NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: 11/1/21

Virtual Meeting

GROUP CAPITAL CALCUATION (E) WORKING GROUP
Monday, November 8, 2021
2:30 – 4:00 p.m. ET / 1:30 – 3:00 p.m. CT / 12:30 – 2:00 p.m. MT / 11:30 a.m. – 1:00 p.m. PT

ROLL CALL

John Rehagen, Chair	Missouri	Justin Schrader	Nebraska
Kathy Belfi, Vice Chair	Connecticut	Dave Wolf	New Jersey
Susan Bernard	California	Bob Kasinow	New York
Philip Barlow	District of Columbia	Jackie Obusek	North Carolina
Ray Spudeck	Florida	Dale Bruggeman/Tim Biler	Ohio
Kevin Fry	Illinois	Greg Lathrop	Oregon
Roy Eft	Indiana	Melissa Greiner/Kimberly Rankin	Pennsylvania
Carrie Mears	Iowa	Trey Hancock	Tennessee
Gary D. Anderson	Massachusetts	Jamie Walker/Doug Slape	Texas
Judy Weaver	Michigan	Doug Stolte/David Smith	Virginia
Kathleen Orth	Minnesota	Amy Malm	Wisconsin

NAIC Support Staff: Dan Daveline/Jane Ren/Ned Tyrell

AGENDA

1. Discuss & Consider Exposure of Staff Memo on Possible GCC Modifications —*John Rehagen (MO)* — Attachment A

2. Discuss Comments on Maintenance Documents & Proposed Revisions —*John Rehagen (MO)* — Attachment B

3. Consider Comments on RBC Referral—*John Rehagen (MO)* — Attachment C

4. Consider Comments on Financial Analysis Handbook Guidance —*John Rehagen (MO)* — Attachment D

5. Consider Revised Financial Analysis Handbook Guidance —*John Rehagen (MO)* — Attachment E

6. Discuss Any Other Matters Brought Before the Working Group—*John Rehagen (MO)*

7. Adjournment

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Group Capital Calculation (E) Working Group

FROM: Dan Daveline, Ned Tyrrell, and Jane Ren

DATE: Oct. 27, 2021

RE: Staff Proposed Changes as a Result of Trial Implementation

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While the 2019 GCC Field Test was invaluable in finalizing major changes to the GCC Template and Instructions before implementation, the 2021 Trial Implementation allowed preparers and reviewers of the GCC to focus more on the nuances of the GCC. As expected, a number of changes to the instructions were suggested during the completion of the template based upon comments and feedback from preparers, which the Working Group has been made aware of with each new release of the same during the trial period. Such changes are included in today's materials, and we request the Working Group to expose these updated instructions with these modifications. The purpose of this memorandum however is to highlight more material changes, or potentially material changes to the extent the Working Group agrees with the staff recommendation. The following summarizes such changes.

Due to the fact that in accordance with draft procedures for the Working Group, template changes need to be adopted earlier in the year before instructional changes, we have listed those that require template changes first so they can be prioritized in discussions.

Template Changes

1. **Eliminate Stress Scenario-** While some Working Group members may want to consider adding informational stresses to the GCC in the future, the current sentiment among the Working Group seems to suggest that should only be considered after the GCC is fully implemented. Based upon that, it seems appropriate to remove the current stress from the template and the instructions.

2. **Debt Allowance-** One of the reasons the industry proposed the idea of including stress testing in the GCC for the Trial Implementation was to understand the sensitivity of the debt allowance after an economic downturn, therefore addressing its procyclicality. While it's true that a 30% decline in the capital of a group can impact the debt allowance of the GCC in certain situations, thereby reducing the GCC ratio, NAIC staff does not believe this is a sufficient cause for increasing the debt allowance. As a reminder, the debt allowance is a proxy for the amount of subordinated capital embedded within the GCC and we believe the current allowance approximates this proxy well. A number of volunteers participating in the Trial Implementation suggested the 30% decline was generally not a very reasonable stress given past performance of the industry during previous financial crisis (e.g., 2008/2009 great

