~Assessment of Form F – Enterprise Risk Statement~~

~~14. Obtain either the Form F from the lead state, if available, and/or the lead state's analysis of the Form F if it addresses the impact of the holding company on your state's domestic insurer(s).~~

~~15. Based on the analyst's review of Form F and/or the lead state's analysis of the Form F, and any additional information related to enterprise risk available (e.g., Form B, other filings), document any material concerns regarding enterprise risk that could impact the financial condition of the domestic insurer.~~

~~16. Do any of the risks identified pose an immediate material risk to the insurer's policyholder surplus or risk-based capital position, insurance operations (e.g., changes in writings, licensure, and organizational structure), balance sheet, leverage or liquidity?~~

Assessment of Own Risk and Solvency Assessment (ORSA), if applicable

~~17.~~ 16. Obtain the lead state's analysis of the ORSA Summary Report (See section VI.F-Own Risk and Solvency Assessment Procedures.)

~~18.~~ 17. Did the lead state document in its analysis any risks or concerns that in its opinion have an impact on the overall financial condition of the insurance holding company system? If so, do any of the risks or concerns identified pose a material risk to the domestic insurer?

~~**Assessment of Corporate Governance Annual Disclosure (CGAD), if applicable**~~

~~19. Obtain the lead state's analysis of the CGAD and determine if it addresses corporate governance policies and practices of the group applicable to your state's domestic insurer(s).~~

   ~~a. If the CGAD analysis does not address corporate governance policies and practices of the group applicable to the non-lead states' domestic insurer, request the CGAD from the insurer.~~

~~20. Based on the analyst's review of the CGAD or the lead state's analysis of the CGAD, and any additional available information related to corporate governance, document any material concerns regarding corporate governance impacting the domestic insurer.~~

~~21. Do any of the concerns identified pose an immediate material risk to the domestic insurer's financial condition (e.g., operations, policyholder surplus or capital position)?~~

Communication & Follow-Up with the Lead State

- ❑ Notify the lead state of any additional material events or concerns applicable to the domestic insurer, or the group as a whole, that the lead state may not otherwise be aware of, and that should be considered in the evaluation of the overall financial condition of the holding company system.
- ❑ If any material risks or events were identified during your holding company analysis that were not discussed in the lead state's holding company analysis, communicate those findings to the lead state.

Update the Insurer Profile Summary

Update the Insurer Profile Summary of the domestic insurer with the summary and conclusion of the impact of the holding company system on the domestic insurer based on the above analysis performed.

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

------------------------ DETAIL HAS BEEN ELIMINATED TO CONSERVE SPACE ------------------------

Form A – Statement of Acquisition of Control of or Merger with a Domestic Insurer

Ultimate Controlling Person/Parent (UCP), Officers, and Directors

6. Perform additional review considerations as necessary to analyze and identify potential risks concerning the UCP, Officers, and Directors which may include but not limited to the following:
   a. Perform a query of the NAIC Form A database on the name of the UCP, directors, executive officers, or owners of 10 percent or more of the voting securities of the applicant and perform the following step(s):
      i. Assess the feasibility of the acquiring person's holding company structure including location and control (direct/indirect) of the target company post acquisition.
      ii. Carefully scrutinize and understand complex organization and ownership structures.
   b. Review other external sources to gain a better understanding of the acquiring persons, its affiliates, and the UCP.
   c. Identify and review all relevant parties to the proposed acquisition and the nature of other filings made in other states by similar individuals.
   d. Consider suitability of UCP through background review and regulatory review of the prospective new owners, using UCAA biographical affidavits and third-party background reviews by NAIC listed independent third-~~-~~party reviewing companies or fingerprinting criminal checks if applicable and note any risks or concerns regarding competence, experience, and integrity of the applicant, as well as the results of any background investigation.
   e. Does the Form A provide adequate background information (e.g., biographical affidavits including third-party background checks) on the applicant (if an individual) or all persons who are directors, executive officers, or owners of 10% or more of the voting securities of the applicant (if the applicant is not an individual)?
   f. Review the lead state's assessment of the acquiring UCP's most recent ORSA Summary Report and information in the Group Profiles Summary (GPS) regarding Form F, if applicable; to better understand the impact on risk assessment, risk appetite and tolerances, and prospective solvency (capital and liquidity).
   g. Cross check the UCP with source of funds and consider debt funding sources.
   h. Consider acceptability of SEC disclosures by board members of publicly traded UCPs in suitability review.

Non-Lead State Holding Company System Analysis Procedures

PROCEDURES #5-17 assist analysts in assessing the impact of the holding company system on the domestic insurer. This includes five primary segments of the analysis as follows.

- ***#5-12~~0~~*** **ASSESSMENT OF THE GROUP PROFILE SUMMARY (GPS) FROM THE LEAD STATE**: If the Lead State is not your state, the Lead State should provide a GPS to the non-lead states in the group by Oct. 31. Using the GPS consider the risks identified and assessed by the Lead State to determine any material impacts on the branded risks of the domestic insurer, the interdependence of the holding company and its affiliated entities, including the domestic insurer, dividend obligations of the domestic insurer to service holding company debt or fund other holding company initiatives, ~~and~~ the holding company's reputation, enterprise risk management and corporate governance.

- ***#13~~1~~*** **ASSESSMENT OF FORM B (AND C):** Model #440 defines insurance holding companies and the related registration, disclosure, and approval requirements. Form B is the insurance holding company system annual registration statement. Model #440 requires every insurer, which is a member of an insurance holding company system, to register by filing a Form B within 15 days after it becomes subject to registration, and annually thereafter. Any non-domiciliary state may require any insurer that is authorized to do business in the state, which is a member of a holding company system, and which is not subject to registration in its state of domicile, to furnish a copy of the registration statement.

  An insurance holding company system consists of two or more affiliated individuals, one or more of which is an insurer. An affiliate is an entity that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, another entity. Control is presumed to exist when an entity or person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies, representing 10 percent or more of the voting securities.

- ***#1~~2~~4-1~~3~~5*** **ASSESSMENT OF AFFILIATED RISKS ON THE DOMESTIC INSURER**: Affiliated risks may exist due to interdependence of the holding company and its affiliated entities through affiliated transactions. Consider also the guidance included in section III.B.5.d Operational Risk Repository – Analyst Reference Guide as well as guidance in this section regarding supplemental form filings for review of affiliated agreements.

- ~~***#14-16*** **ASSESSMENT OF FORM F – ENTERPRISE RISK STATEMENT**: The purpose of the Form F is to identify if there is any contagion risk within the group, and domestic states should not be discouraged from reviewing such information because ultimately they are required to relate the financial condition of the group to their domestic state. The Form F must be reviewed by the lead state but other domestic states are also expected to review it. To the extent the Lead State's analysis of Form F assesses the impact of any contagion risk of the group on 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 Lead State's analysis of Form F does not assess the impact of the group on the non-lead state's domestic insurer, consider a review as noted in Procedure #15 and #16, or similar to the procedures in section VI.G. Group-Wide Supervision – Form F – Enterprise Risk Report Procedures for reviewing Form F.~~

- ***#16-17~~17-18~~*** **ASSESSMENT OF OWN RISK AND SOLVENCY ASSESSMENT (ORSA):** If the Holding Company files an ORSA Summary Report, it is the responsibility of the Lead State to review and perform analysis of the report. 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. 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 state's 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.