recession). However, some of those volunteers pointed to monetary policy during a financial crisis which actually encourages entities of all industries to increase debt as a means to push back against the negative impact. They pointed to the industry's issuance of debt immediately after COVID and suggested the GCC should not go against these policies. NAIC staff does not disagree in principle, and would suggest a better way to address these points is through a simple annual 10% cap that enables the debt allowance to increase 10% from the prior year, but only during a period where the Federal Reserve has taken a public position of reducing the cost of borrowing through reducing interest rates either by lowering the Federal Funds rates or by purchasing debt instruments (additional if applicable). However, the 10% increase must be reversed once the Federal Reserve has taken action to reverse its trend (e.g., increase rates or reduce purchasing debt instruments). Perhaps this could be formally implemented only upon issuance of "guidance" by the Working Group that is posted to the Website. The details of whether this is appropriate and how it should be considered for adoption should first be determined by the Working Group. NAIC Staff would welcome proposed changes to the GCC instructions and template that could achieve this type of approach or any other similar approach that reduces the perceived procyclicality of the GCC limitation in this area.

3. **Eliminate Sensitivity Test Related to "Other Debt**" – We recognize that some members of the industry continue to believe that the debt allowance should include "other debt" beyond "senior debt" and "hybrid debt". However, NAIC staff continues to believe that the approach already adopted by the Working Group to have an individual limit for each of those items (30% and 15% respectively) and the overall cap of those two is appropriate for the previous points made regarding how the debt allowance is a proxy for subordinated capital already within the insurance companies. With the previous consideration about adding an additional 10% annual change meeting the criteria, we further support no change to allow other debt. This should be further deliberated by the Working Group before taking action on this issue and input from interested parties may assist the Working Group in such a deliberation.

4. **Non-Risk Sensitive Foreign Jurisdictions-** One recommendation that has already been made by NAIC staff and regulators during the Trial Implementation is a different approach related to non-risk sensitive foreign jurisdictions. In summary, these are jurisdictions whose capital requirements are not responsive to the magnitude and/or nature of an insurer's risk profile. During the Trial Implementation, a conservative approach was used on this matter, and the template included a capital charge equivalent to 100% of the carrying value of the non-U.S. insurer, which is similar in the life RBC formula today. However, to be clear, since 2010, the life formula has required companies to use a zero value for foreign affiliates statutory carry value is excluded from both total adjusted capital (the numerator) and RBC (the denominator) of the RBC ratio. This was done to level the playing field between stock and mutual insurers on the basis that most stock insurers where such entities are owned by a sister non-insurance holding company rather than the U.S. lie insurance company.

NAIC staff suggestion during the Trial implementation was that groups with such entities consider using a lower factor that is unnecessarily conservative, such as 50% of the carrying value, and be given the option to calculate the insurers capital requirement using RBC (with reasonable simplifications/estimates) if that is preferred to the 50% carrying value. At this point we have included this option in the revised instructions pending approval with exposure of such a substitute.

5. **Schedule 1 Related Questions/Considerations**-The last item actually includes a number of separate questions or considerations, but they are all related to Schedule 1 and its purpose. More specifically, from the onset, the regulators have always stated they would like a way to make sure that the GCC includes all of the entities included in Schedule Y. Said differently, as drafted today, the Schedule 1 requires all entities to be listed in the Schedule Y, thereby providing that starting point the regulators requested. However, the instructions do provide one exception, and that is for Schedule A and BA entities, since those entities are already reflected in the RBC, and they don't result in double counting of capital. Instead, these entities are listed in the Q&A tab, thereby having the effect of keeping the Schedule 1 cleaner, but still allowing a way for the regulator to reconcile back to the Schedule Y if they chose to do so. The question is whether similar exceptions in Schedule 1 should be provided for other entities. This would be for simplicity and to allow the regulator to focus on the entities more easily in the group on that matter. NAIC staff welcomes input on these considerations. The following presents such types of entities to the Working Group in a way to see if they would like a different approach:

    a. **Other entities included in the RBC-**The GCC does not require non-insurance/non-financial entities to be destacked, but they are required to be included in Schedule 1 and certain limited information included in the Inventory. The question is whether a listing of these entities could be included in the Q&A similar to the Schedule A and BA entities. The idea being that would keep the Schedule 1 cleaner, but for anyone wanting to reconcile back to the Schedule 1, they could do so with the listings in the Q&A. The NAIC raises this issue in case the current approach results in confusion by the preparer, or even for the reviewer since the inventory does not include any calculated capital amounts for these entities.

    b. **Consideration of Entities "Not material" or "Excluded" from the GCC ratio**-The GCC currently requires the group to list out its entities on Schedule 1, then mark each as either "Included" or "Excluded" for the purpose of calculating the GCC ratio. Specifically, for those that do not meet the GCC definition of material, the entity can "Exclude" them, however they have to be marked as such. The regulator then reviews the same listing and determines for themselves if each entity should be "Included" or "Excluded". It's likely that in the majority of situations, once a regulator determines an entity may be "Excluded" from the ratio, that they will likely be excluded in the future. This is based upon the fact that the general reason for exclusion tends to be driven by the nature of the entity and its risks, and not its size.

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However, to clarify, not all entities that are once approved to be excluded always will be, and for that reason there will be a continued need for the GCC to provide information that allows the regulator to decide whether they can be excluded. The question is whether such information could be different than what is provided in Schedule 1, and, if so, whether perhaps such information could be reported elsewhere (e.g., Q&A tab). This would reduce the number of entities on Schedule 1 and perhaps help the regulator to focus on material entities in that schedule. The NAIC raises this issue for two reasons; 1) whether a different approach would allow for a more efficient review of the GCC by the regulator; 2) whether the current approach results in confusion by the preparer.

i. **Sensitivity Analysis**-There is currently a sensitivity analysis related to "Excluded" entities to help the regulator understand the impact of the excluded entities on the GCC. The question is whether this should be removed. To the extent these excluded entities were no longer included in the Schedule 1 and Inventory, this sensitivity analysis could not be calculated, again, suggesting the need for some type of information to still be captured elsewhere in the GCC.

Instruction Only Changes

6. **Asset Managers** – The GCC currently considers asset managers as financial entities, and therefore subject to a factor of either 2.5%, 5.0%, or 10% of 3-year average revenue (same as other financial entities) based upon the material risk principles defined in Section II of the instructions. Some members of the industry have suggested that asset managers should instead utilize the regulatory capital standards imposed by the Financial Industry Regulatory Authority (FINRA). NAIC staff have always believed that while the base GCC requirements should generally remain the same as the principles under which they have been developed by the Working Group, it's only natural that it evolves over time to carve out new factors for specific industry's where a different factor can be supported. As it relates to the current GCC, this would include either specific financial entities having a different factor than those noted above, or potentially even for non-insurance/non-financial industries, a different factor than is used for all other non-insurance/non-financial entities. Additionally, perhaps more specific to the point, one of the GCC principles is that it defers to the specific capital requirements of the regulator of the entity, which in this case may include FINRA to the extent they have specific capital requirements. NAIC staff attempted to gather information on such requirements through the review of FINRA 15c3-1, but it was unclear how such capital requirements practically work as they seem to be more principle-based. NAIC Staff would recommend the Working Group consider such a request, but only upon deliverance of documentation, including examples, that enable the regulators to understand. This does not need to be a full presentation to the Working Group unless the members indicate such is

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needed but could instead be full documentation and time for the Working Group to ask questions.

National Association of Insurance Commissioners

NAIC GROUP CAPITAL CALCULATION

2021 TRIAL IMPLEMENTATION INSTRUCTIONS

POST TRIAL EDITS

(~~May 27, 2021~~September 22,2021)

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Contents

I. Background

1. In 2015, the ComFrame Development and Analysis (G) Working Group held discussions regarding developing a group capital calculation (GCC) tool. The discussions revealed that developing a GCC was a natural extension of work state insurance regulators had already begun, in part driven by lessons learned from the 2008 financial crisis which include better understanding the risks to insurance groups and their policyholders. While insurance regulators currently have authorities to obtain information regarding the capital positions of non-insurance affiliates, they do not have a consistent analytical framework for evaluating such information. The GCC is designed to address this shortcoming and will serve as an additional financial metric that will assist regulators in identifying risks that may emanate from a holding company system.

2. More specifically, the GCC and related reporting provides more transparency to insurance regulators regarding the insurance group and make risks more identifiable and more easily quantified. In this regard, the tool assists regulators in holistically understanding the financial condition of non-insurance entities, how capital is distributed across an entire group, and whether and to what degree insurance companies may be supporting the operations of non-insurance entities, potentially adversely impacting the insurance company's financial condition or policyholders. This calculation provides an additional analytical view to regulators so they can begin working with a group to resolve any concerns in a manner that will ensure that policyholders of the insurers in the group will be protected. The GCC is an additional reporting requirement but with important confidentiality protections built into the legal authority. State insurance regulators already have broad authority to take action when an insurer is financially distressed, and the GCC is designed to provide Lead State Regulators with further insights to allow them to reach informed conclusions on the financial condition of the group and the need for further information or discussion.