- ~~**#19-21 ASSESSMENT OF CORPORATE GOVERNANCE ANNUAL DISCLOSURE (CGAD):** Analysis of CGAD only applies where states have enacted such legislation as that in the *Corporate Governance Annual Disclosure Model Act* (#305) and *Corporate Governance Annual Disclosure Model Regulation* (#306). The purpose of the CGAD is to provide a summary of an insurer or insurance group's corporate governance structure, policies and practices to permit the regulator to gain and maintain an understanding of the insurer's corporate governance framework. The CGAD must be filed to the lead state if on a group basis or the domestic state if on a legal entity basis, but other domestic states may request the filing. To the extent the Lead State's analysis of a group CGAD assess the impact of corporate governance practices and procedures of the group on the non-lead state's domestic insurer, the analysis may be leveraged by the non-lead state to reduce the analysis work of the non-lead state. If the Lead State's analysis of CGAD does not assess the impact of the group on the non-lead state's domestic insurer, review the filing to identify and assess any material concerns and determine if any material immediate risks impact the domestic insurer's financial condition.~~

------------------------ *DETAIL HAS BEEN ELIMINATED TO CONSERVE SPACE* ------------------------

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, and 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.

Lead State Holding Company Analysis – Process and Procedures

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, Enterprise Risk Report (Form F), Corporate Governance Annual Disclosure (CGAD), 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.

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; CGAD; 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.

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, including a review of the Corporate Governance Annual Disclosure—CGAD (if filed on a group basis) 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

Models #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, 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, 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 group information that applies to all insurers within the group or it may contain information applicable to a specific legal entity.

Similar to other solvency regulation models, Model #305 contemplates both off-site and on-site examination of the CGAD information, therefore, ~~I~~it may be necessary or acceptable for the lead state to share its work papers with another state during an exam, 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 lead state should take primary responsibility for reviewing the CGAD filing, if it is filed on a group basis, and should incorporate any takeaways or concerns into the Group Profile Summary (GPS). Takeaways should be incorporated into the corporate governance summary in the GPS and/or the discussion of various branded risks, as deemed appropriate. There is no requirement or expectation for the analyst to create a separate CGAD checklist or create additional review documentation for sharing with another state or for internal documentation purposes.

If the CGAD highlights any issues that are only relevant to a particular insurance entity in the group, the lead state should notify the domestic state of this issue and share the relevant information from the CGAD with that state in a timely manner. ~~The Lead 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 states 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 Lead State's analysis of CGAD to reduce duplication of analysis efforts.~~

~~**To the extent the Lead 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 Lead 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-Lead State analysis procedures.~~

PROCEDURES #1 - 2 ~~assist~~ provides a guide to 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. As noted above, concerns should be documented in the GPS, as there is no requirement or expectation for the analyst to create a separate CGAD checklist or create additional review documentation.

PROCEDURES #3 - 5 provides a guide to assist analysts in summarizing any concerns relative to the insurer or insurance group's corporate governance and its impact. Risks and concerns should be documented in the GPS.

Compliance with Corporate Governance Disclosure Requirements

The following procedures are intended to guide the analyst through a review of the CGAD. These procedures do not represent a documentation requirement.

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.

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.

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.~~4. Do any of the concerns pose an immediate risk to the insurer's or insurance group's operations, policyholder surplus or capital position?

For the U.S. lead state:

- ❑ Analysts should update the Group Profile Summary and Supervisory Plan with any risks, concerns, and material information.
- ❑ Analysts should notify the domestic state of any issues that are only relevant to a particular insurance entity in the group and share the relevant information from the CGAD with that state in a timely manner.
- ❑ Analysts should communicate to the examiner-in-charge (EIC) any prospective risks identified in the review of the corporate governance annual disclosure that affects the domestic insurer.

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
- ❑ 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 if questions exist about information noted in the GPS
- ❑ Pursue, if applicable and as appropriate, within an international supervisory college (if applicable)

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

------------------------ *DETAIL HAS BEEN ELIMINATED TO CONSERVE SPACE* ------------------------

Form F - Enterprise Risk Report

The 2010 revisions to Model #440 and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450) introduced a new filing requirement for a Form F. The Form F requires the ultimate controlling person to identify the material risks within the insurance holding company system that could pose enterprise risk to the insurer. The Form F may be completed using information contained in the financial statement, annual report, proxy statement, statement filed with a governmental authority, or other documents if such information meets the disclosure requirements. Form F is focused on disclosing the enterprise risk associated with the entire insurance holding company system including non-regulated entities. The Form F is filed with the lead state commissioner of the insurance holding company system for every insurer subject to registration under Model #440. Adoption of the applicable Form F and related confidentiality provisions outlined in the 2010 revisions to Model #440 is required for a state to be designated the lead state for Form F filings. Lead states and other domestic states receiving and sharing the Form F must have in place confidentiality agreements as prescribed in #Model 440.

Lead State Responsibility for Analysis of Form F

The Lead State should take primary responsibility for reviewing the Form F filing and should incorporate any takeaways, risks or concerns into the GPS. Takeaways, risks and concerns should be incorporated into the ERM summary in the GPS and/or the discussion of various branded risks, as deemed appropriate. There is no requirement or expectation to create a separate Form F checklist or create additional review documentation for sharing with another state or for internal documentation purposes.

If the Form F highlights any issues or risks that are only relevant to a particular insurance entity in the group, the Lead State should notify the domestic state of the issue and share the relevant information from the Form F with that state in a timely manner.

~~Non-Lead State Reliance on the Lead State Analysis of Form F~~

~~Although by inclusion in this section, reviewing the group Form F report is a responsibility of the lead state, the approach on this is different from that taken with the ORSA. Generally speaking, a non-lead state should not review the ORSA with the same level of depth as the lead state. However, that same approach is not encouraged with respect to the Form F. The entire purpose of the Form F is to identify if there is any contagion risk within the group, and domestic states should not be discouraged from reviewing such information because ultimately, they are required to relate the financial condition of the group to their domestic state. Most believe that the ORSA is much more detailed and less related to contagion as it is the group's actual risk management processes used to mitigate risk.~~

~~The Form F must be reviewed by the lead state and significant findings incorporated into the GPS. However, other domestic states are also expected to review the Form F in order to assess the impact of the group on their domestic insurer. One exception for non-lead states should be noted.~~ **~~To the extent the lead state's analysis of Form F assesses the impact of any contagion risk of the group on 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 lead state's analysis of Form F does not assess the impact of the group on the non-lead state's domestic insurer, the non-lead domestic state should review Form F. The Lead State can share the Form F and its analysis through NAIC tools (Form F Sharing Tool for the filings and the iSite+ Regulator File Sharing System for the analysis). Analysis steps are included in the non-lead state analysis procedures with that in mind. To reduce duplication, domestic states should consider obtaining and reviewing the lead state's analysis of Form F before determining if a full review of the filing is necessary to determine its impact on their domestic insurers.~~

Non-Lead State Reliance on the Lead State Analysis of Form F

The Form F must be reviewed by the lead state and significant findings incorporated into the GPS. The non-lead state is encouraged to review the ERM summary and other information provided by the lead state in the GPS to access relevant information shared through Form F. There is no expectation of additional information shared by the lead state in this area, unless Form F highlights issues or risks that are only relevant to a particular insurance entity in the group. In that case, the non-lead state(s) should rely on the Lead State to proactively provide this information in a timely manner.

If there are material concerns noted in the GPS and additional information is needed, the non-lead state should request additional information from the lead state or company, if available. Such information could include additional information from the Form F filing, if relevant.