3. State insurance regulators currently perform group analysis on all U.S. insurance groups, including assessing the risks and financial position of the insurance holding company system based on currently available information; however, they do not have the benefit of a consolidated statutory accounting system and financial statements to assist them in these efforts. It was noted prior to development that a consistent method of calculating group capital for typical group risks would provide a useful tool for state financial regulators to utilize in their group assessment work. It was also noted that a GCC could serve as a baseline quantitative measure to be used by regulators in to compliment the view of group-specific risks and stresses provided by the Own Risk and Solvency Assessment (ORSA) Summary Report filings and in Form F filings that may not be captured in legal entity filings.

4. During the course of several open meetings and exposure periods, the ComFrame Development and Analysis (G) Working Group considered a discussion draft which included three high-level methodologies for the GCC: a risk-based capital (RBC) aggregation approach; a statutory accounting principles (SAP) consolidated approach; and a generally accepted accounting principles (GAAP) consolidated approach. On Sept. 11, 2015, Working Group members unanimously approved a motion to move forward with developing a recommendation for a GCC and directed an appropriate high-level methodology for the recommendation.

5. At a ComFrame Development and Analysis (G) Working Group meeting held Sept. 24, 2015, pros and cons for each methodology were discussed, and a consensus quickly developed in support of using an RBC aggregation approach if a GCC were to be developed. The Executive (EX) Committee and Plenary ultimately adopted the following charge for the Financial Condition (E) Committee:

"*Construct a U.S. group capital calculation using an RBC aggregation methodology; liaise as necessary with the ComFrame Development and Analysis (G) Working Group on international capital developments and consider group capital developments by the Federal Reserve Board, both of which may help inform the construction of a U.S. group capital calculation.*"

6. The RBC aggregation approach is intended build on existing legal entity capital requirements where they exist rather than developing replacement/additional standards. In selecting this approach, it was recognized as satisfying regulatory needs while at the same time having the advantages of being less burdensome and costly to regulators and industry and respecting other jurisdictions' existing capital regimes. In order to capture the risks associated with the entire group, including the insurance holding company, RBC calculations would need to be developed in those instances where no RBC calculations currently exist.

7. In early 2016, the Financial Condition (E) Committee appointed the Group Capital Calculation (E) Working Group, which began to address its charge and various details of the items suggested by the ComFrame Development and Analysis (G) Working Group. The instructions included herein represent the data, factors, and approaches that the Working Group believed were appropriate for achieving such an objective. The GCC instructions and template are intended to be modified, improved, and maintained by the NAIC in the future as are the *Accounting Practices and Procedures Manual*, the *Annual Statement Instructions* and the *Risk-Based Capital Formula and Instructions*. This includes, but is not limited to, future disclosure of additional items developed or referred by other NAIC committees, task forces and/or working groups.

8. In December 2020, amendments to NAIC Model Law (#440) and Model Regulation (#450) were adopted to provide States with legislative language to fully implement the GCC as an annual filing. The Model specifies what groups are exempted from the GCC filing requirement and the circumstance under which a limited filing may be submitted. For such information reference should be made not to these instructions, rather to the models and, more specifically, to how they are implemented into laws and regulations of a Lead State.

II. Definitions

9. **Affiliate**: As ~~used~~defined in the NAIC Model Insurance Holding Company System Regulatory Act in Model #440, an "affiliate" of, or person "affiliated" with, a specific person, is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified. The Model #440 defines "Control" (including the terms "controlling," "controlled by" and "under common control with") as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or nonmanagement services, or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of any other person. Model #440 provides that the presumption may be rebutted by a showing that control does not exist in fact. The commissioner may determine, after furnishing

[FL1]all persons in interest notice and opportunity to be heard and making specific findings of fact to support the determination, that control exists in fact, notwithstanding the absence of a presumption to that effect. ~~For purposes of the GCC, affiliates will NOT include those affiliates reported on Schedule A or Schedule BA, EXCEPT in cases where there are insurers or other financial entities reported as or owned indirectly through Schedule A or Schedule BA affiliates. All other Schedule A and Schedule BA investments will remain as investments of a Parent insurer will be reported as Parent of the value and capital calculation of the Parent insurer. A full list of Schedule A and BA entities will be reported as described in the instructions for Input 6 – Questions and Other Information.~~ Any entities that would otherwise qualify as Schedule BA affiliates as described above but are owned by other entities (e.g., foreign insurers or other type of Parent entity) should be treated in the same way.

10. **Broader Group**: The entire set of legal entities that are controlled by the Ultimate Controlling Person of insurers within a corporate group. When consider the use of this term, all entities included in the Broader Group should be included in Schedule 1 and the Inventory, but only those that are denoted as "included" in the Schedule 1 will be considered in the actual GCC.

11. **Control**: As used in the Model #440, the term "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or non-management services, or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of any other person. This presumption may be rebutted by a showing made in the manner provided by Section 4K of Model #440 that control does not exist in fact. The commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making specific findings of fact to support the determination, that control exists in fact, notwithstanding the absence of a presumption to that effect.

12. **Cross-Support Mechanism**: A cross-support mechanism is an agreement or transaction that creates a financial interdependence. Depending on the nature of the transaction and the specific circumstances, these mechanisms may pose material risk These may include corporate guarantees, capital maintenance agreements (regulatory or ratings based), letters of credit, intercompany indebtedness, bond repurchase agreements, securities lending or other agreements or transactions that create a financial interdependence or link between entities in the group.

13. **Entity Not Subject to A Regulatory Capital Requirement**: This is a financial entity other than an entity that is subject to a specified regulatory capital requirement

14. **Financial Entity**: A non-insurance entity that engages in or facilitates financial intermediary operations (e.g., accepting deposits, granting of credits, or making loans, managing, or holding investments, etc.). Such entities may or may not be subject to specified regulatory capital requirements of other sectoral supervisory authorities. For purposes of the GCC, entities that are not regulated by an insurance or banking authority [e.g., the U.S. Securities and Exchange Commission (SEC) or the Financial Industry Regulatory Authority (FINRA)] will be considered as not subject to a specified regulatory capital requirement.

    The primary examples of financial entities are commercial banks, intermediation banks, investment banks, saving banks, credit unions, savings and loan institutions, swap dealers, and the portion of special purpose and collective investment entities (e.g., investment companies, private funds, commodity pools, and mutual funds) that represents the Broader Group's aggregate ownership in such entities, whether or not any member of the Broader Group is involved in that entity's management responsibilities (e.g., via investment advisory or broker-dealer duties) for those entities.

For purposes of this definition, a subsidiary of an insurance company whose predominant purpose is to manage or hold investments or act as a broker-dealer for those investments on behalf of the insurance company and its affiliated insurance (greater than 90% of all such investment subsidiaries' assets under management or held are owned by or for the benefit of these insurance affiliates) should NOT be considered a Financial Entity. In the case where an insurer sets up multiple subsidiaries for this purpose, the 90% may be measured in the aggregate for all such entities. Similarly, in the case of collective investment pools (e.g., private funds, commodity pools, and mutual funds) the 90% may be measured individually, or in the aggregate for each subtype (e.g., private funds, commodity pools, and mutual funds).

In addition, other financial entities without a regulatory capital requirement include those which are predominantly engaged in activities that depending on the nature of the transaction and the specific circumstances, could create financial risks through the offering of products or transactions outside the group such as a mortgage, other credit offering or a derivative.

15. **Insurance Group**: For purposes of the GCC, a group that is comprised of two or more entities of which at least one is an insurer, and which includes all insurers in the Broader Group. Another (non-insurance) entity may exercise significant influence on the insurer(s); i.e., a holding company or a mutual holding company; in other cases, such as mutual insurance companies, the mutual insurer itself may be the Ultimate Controlling Person. The exercise of significant influence is determined based on criteria such as (direct or indirect) participation, influence and/or other contractual obligations; interconnectedness; risk exposure; risk concentration; risk transfer; and/or intragroup agreements, transactions and exposures.

An Insurance Group may include entities that facilitate, finance or service the group's insurance operation, such as holding companies, branches, non-regulated entities, and other regulated financial institutions. An Insurance Group is thus comprised of the head of the Insurance Group and all entities under its direct or indirect control, and includes all members of the Broader Group that exercise significant influence on the insurance entities and/or facilitate, finance or service the insurance operations.