Upon the receipt of any additional information, the non-lead state should document any material concerns regarding enterprise risk that could impact the financial condition of the domestic insurer and conclude whether any of the risks identified pose an immediate material risk to the insurer's policyholder surplus or risk- based capital position, insurance operations (e.g., changes in writings, licensure, and organizational structure), balance sheet, leverage, or liquidity.

NAIC Enterprise Risk Report (Form F) Implementation Guide
In March 2018, the Group Solvency Issues (E) Working Group adopted *the NAIC Enterprise Risk Report (Form F) Implementation Guide,* which is located at:

https://www.naic.org/documents/committees_e_isftf_group_solvency_related_form_f_guide.pdf?97

As outlined in the Guide, it is intended to assist insurers and regulators in maximizing the usefulness of the Form F by proposing best practices for consideration in preparing and reviewing filings. Therefore, while the Guide does not constitute authoritative guidance for information to be included in a Form F filing, filers are requested to consider the best practices outlined within the Guide when preparing their Form F filing. By adhering to the best practices outlined within the Guide, registrants will be able to reduce the extent of regulator follow-up and correspondence necessary to utilize the information provided, which should lead to a more effective and efficient process. The regulators' goal in developing this document was to provide some consistency and uniformity across states in reviewing and utilizing information obtained through the Form F. Therefore, it is recommended that states utilize the best practices outlined in the Guide to support their review and feedback process.

PROCEDURES #1 - 2 provides a guide to assist analysts in reviewing the Form F filing for completeness and help guide analysts through each of the major items of information required by Form F. Analysts should review Form F in conjunction with a review of Form B and should document any nondisclosure of information. As noted above, concerns should be documented in the GPS, as there is no requirement or expectation for the analyst to create a separate Form F checklist or create additional review documentation.

PROCEDURES #3 - 7 provides a guide to assist analysts in evaluating the risks described within Form F. Analysts should consider whether any enterprise risks not reported in Form F exist, and for all risks identified both within Form F and by analysts, analysts should review information available and document any concerns. Analysts should also evaluate whether the risks identified result in an impact to the insurer's financial condition (e.g., surplus, RBC, insurance operations, balance sheet, leverage and liquidity. Risks and concerns should be documented in the GPS.

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

The following procedures are intended to guide the analyst through a review of the Form F. These procedures do not represent a documentation requirement.

Compliance with Reporting Requirements

1. Does Form F provide information regarding the following areas that could pose enterprise risk [provided such information is not disclosed in Form B – Insurance Holding Company System Annual Registration Statement]?
    a. Material developments regarding strategy, compliance or risk management affecting the insurance holding company system, or internal audit findings.
    b. Acquisition/disposition of insurance entities and/or reallocation of existing financial or insurance entities within the insurance holding company system.
    c. A change in shareholders of the insurance holding company system that exceed (10% or more of voting securities.
    d. Development in investigations, regulatory activities or litigation that may have a significant bearing or impact on the insurance holding company system.
    e. A business plan of the insurance holding company system and summarized strategies for the next 12 months.
    f. Identify material concerns of the insurance holding company system raised by the supervisory college.
    g. Identify capital resources and material distribution patterns of the insurance holding company system.
    h. Identify any negative movement, or discussions with rating agencies that may have caused, or may cause, potential negative movement in credit ratings and insurer financial strength ratings assessment of the insurance holding company system (including both the rating score and outlook).
    i. Corporate or parental guarantees throughout the insurance holding company system and the expected source of liquidity should such guarantees be called upon.
    j. Identify any material activity or development that, in the opinion of senior management, could adversely affect the insurance holding company system.

2. If the registrant/applicant has not disclosed information listed in procedure 1 above, did the registrant/applicant include a statement that, to the best of his or her knowledge and belief, he or she has not identified enterprise risk subject to disclosure?

Assessment of Form F – Enterprise Risk Report

3. Is the analyst aware of any enterprise risk to the insurer not reported in Form F?
4. Based on the analyst's review of Form F and any additional information related to enterprise risk available (e.g., Form B, other filings), document any material concerns regarding enterprise risk to the group.
5. Do any of the risks identified pose an immediate risk to ~~the insurer's~~ policyholder surplus or risk-based capital position of insurers in the group?
6. Do any of the risks identified result in material impact to the insurance operations of the group? (e.g., changes in writings, licensure, and organizational structure)?
7. Do any of the risks identified result in material impact to the group's balance sheet, leverage or liquidity?

For the U.S. lead state:

- Analysts should update the ~~Holding Company System Analysis~~Group Profile Summary~~,~~ ~~Branded Risk Assessments~~ and Supervisory Plan ~~in the Group Profile Summary~~ with the risks identified and results from the Form F review.
- Analysts should notify the domestic state of any issues that are only relevant to a particular insurance entity in the group and share the relevant information from the Form F with that state in a timely manner.
- Analysts should communicate to the examiner-in-charge (EIC) any prospective risks identified in the review of Form F that affects the domestic insurer.

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
- 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
- Contact the holding company directly if deemed appropriate by the group-wide supervisor given the Form F is a U.S. only filing
- 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 if questions exist about information noted in the GPS
- Pursue, if applicable and as appropriate, within an international supervisory college (if applicable)

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

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

To:	Amy L. Beard, Commissioner, Examination Oversight (E) Task Force Chair and
	Karima M. Woods, Commissioner, Examination Oversight (E) Task Force Vice Chair
From:	Marlene Caride, Commissioner, Financial Stability (E) Task Force Chair and
	Justin Schrader, Macroprudential (E) Working Group Chair
CC:	NAIC Support Staff: Bailey Henning
Date:	August 1, 2022
Re:	Referral from the Plan for the List of MWG Considerations

The NAIC Macroprudential (E) Working Group (MWG) of the Financial Stability (E) Task Force (FSTF) was charged with coordinating the various NAIC activities related to private equity (PE) owned insurers. As an initial step, the MWG developed a list of 13 regulatory considerations. These considerations are frequently referenced as private equity (PE) concerns, but the Working Group developed the list with an activities-based frame of mind, recognizing that any ownership type and/or corporate structure could participate in these activities, including but not limited to PE owned insurers. The MWG members discussed detailed elements of the considerations and potential regulatory work, including explicit reference to the 2013 guidance added to the NAIC Financial Analysis Handbook for Form A reviews when a private equity owner was involved, and interested parties added useful comments to these during an exposure period. The MWG and FSTF adopted a final plan for addressing each of the 13 considerations, including many referrals to other NAIC committee groups.

The Financial Condition E Committee adopted this plan with no changes made during its virtual meeting on July 21, 2022. NAIC staff support drafted this referral letter to accomplish the actions captured in the adopted plan. It is unlikely any further modifications will occur to the adopted plan when it is considered for adoption by the full Plenary, but it is a possibility. Please begin work to address these referrals, recognizing the adoption by Plenary is still outstanding.

Each MWG consideration referred to your group is listed below. The summarized notes from the MWG regulator-only discussions follow the consideration in blue font and any interested party comments are also provided in purple font. Please consider these discussion points and comments in addition to your own discussion ideas when developing proposals to address the MWG consideration.

NAIC staff support for the MWG will follow the work your group performs and summarize your activities for reporting up to the FSTF. If you have any questions or need further direction, please contact Todd Sells (tsells@naic.org).

MWG Consideration Items Referred:

8. Though the blanks include affiliated investment disclosures, it is not easy to identify underlying affiliated investments and/or collateral within structured security investments. Additionally, transactions may be excluded from affiliated reporting due to nuanced technicalities. Regulatory disclosures may be required to identify underlying related party investments and/or collateral within structured security investments. This would include, for example, loans in a CLO issued by a corporation owned by a related party.
    a. An agenda item and blanks proposal are being re-exposed by SAPWG. The concept being used for investment schedule disclosures is the use of code indicators to identify the role of the related party in the investment, e.g., a code to identify direct credit exposure as well as codes for relationships in securitizations or similar investments.