An Insurance Group could be headed by:

- An insurance legal entity;
- A holding company; or
- A mutual holding company.

An Insurance Group may be:

- A subset/part of bank-led or securities-led financial conglomerate; or
- A subset of a wider group.

An Insurance Group is thus comprised of the head of the Insurance Group and all entities under its direct or indirect control.

16. **Insurance Subgroup/U.S. Operations**: Refers to all U.S. insurers within a Broader Group where the groupwide supervisor is in a non-U.S. jurisdiction. It includes all the directly and indirectly held subsidiaries of those U.S. insurers. For purposes of subgroup reporting, capital instruments, loans, reinsurance, guarantees would only include those that exist within the

U.S. insurers. Amounts included for the U.S. insurers shall include all amounts contained within the financial statements of those entities included in the subgroup reporting, whether those amounts are directly attributable or allocated to a company in the subgroup from an affiliate outside of the U.S. insurers and its direct or indirect subsidiaries.

17. **Lead State Regulator**: As defined in the *Financial Analysis Handbook*; i.e., generally considered to be the one state that "takes the lead" with respect to conducting and coordinating~~conducting~~ groupwide supervision within the U.S. solvency The determination of a lead state is affected by the following factors: (i) The state with the insurer/affiliate with largest direct written premiums (ii) Domiciliary state/country of top-tiered insurance company in an insurance holding company system (iii) Physical location of the main corporate offices or largest operational offices of the group (iv) Knowledge in distinct areas of various business attributes and structures (v) Affiliated arrangements or reinsurance agreements (vi) Lead state must be accredited by the NAIC."[FL2]

~~18.~~ "**Group-wide supervisor**: The regulatory official authorized to engage in conducting and coordinating group-wide supervision activities who is determined or acknowledged by the commissioner under Section 7.1 to have sufficient significant contacts.

18. "**Internationally active insurance group**: An insurance holding company system that (1) includes an insurer registered under Section 4; and (2) meets the following criteria: (a) premiums written in at least three countries, (b) 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 (c) 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)."[FL3]

19. **Limited Group Capital Filing**: Refers to a GCC filing that includes sufficient data or information to complete the "Input 4 Analytics" tab and the "Summary 3 – Analytics" tab of the GCC template. This includes Schedule 1 of the template and may include limited data from other input tabs as deemed necessary for purposes of the analytics.

20. **Material Risk**: Risk emanating from a non-insurance/non-financial entity not owned by an insurer in the Insurance Group or is part of the Broader Group that is of a magnitude that could adversely impact the financial stability of the group as a whole such that the ability of insurers within a group to pay policyholder claims or make other policy related payments (e.g., policy loan requests or annuity distributions) may be impacted.

To determine whether an entity within the Broader Group poses material risks to the Insurance Group, the totality of the facts and circumstances must be considered. The determination of whether risk posed by an entity is material requires analysis of various aspects pertaining to the subject entity. A determination that a non-insurance/non-financial entity does not pose material risk allows the filer to request exclusion of that entity from the calculation of the GCC ratio in the "Inventory" tab. A number of items as listed below should be considered in making such a determination, to the extent they apply.

Caution is necessary, however. The fact that one or more of these items may apply does not necessarily indicate risk to the Insurance Group is, or is not, material. The group should be able to support its determination of material risk if requested by the Lead State Regulator. This should not be used as a checklist or as a scorecard. Rather, the list is intended to illuminate relevant facts and circumstances about a subject entity, the risk it poses, how the Insurance Group might be exposed to that risk and means to mitigate that risk.

Primary Considerations:

- Past experience (i.e., the extent to which risk from the entity has impacted the Insurance Group over prior years/cycles).
- The degree to which capital management across the Broader Group has historically relied on funding by the Insurance Group to cover losses of the subject entity.
- The existence of intragroup cross-support mechanisms (as defined below) between the entity and the Insurance Group.
- The means by which risk can be transmitted; i.e., the existence of sufficient capital within the entity itself to absorb losses under stress and/or if adequate capital is designated elsewhere in the Broader Group for that purpose.
- The degree of risk correlation or diversification between the subject entity and the Insurance Group (e.g., where risks of one or more entities outside the Insurance Group are potentially offset (or exacerbated) by risks of other entities) and whether the corporate structure or agreements allow for the benefits of such diversification to protect the Insurance Group.
- The existence and relative strength or effectiveness of structural safeguards that could minimize the transmission of risk to the Insurance Group (e.g., whether the corporate shell can be broken).