Regulator discussion results:

- Like the previous consideration, regulators are looking forward to using these code disclosures to help target areas for further review. However, specific to CLO/structured security considerations, regulators support a referral to the Examination Oversight (E) Task Force. Specific items discussed include:
    - Since investors in CLOs obtain monthly collateral reports, regulators should consider asking for such reports when concerns exist regarding a company's potential exposure to affiliated entities within their CLO holdings.
    - Regulators would like to have more information regarding the underlying portfolio companies affiliated with a CLO manager to help quantify potential exposure between affiliates and related parties.
    - Regulators request NAIC staff to consider their ability to provide tools and/or reports to help regulators target CLOs/structured securities to consider more closely.

RRC Comments on "collateralized loan obligations (CLOs) as a source of concern and therefore a focus for additional disclosure. "While there has been a continuing level of concern about CLOs in general, RRC encourages the working group to take a broader view as well. As a general matter, investments in CLOs are at least subject to disclosure and conflicts of interest standards under various securities laws and regulations. On the other hand, there are other potentially problematic investments that do not benefit from that regulatory oversight.

- Private funds – Some of the issues noted with respect to concerns about overlapping interests in CLOs may also be prevalent in various kinds of funds, especially privately placed funds that are reported on Schedule BA. Such investment vehicles may have significant areas that have the potential for a conflict of interest that would not be captured by securities laws. Such investment vehicles may also include substantial management fees for management of the fund.

- Collateral Loans – The U.S. insurance industry's reported exposure to Collateral Loans that are reported on Schedule BA has grown substantially in the last ten years. In addition to the same potential conflicts, it may be appropriate to revisit valuation and reporting guidance.

10. The material increases in privately structured securities (both by affiliated and non-affiliated asset managers), which introduce other sources of risk or increase traditional credit risk, such as complexity risk and illiquidity risk, and involve a lack of transparency. (The NAIC Capital Markets Bureau continues to monitor this and issue regular reports, but much of the work is complex and time-intensive with a lot of manual research required. The NAIC Securities Valuation Office will begin receiving private rating rationale reports in 2022; these will offer some transparency into these private securities.)
    a. LATF's exposed AG includes disclosure requirements for these risks as well as how the insurer is modeling the risks.
    b. SVO staff have proposed to VOSTF a blanks proposal to add market data fields (e.g., market yields) for private securities. If VOSTF approves, a referral will be made to the Blanks WG.

Regulator discussion results:

- Regulators focused on the need to assess whether the risks of these investments are adequately included in insurers' results and whether the insurer has the appropriate governance and controls for these investments. Regulators discussed the potential need for analysis and examination guidance on these qualifications.
- To assist regulators in identifying concerns in these investments, regulators expressed support for the VOSTF proposal to obtain market yields to allow a comparison with the NAIC Designation. Once such data is available, regulators ask NAIC staff to develop a tool or report to automate this type of initial screening. Also, regulators again recognized the SAPWG Schedule D revamp work will help in identifying other items for initial screening.
- The regulators discussed LATF's exposed AG, noting the Actuarial Memorandum disclosures that would be required for these privately structured securities along with the actuarial review work, and recognizing how those would be useful for analysts and examiners when reviewing these investments. Additionally, the Valuation and Analysis (E) Working Group would be able to serve as a resource for some of these insights for states without in house actuaries.
- As a result of the above discussions, regulators agreed to a referral to the Examination Oversight (E) Task Force to address the disclosures that will be available from LATF's exposed AG. They agreed to wait for any further work or referral until they have an opportunity to work with the results of the VOSTF proposal and the SAPWG Schedule D revamp project.
- Since reserves are not intended to capture tail risk, refer this item to the NAIC RBC Investment Risk and Evaluation (E) Working Group and monitor the Working Group's progress. (Regulators adopted this recommendation from the RRC comment letter.)

RRC Comments on "privately structured securities which introduce other sources of risk or increase traditional credit risk, such as complexity risk and illiquidity risk, and involve a lack of transparency."

- While the lack of available public data does present a significant issue and does mean there is in theory a lower degree of liquidity, we caution at being overly concerned about the private nature of such transactions.
  - Any highly structured transaction is going to lack liquidity.
  - The NAIC had at one time a disclosure for Structured Notes. This allowed regulators to see when that represented an excessive risk. We encourage the reinstitution of that disclosure.
- A potential consideration related to complex asset structures would be to incorporate this risk factor into the criteria for additional liquidity risk analysis outlined in the NAIC 2021 Liquidity Stress Test Framework (Framework). Considering the amount of effort spent on developing the Framework, it may be helpful to leverage its requirements for situations in which significant complex securities are used to back insurer liabilities.

AIC Comment on "Privately Structured Securities" (the comment and its 6 bullets follow) – *Regulators asked the AIC to follow the work of the NAIC Examination Oversight (E) Task Force* and the NAIC Valuation of Securities (E) Task Force and provide comments on specific recommendations if needed.

Insurers are increasingly seeking the services of alternative asset managers with significant asset origination capabilities and private credit expertise to manage a portion of their assets, which provide a number of benefits to the insurer and their policyholders. Those benefits include:

- A natural alignment between the long-dated insurance liabilities and the long-term investment approach taken by alternative asset managers, including in the private credit space;
- Alternative asset managers have the ability to source, underwrite and execute private credit transactions that require skill sets, experience, and scale that many insurance companies do not possess in-house;
- Private equity and private credit firms also provide an opportunity for smaller and midsized insurers to access these asset classes, which historically have been the primary purview of large insurers that have the scale to afford in-house asset management functions that can originate these assets, making the industry more competitive to the ultimate benefit of policyholders;
- Engaging asset managers with differentiated capabilities can be more cost efficient than making significant investments in an internal asset management function. By availing themselves of these advantages, insurers can benefit from cost-effective sourcing and origination capabilities in attractive asset classes, resulting in enhanced long-term adequacy margins for policyholders, increased spread/earnings, and more competitive product pricing that inures to the benefit of policyholders;
- Asset-backed security default rates are substantially similar to corporate investment grade debt default rates while CLO default rates are substantially lower than corporate default rates; and

- The focus on private investments is belied by the fact that institutions with higher allocations to private investments have outperformed (with less volatility) those with less.

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NOTE – THE SAME CHANGES BELOW WOULD BE APPLIED TO THE LIFE/HEALTH AND HEALTH REPOSITORIES (III.B.1.b and III.B.1.c) AS WELL AS REPOSITORIES FOR MARKET RISK, LIQUIDITY RISK AND OPERATIONAL RISK.

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Related Party Exposure in the Investment Portfolio

#13. Assess related party exposure in the investment portfolio.

	Other Risks
a. Review the Annual Financial Statement investment schedules, as disclosed in the column "Investments Involving Related Parties" and utilizing iSite+ tools, determine if the insurer has material related party exposures in its investment portfolio. This disclosure is included in: • Schedule B • Schedule BA • Schedule D • Schedule DA • Schedule DB • Schedule DL • Schedule E, Part 2 Consider exposure by asset class and in aggregate, and by the role of the related party in the investment as designed by the "Investments Involving Related Parties" disclosure.	LQ, MK
~~a.~~ b. If concerns exist regarding a material related party exposure in the investment portfolio, assess the credit quality of those investments involving related parties by reviewing designations, assessing historical default experience, etc.	LQ, MK

c. If concerns exist regarding a material related party exposure in investment management or advisory services, consider the following: i. Review the procedures in the “Additional Procedures” section below regarding Third Party Investment Advisors and consider their application to related party advisors in that role. ii. In addition to the additional analysis procedures regarding third party investment advisors, consider the following: 1. Review the insurer’s investment policy guidelines and determine whether the related party investments follow the guidelines and are in compliance with regulatory requirements. 2. Review whether the fee structure for asset management is fair, reasonable, and appropriately recognized as investment expenses. 3. If the related party asset manager also originates/securitizes investments held by the insurer, consider requesting additional information from the insurer to determine the following: a. Whether the asset manager has adequate experience and knowledge in originating and managing the types of investments; b. Whether the asset manager ~~F~~follows appropriate underwriting practices and applicable regulatory requirements in originating investments; and c. Whether the fee structures embedded in securities (if applicable) are fair, reasonable, and appropriately account for potential duplication of fees or conflicts of interest.	OP

Additional Analysis and Follow-up Procedures

Third Party Investment Advisers:

Assess and determine if any concerns exist regarding third party investment advisers and associated contractual arrangements.

- Review Annual Financial Statement, General Interrogatories, Part 1, #28.05. Does the insurer utilize third party investment advisors, broker/dealer or individuals acting on behalf of the insurer with access to their investment accounts?

If “yes,” consider the following procedures:

- Review the results of the most recent financial examination work papers, follow-up and prospective risk information and the summary review memorandum provided by the examiners. Did the examination identify any issues with regard to investment advisers and associated contractual arrangements that require follow-up analysis or communication with the insurer? If “yes,” document the follow-up work performed.
- Compare Annual Financial Statement, General Interrogatories, Part 1, #28.05 for the current year to the prior year to determine if there have been any changes in advisors. If “yes,”
  - Consider obtaining an explanation for the change from the insurer
  - Consider obtaining a copy of the new investment advisor agreement and review it for appropriate provisions

- Using the information reported in Annual Financial Statement, General Interrogatories, Part 1, #28.05, obtain and review SEC Form ADV (if available), to determine if the investment advisor is in good standing with the SEC. If not in good standing, contact the insurer to request an explanation.
- If agreements with third party investment advisers are affiliated, have the appropriate Form D – Prior Notice of Transactions been filed and approved by the department? Were any concerns noted or follow-up monitoring recommended?
- Request information from the insurer regarding the background and expertise in structured securities of its investment advisors (in-house and/or contractual) and its analytical system capabilities. Determine whether the advisors and systems are adequate to allow the insurer to continuously monitor its structured securities investments.
- If the insurer uses an external asset manager, consider if investments on the Annual Financial Statement, Schedule BA are invested in funds that are affiliated with the asset manager or are managed by that asset manager. Consider the following issues:
  - If any conflicts of interest exist
  - If the investment is appropriate for the insurer's portfolio and arm's-length
  - If the insurer is paying double fees

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NOTE – THE SAME CHANGES BELOW WOULD BE APPLIED TO THE LIFE/HEALTH AND HEALTH REPOSITORIES (III.B.1.b and III.B.1.c) AS WELL AS REPOSITORIES FOR MARKET RISK, LIQUIDITY RISK AND OPERATIONAL RISK.

PROCEDURE #13 INVESTMENTS INVOLVING RELATED PARTIES assist analysts in determining related party exposure in the investment portfolio and assessing any related credit [market, liquidity, operational] risk.

Related parties are entities that have common interests as a result of ownership, control, affiliation or by contract as definited in *SSAP No. 25—Affiliates and Other Related Parties* (SSAP No. 25). Refer to the *Insurance Holding Company System Model Act* (Model #440) and SSAP No. 25 for a broader definition of "affiliate," "related party" and "control".

Related party transactions are subject to abuse because reporting entities may be induced to enter transactions that may not reflect economic realities or may not be fair and reasonable to the reporting entity or its policyholders. As such, related party transactions require specialized accounting rules and increased regulatory scrutiny.

The anlayst should utilize the tools available in iSite+ to identify if the insurer has a material exposure to investments involving related parties, either on an asset category basis or in aggregate, and by the related party designation noted below. If a material exposure exists, further assessment of the [credit, market, liquidity] risk may be warranted. For example, what is the NAIC designation of investments involving related parties? Analysts may also consider the extent to which related parties are involved in securitizing or originating business for the insurer, and what differences may exist in how investments involving related parties are valued. If the role of the related party is that of a third-party advisor, factors to consider may include for example, the expertise of the related party advisor, any potential conflicts of interest, and if related parties are originating investments only for the insurer or also to the public, the latter being subject to SEC requirements. The analyst may consider utilizing suggested procedures in the "Additional Procedures" section of the repository on third-party advisors, if applicable.

Within the Annual Financial Statement investment Schedules B, BA, D, DA, DB, DL, and E (Part 2), all investments involving related parties must incude disclosure to ensure full transparency. This disclosure is in the column "Investments Involving Related Parites". It designates investments by the following roles:

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.
2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.
3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.
4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.
5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.
6. The investment does not involve a related party.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Judy Weaver, Chair, Financial Analysis Solvency Tools (E) Working Group

FROM: Amy Malm, Chair, Risk-Focused Surveillance (E) Working Group

DATE: February 18, 2022

RE: Analysis Peer Review Results

During the week of February 7th, the Risk-Focused Surveillance (E) Working Group oversaw a virtual Financial Analysis Peer Review session in which 12 different jurisdictions participated. During the session, a couple of issues were identified that might be appropriate for consideration of additions to the NAIC's *Financial Analysis Handbook* (Handbook). The topics discussed, as well as other relevant considerations, are outlined below.

- There is some evidence that jurisdictions may be "grading on a curve" during Branded Risk Assessment, resulting in inappropriately high risk assessments of non-priority insurers' largest risks. As such, it is recommended that guidance be added to the Handbook to clarify that risk severity is not defined relative to other risks facing a specific insurer and that insurers may have none, one, or multiple "Significant" risks.
    - As some of this activity could also be due to justifying a higher priority level for an insurer that is large and important but financially stable, it is also recommended that the Handbook re-emphasize the ability to rate a company as higher priority (i.e., Priority 2) due to issues not related to their financial position and solvency risks (i.e., size, complexity, market presence).

- In discussing the review of Reputational risk for health insurers the topic of health plan star ratings came up, which does not appear to be currently addressed in the Handbook. As a review of a health plan's star rating might assist the analyst in assessing Reputational risk and contribute to other risk assessments, we recommend that guidance be considered for the Handbook in this area.

If there are any questions regarding the proposed referral, please feel free to contact me or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification. Thank you for your consideration of this request.

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Risk Assessment Levels and Trends

The financial analysis process assigns each risk component within the branded risk classification an assessment level commensurate with the nature, complexity and severity of the risk of either Minimal, Moderate or Significant. Additionally, analysts also assign a trend level to indicate the direction the risk is moving, either decreasing, static or increasing. Although risk assessment levels and trends are based on the judgement of the analyst and supervisor, they should factor in both quantitative and qualitative elements, as well as both current and prospective considerations. Note that within each of the three assessment levels, there may be appropriate grading of the severity of the risk.

With regard to setting individual risk assessments, the level of concern and trend of a risk is not defined relative to other risks facing the insurer. Risks should be assessed individually on each's factors and circumstances. Analysts should not automatically assess the "top" risks of an insurer as Significant, Moderate or Increasing, if the factors don't meet the criteria for those assessment levels and trend. An insurer may have none, one, or multiple Significant risks, depending upon individual facts and circumstances. Failing to follow this guidance may result in an inappropriately high risk assessment for the individual risk component, but also for the branded risk category and the overall assessment of the insurer.

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Note the same change would be applied to the quarterly reputational risk repository #2.

(Chapter III.B.7.a)

Ratings

2. Determine if concerns exist regarding the insurer or insurance group's ratings.

	Other Risks
a. Review the most recent report from a credit rating provider (e.g., A.M. Best, Moody's, Standard & Poor's, Fitch, and Weiss) for the current financial strength and credit ratings and outlook, as well as an explanation of any change in the ratings.	PR/UW, ST
b. If concerns exist regarding a poor financial strength or credit rating, a negative outlook, or a rating change for the insurer or the insurance holding company, review the most recent report from the credit rating provider (CRP) to determine if the rating is at a level that may impact the insurer's ability to continue to write new business or that may impact other business functions (e.g., terms of debt covenants, ability to attract financing, ability to place reinsurance, etc.).	PR/UW, ST
c. Health Insurers Only: Obtain and review the most recent information about CMS's Star Rating of the insurer, as well as an explanation of any change in the rating, to determine if concerns exist regarding the impact to the insurer's reputation and/or future strategic plans.	PR/UW, ST

Example Prospective Risk Considerations		
Risk Components for IPS		***Explanation of Risk Components***
1	Reputational impact of [other branded risks]	The risk that other concerns, primarily associated with other branded risk classifications, may damage the insurer's reputation.
2	Negative publicity related to [name of event]	Negative publicity for the insurer or its affiliates could affect the insurer's ability to write new business or retain its current business.
3	Financial strength rating downgrade by [name of rating agency]	A rating decline or a poor rating could negatively affect the insurer's ability to write new business, or it may affect other business operations. For example, debt covenants often include requirements to maintain ratings above a certain level.
4	Poor financial strength rating by [name of rating agency] [sustained or new]	Same as above.
5	Poor Star Rating (Health only)	Star ratings issued by the Centers for Medicare & Medicaid Services (CMS) reflect performance and members satisfaction and certain Medicare plans, which may impact the insurer's reputation and future strategic plans.
5	Poor PSA [financial strength or credit] rating	Poor ratings by a PSA may have an indirect impact on the insurer.
6	Market conduct examination [specify findings, corrective	Material findings or corrective actions, including large fines, settlements or required remediation (e.g., re-reviewing denied claims), may have a current or prospective financial impact on the insurer. (E.g.,

	actions, etc.]	if corrective actions extend into future years and result in future costs or changes in operating practices)
7	Material market conduct violations/concerns [related to …]	Identified from communications or other iSite+ data.
8	Financial impact of remediation of market conduct violations	Identifies the financial impact both currently and prospectively in terms of either dollars or operation/process changes.

Reputational Risk Assessment

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

Ratings

PROCEDURE #2 directs analysts to determine if concerns exist regarding the insurer or insurance group's ratings. Ratings received from a rating agency, as well as changes in the ratings and company/industry outlooks, can have a significant impact on the insurer or insurance group's reputation. Therefore, analysts are strongly encouraged to monitor agency ratings and outlooks when assessing an insurer's exposure to reputational risk. The primary agencies that issue ratings to insurers include A.M. Best, Fitch Ratings, Moody's Investors Service, Standard & Poor's and Weiss Financial Group. For more information on these agencies and their ratings processes, see I. Introduction C. External Information. In reviewing agency ratings, reports and outlooks, analysts should consider and assess the reputational impact of any negative movements or trends with the potential to impact the insurer, as such trends may limit the insurer's ability to write new business or otherwise affect ongoing operations.

Procedure 2.c. applies only to health insurers and instructs the analyst to obtain and review the most recent information about Centers for Medicare and Medicaid Services (CMS)'s Star Rating of the insurer, as well as an explanation of any change in the rating. Star ratings are calculated by CMS based on the insurer's performance and member satisfaction data for Medicare plans including Medicare Advantage and Medicare Part D prescription drug plans. The ratings measure various factors and assign ratings on a scale from 1 to 5 stars, where 5 is the best. Star ratings help consumers compare the quality of Medicare plans. Performance data including Star ratings are available on the CMS website:

https://www.cms.gov/Medicare/Prescription-Drug-Coverage/PrescriptionDrugCovGenIn/PerformanceData

A low or lowering of the Star rating may result~~s~~ in concerns regarding the insurer's reputation leading to loss of membership and changes in future strategic plans. Where concerns exist, the analyst should consider gaining an understanding of the reasons for the low or lowering of the Star rating from the insurer, and how it impacts membership and future operations. Also noteworthy is that insurers with Star ratings of 4 or higher receive annual bonus payments from CMS, which is required to be spent on extra benefits for members, which benefits consumers.

Reserving Risk: Actual losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.

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

Adequacy of Life Reserves

5. Determine whether the insurer's underlying assets are adequate to support the future obligations of its life insurance policies.

	Other Risks	*Benchmark*	*Result*	*Outside Benchmark*
a. Net interest spread on life reserves (net investment income, less tabular interest, divided by average life reserves)	MK, OP	< 2%	[Data]	[Data]
b. Change in Asset Mix (IRIS Ratio 11)	OP, ST	> 5%	[Data]	[Data]

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

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

Actuarial Memorandum

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

	Comments
a. Did the qualified actuary conduct an asset adequacy test on the insurer's total reserves?	
b. For any reserve or other liability reported as not analyzed, did the qualified actuary indicate that such reserve or other liability was immaterial?	
c. Based upon the judgment of the analyst and after reviewing the SAO and RAAIS and discussing with the department actuary, determine if the actuarial memorandum should be requested from the insurer. *If "yes", the department actuary should perform the review of the Actuarial Memorandum. If no, skip the remaining procedures in this sub-section.*	
d. If the company does not have or provide an Actuarial Memorandum or in the review of the Actuarial Memorandum it is determined that the memorandum fails to meet the standards prescribed by the *Valuation Manual* or is otherwise unacceptable to the insurance commissioner, the insurance commissioner may engage a qualified actuary at the expense of the company to review the opinion and basis for the opinion and prepare the supporting Actuarial Memorandum required by the insurance commissioner. See the state's equivalent authority to the NAIC *Standard Valuation Law* (#820), Section 3B(3)(b).	
e. Does the Actuarial Memorandum include an asset adequacy analysis for the following? *(Note that the items required to be included may vary from state to state.)*	
i. For reserves: • Product descriptions. • Source of liability in-force. • Reserve method and basis. • Investment reserves. • Reinsurance arrangements. • Persistency of in-force business. • Identification of any guarantees made by the separate account in support of benefits provided through a separate account. • Discussion of assumptions to test reserves.	
ii. For assets: • Portfolio descriptions. • Investment and disinvestment assumptions. • Source of asset data. • Asset valuation bases. • Documentation of assumptions made.	
iii. For the analysis basis: • Methodology.	

• Rationale for inclusion or exclusion of different blocks of business and how pertinent risks were analyzed. • Rationale for degree of rigor in analyzing different blocks of business. • Criteria for determining asset adequacy. • Effect of federal income taxes and method of treating reinsurance in the asset adequacy analysis.	
iv. Summary of material changes.	
v. Summary of results.	
vi. Conclusions.	
vii. A statement that the actuarial methods, considerations and analyses used in the preparation of this memorandum conform to the appropriate Actuarial Standards of Practice as promulgated by the Actuarial Standards Boards, which standards form the basis for the memorandum.	
viii. Method for aggregating reserves and assets.	
ix. Method for selecting and/or allocating assets supporting the Asset Valuation Reserve.	
x. Analysis of the effect of required interest rate scenarios.	
f. If required within the scope of Actuarial Guidelines 53 (AG-53) and as required under VM-30, did the AOMR include a separate section documenting the assumptions and sensitivity testing for high-yielding complex assets?	

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

	Comments
If additional concerns are noted based on the review of the RAAIS and/or Actuarial Memorandum, consider performing the following additional procedures *[Note: Procedures "a" through "d" are applicable to insurers utilizing the New York 7 actuarial interest rate scenario tests. Procedure "e" is applicable to other cash flow scenario testing.]*	
a. Request from the company's appointed actuary the year-by-year cash flow testing results from the five worst scenarios tested.	
b. Review the five worst year-by-year scenario test results and determine the largest cash flow deficiency.	
c. Assess the materiality of the largest deficiency(ies).	
d. If the worst scenario were to play out, determine the impact on the current RBC ratio.	
e. In the review of interim year-by-year scenario test results, review appropriateness of assumptions to fund negative cash flow, for example:	

i. Review explanations provided for how the insurer will fund negative cash flows. ii. Request borrowing agreements from the insurer and assess the insurer's borrowing capacity and ability to execute a borrowing strategy. Compare cash flow requirements to the borrowing capacity. iii. If borrowing capacity is insufficient, what are the alternative options within the cash flow model to fund cash flow shortfalls (e.g., selling assets)? iv. Assess the insurer's asset selling strategy.	
f. Review the AG-53 reporting in the AOMR regarding assumptions and sensitivity testing for high-yielding complex assets within the asset adequacy analysis, if within scope of AG-53. Determine whether concerns exist in meeting asset adequacy requirements, such as: i. the adequacy of assumptions utilized ii. the sensitivity testing and attributions analysis performed and its results ii. the determination of fair value of high-yielding assets originated by the company	

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

Discussion of Actuarial Opinion Assessment Procedures

In most instances, proper review and analysis of the SAO will require a greater in-depth knowledge of actuarial science. In order to achieve this as a part of the financial review process, most opinions will be reviewed in detail by the Department's actuarial staff members. The review should encompass procedures discussed in the next section covering the Actuarial Opinion Assessment for the SAO. Although the analysis of the SAO, Actuarial Memorandum and RAAIS are often performed by the actuarial staff, analysts should have a basic understanding of interest rate risk and should consider reviewing the RAAIS and the New York 7, if available (see below for further discussion), or other stochastic testing results and discussing such results with the Department's actuary. When risks are identified in the RAAIS or actuarial memorandum, the analysts, examiners and regulatory actuaries should communicate with each other the risk identified so that an overall understanding of the current and prospective risks of the insurer are documented and considered in the overall prioritization and profile of the insurer.

However, if the Annual Financial Statement is received, a cursory review of the opinion should be performed to identify if any extraordinary item is detailed in the opinion. The primary goal of the Actuarial Opinion Assessment Procedures for the SAO is to determine if a SAO was to be filed and, if so, was it received and available for later review.

Every life insurer must file a SAO including an asset adequacy analysis unless granted exemption of such analysis based on doing business only in one state.

An actuarial memorandum, which supports the findings expressed in the SAO, is available upon request by the regulator. The insurer will also file with the commissioner by March 15 a confidential RAAIS.

If the insurer presently issues or has in-force policies that contain non-guaranteed elements, then a Non-guaranteed Elements Actuarial Opinion must also be filed. Other opinions may be required. For example, for business subject to an actuarial guideline—such as *Actuarial Guideline XXXV—The Application of the Commissioners Annuity Reserve Method to Equity Indexed Annuities* (AG 35) or XXXVI, which includes an opinion requirement, a compliant actuarial opinion must also be filed. The domestic insurance regulator should be familiar with all of the opinions each life insurer is required to submit. Reviewing the previous year checklist is useful, but the state insurance regulator should be aware of new policy forms issued during the year that may add additional opinion requirements.

Asset Adequacy Analysis

Asset adequacy analysis is a process the appointed actuary uses to ascertain that the assets supporting a block of liabilities, along with future premium payments and investment income, are adequate under moderately adverse conditions to pay future expenses and policy obligations. This analysis may include cash flow testing, gross premium valuations, demonstrations of extreme conservatism, risk theory techniques, or loss ratio methods. Prior to 2001, requirements similar to the AOMR specified seven scenarios for cash flow testing (commonly referred to as the New York 7). Amendments adopted in 2001 removed those required scenarios and allowed the appointed actuary to determine the scenarios to use for cash flow testing.

The asset adequacy analysis is testing the adequacy of the reserves on a block of business as of a valuation date, not the solvency of the company. Typically, cash flow testing includes assets approximately equal to the reserves and therefore does not include assets equal to the surplus. In addition, future new business is not included in the cash flow testing.

The asset adequacy analysis typically includes approximately 95% of the total of life insurance reserves, annuity reserves and reserves for deposit-type contracts. This 95% threshold is included in *procedure #4,* but it is a recommendation, and the standard of materiality may vary among actuaries and among state regulators.

Actuarial Guideline 53:

Beginning with annual 2022, certain insurers will be required to document support for assets adequacy analysis for high-yielding complex assets pursuant to Actuarial Guideline 53 – Application of the Valuation Manual for Testing of Adequacy of Life Insurer Reserves (AG-53). As noted in AG-53, "regulators have observed a lack of uniform practice in the implementation of asset adequacy analysis. The variety of practice in incorporating the risk of complex assets into testing does not provide regulators comfort as to reserve adequacy. Examples of complex assets are structured securities, including asset-backed securities and collateralized loan obligations, as well as assets originated by the company or affiliated or contracted entity. An initial increase of this activity has been noted in support of general account annuity blocks; however, recent activity was noted in other life insurer blocks. AG-53 is intended to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for asset adequacy analysis performed by life insurers."

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

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

The NAIC Life Actuarial (A) Task Force has developed a template for reporting of AG-53 documentation. The templates include reporting by asset classes, affiliated vs. non-affiliated, and initial assets vs. reinvestment assets.[1]

Discussion of Actuarial Opinion Risk Assessment Procedures

The following Reference Guide text refers to Chapter III.B.8.b.i.- Statement of Actuarial Opinion Worksheet – Life/A&H/Fraternal Annual

RAAIS and Actuarial Memorandum

PROCEDURE #4 assists the analyst in reviewing the actuarial memorandum that supports the SAO. The actuarial memorandum is a comprehensive document that provides an understanding of the insurer's reserves, the assets available to support the reserves, and the projected impact on the insurer's financial condition of varying economic and interest rate projection scenarios. It is not automatically filed with the Annual Financial Statement but is provided to the regulator only upon request. The decision as to whether to request the actuarial memorandum is an important one. The actuarial memorandum should be requested for insurers with known financial problems, significant changes in product mix or investment strategy, or significant growth in a particular product line.

The RAAIS is filed with the Annual Financial Statement and is designed to assist the regulatory actuary in determining whether to request the actuarial memorandum. The RAAIS includes the eight data requests shown below. Note that some items, such as 1), 2) and 5) specifically refer to cash flow testing results.

1) The number of additional interest rate scenarios that were tested identifying separately the number of deterministic scenarios and stochastic scenarios. Also identify the number of such scenarios which produced ending negative surplus values on market value basis.

[1] Given this is a new reporting requirement in 2022, additional analysis guidance in this area may be added to the Handbook in the future.

2) If sensitivity testing was performed, identify the assumptions tested and describe the variation in ending surplus values on a market value basis from the base case values.

3) If negative ending surplus results under certain tests in the aggregate, the amount of additional reserve which, if held, would eliminate the aggregate negative ending surplus values.

4) The extent to which the appointed actuary uses assumptions in the asset adequacy analysis which are materially different than the assumptions used in the previous asset adequacy analysis.

5) The amount of reserves and the identity of the product lines which have been subject to asset adequacy analysis in the prior opinion but were not subject to such analysis for the current opinion.

6) Comments should be provided on any interim results that may be of significant concern to the appointed actuary.

7) The methods used by the actuary to recognize the impact of reinsurance on the company's cash flows, including both assets and liabilities, under each of the scenarios tested.

8) Whether the actuary has verified that all options embedded in fixed income securities and equity-like features in any investments have been appropriately considered in the asset adequacy analysis.

While most states do not require the New York 7 actuarial interest rate scenario tests, states do require other stochastic scenario tests for life insurers and many life insurers, even though not required, still run the New York 7 interest rate scenario tests. The New York 7 interest rate scenario test which is an immediate decrease of 3% and then level would highlight the impact of prolonged low interest rates given the current interest rate environment. Also, the stochastically generated interest rate scenarios will also likely contain an interest rate scenario that represents a prolonged low interest rate environment.

The Department actuary and analyst should understand each scenario in the insurer's scenario testing and its limitations and assess the likelihood of each scenario in the current economic environment. For example, the New York 7 interest rate scenarios consist of the following scenarios:

- Level with no deviation.
- Uniformity increasing over 10 years at 0.5% per year and then level.
- Uniformity increasing at 1% per year over five years and then uniformly decreasing at 1% per year to the original level at the end of the 10 years and then level.
- An immediate increase of 3% and then level.
- Uniformly decreasing over 10 years at 0.5% per year and then level.
- Uniformly decreasing at 1% per year over five years and then uniformly increasing at 1% per year to the original level at the end of 10 years and then level.
- An immediate decrease of 3% and then level.

Procedures 4.f. asks the analyst if an insurer that is within the scope of AG-53 has filed the required reporting within the AOMR. Further guidance on that reporting is provided below in procedure #5.

PROCEDURE #5 asks the analyst to document any concerns based on the review of the actuarial memorandum. Additional procedures the analyst may consider performing are provided if additional concerns exist based on the review of the RAAIS, the actuarial memorandum and the asset adequacy testing performed. The procedures should be used to help identify how the insurer will fund a negative cash flow. Procedures 5.a. through 5.d. are applicable to insurers utilizing the New York 7 actuarial interest rate scenario tests. Procedure 5.e. is applicable to other cash flow scenario testing. Explanations of negative cash flow provided by the appointed actuary should explain how the insurer will: 1) sell marketable assets and which type; or 2) borrow, with an explanation of any existing agreements to include security, duration and notice period required. If the appointed actuary wrote in his/her report that the insurer expects to sell assets, the modeling should be consistent for the sale of assets. Likewise, if the appointed actuary wrote that the insurer expects to borrow, then the modeling should be consistent with borrowing. If the insurer expects to borrow, the analyst should consider asking the insurer if a formal Lending Agreement is in place.

Procedure 5.f. is applicable to AG-53 reporting on high-yield complex assets. Refer to the guidance above regarding the scope of which insurers are included in this reporting requirement. In line with the goals of AG-53 to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for asset adequacy analysis performed by life insurers, the analyst or reviewing state actuary, should consider if the reporting identifies any concerns including the following examples that may warrant further investigation or follow-up with the insurer.

1. Reserve adequacy and claims-paying ability in moderately adverse conditions, including conditions negatively impacting cash flows from complex assets;
2. Rationale supporting changes in assumptions, year-over-year;
3. Expected gross returns and related risks (including default rates);
4. Factors supporting margins on asset-related assumptions;
5. That assumptions fit reasonably within the risk-return spectrum;
6. The extent to which high-yielding assets are supporting major product categories;
7. Sensitivity testing results regarding complex assets supporting life insurer business;
8. Identifies expectations in practice regarding the valuation of complex assets within asset adequacy analysis; and,
9. Investment fee income relationships with affiliated entities or entities close to the company.

Actuarial Opinion and Asset Adequacy Analysis

Due to the complexity in determining life reserves, insurers must rely on actuaries to assist with valuation of these reserves. Insurers are required to annually obtain an opinion regarding the reasonableness of the reserves by a qualified actuary who is appointed by the company. The actuarial opinion requirements are provided in VM-30 of the *Valuation Manual*. These requirements also include requirements for asset adequacy analysis. As a result of the asset adequacy analysis conducted by the appointed actuary, the actuary may conclude that the insurer's assets are not adequate to cover future liabilities as valued by the calculated reserves. When this occurs, reserves must be increased by the estimated deficiency resulting from asset adequacy testing. Additional procedures regarding the SAO are found in Section III.B.8.b.ii.

Quantitative and Qualitative Data and Procedures

The following Reference Guide text refers to Chapter III.B.8.b.i.- Statement of Actuarial Opinion Worksheet – Life/A&H/Fraternal Annual

Adequacy of Life Reserves

PROCEDURE #5 assists the analyst in determining whether the insurer's underlying assets are adequate to support the future obligations of its life insurance policies. If the insurer filed an SAO based on an asset adequacy analysis, then the SAO itself, and the supporting actuarial memorandum, if requested, can provide the analyst with comfort in this regard. If a SAO that does not include an asset adequacy analysis is filed, the analyst can review net interest spread ratios for insights regarding the relationship of investment income with tabular interest. Insurance

Regulatory Information System (IRIS) ratio #11 is included in the procedures as a test of reserve consistency between the current year and the prior year.

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

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Judy Weaver, Chair of the Financial Analysis Solvency Tools (E) Working Group

FROM: Commissioner Birrane, Co-Chair of the Climate Resiliency (EX) Task Force leading the Solvency Workstream

DATE: May 23, 2022

RE: Referral on Proposed Climate Risk Enhancements

The NAIC's Climate Resiliency (EX) Task Force is charged with evaluating financial regulatory approaches to climate risk and resiliency in coordination with other relevant committees, task forces and working groups, including those under the Financial Condition (E) Committee. As part of its efforts to address this charge, the Task Force designated a Solvency Workstream to explore potential enhancements to existing solvency monitoring processes in this area.

During 2021, the Solvency Workstream held a series of public panels on various climate solvency related topics which included among other things, a high-level summary of existing regulatory tools in the space. Near the end of 2021, the Solvency Workstream released a series of questions intended to solicit input on potential enhancements to the existing regulatory tools. As a result of comments received, and general support for enhancements to the NAIC's Financial Analysis Handbook, the workstream suggests the Working Group consider modifications to incorporate particular concepts as it pertains to climate risk. Specifically, the Workstream suggests the Working Group consider modifications to incorporate procedures for utilizing the Property Casualty RBC Cat reporting data, any investment stress scenario results available from the NAIC Capital Markets Bureau, and Climate Risk Exposure Survey results (if available) in conducting ongoing financial analysis.

The proposed enhancements are presented as high-level principles for the Technical Group to consider and develop as appropriate for inclusion in the Handbook. If there are any questions regarding the proposed referral, please feel free to contact me or NAIC staff (Dan Daveline at ddaveline@naic.org) for clarification. Thank you for your consideration of this request.