Other Considerations (*if primary considerations suggest exclusion may be reasonable, these can be used to further support exclusions*):

- The location of the entity in relation to the Insurance Group within the Broader Group's corporate structure and how direct or indirect the linkage, if any, to the Insurance Group may be.
- The activities of the entity and the degree of losses that the entity could pose to the group under the current economic environment or economic outlook

The guidance above recognizes that there are diverse structures and business models of insurers that make it impracticable to apply a one-size-fits-all checklist that would work for materiality determinations across all groups. Strict or formulaic quantitative measures based on size of the entity or its operations of a non-insurance affiliate are an insufficient proxy for materiality of risk to the insurance operations. The GCC Instructions thus consider the unique circumstances of the relevant entity and group and uses an interactive process whereby the group brings forward its suggestions as to entities that should be excluded from the scope of application for a discussion with the lead state, ultimately culminating in an agreement on the scope of application. The guidance in this section helps to facilitate that process and discussion with criteria for cross-support mechanisms that can potentially transmit material risk, as defined, to the Insurance Group as well as safeguards that can mitigate such risk or its transfer.

21. **Person**: As used in Model #440, a "person" is an individual, a corporation, a limited liability company, a partnership, an association, a joint stock company, a trust, an unincorporated organization, any similar entity or any combination of the foregoing acting in concert but shall not include any joint venture partnership exclusively engaged in owning, managing, leasing or developing real or tangible personal property.

22. **Reciprocal Jurisdiction**: As defined in the *Credit for Reinsurance Model Law* (#785).

23. **Scope of Application**: Refers to the entities that meet the criteria listed herein for inclusion in the GCC ratio. The application of material risk criteria may result in the Scope of Application being the same as, or a subset of, the entities controlled by the Ultimate Controlling Person of the insurer(s).

NOTE: U.S. branches of foreign insurers should be listed as separate entities when they are subject to capital requirements imposed by a U.S. insurance regulator, otherwise in as much as they are already included in a reporting legal entity, they are already in the scope of application and there is no need for any additional reporting.

24. **Ultimate Controlling Person**: As used in the *Insurance Holding Company System Regulatory Act* (#440). This is the entity that exercises control directly or indirectly over all entities within the Broader Group.

III. Determining the Scope of Application

A. Groups Exempted from the GCC

25. Refer to changes to Model #440 for guidance on groups that are exempted from filing a GCC. Instead, instructions are provided to ensure Lead State Regulators receive the information necessary to evaluate the Scope of Application.

B. Scope of Application – Legal Entity Inventory

26. When considering the scope of application, preparers of the GCC must first understand the information to be included in Schedule 1 of the template. When developing an initial inventory of all potential entities, the preparers of the GCC shall complete Schedule 1, which, except in the case of an Insurance Subgroup (as defined in Section II), requests data for all of the entities within the Broader Group that are directly or indirectly owned by the Ultimate Controlling Person (including the Ultimate controlling Person) that are listed in the insurer's most recent Schedule Y or in relevant Holding Company Filings. GCC preparers should provide basic information about each such entity in Schedule 1, including its total assets, and total revenue and net income for this specific year identified. Additionally, the initial filing will require some further information for the prior year (e.g., prior year equity or surplus to policyholders). The primary purpose of the Schedule 1 is to: 1) assist the lead state in making an assessment on the entities within the group that should be included in the Scope of Application; and 2) provide the lead state with valuation information to better understand the group. This valuable information produces various ratios and other financial metrics that will be used in the analysis of the GCC and the group by the lead state for their holding company analysis.

With regard to Schedule A and Schedule BA affiliates, for purposes of the data input on the Schedule 1 and Inventory tabs, only include Schedule A and Schedule BA affiliates which are insurers or other financial entities reported as, or owned indirectly through, Schedule A or Schedule BA affiliates. All other Schedule A and Schedule BA investments will remain as investments of a Parent insurer will be reported as part of the value and capital calculation of the Parent insurer. A full list of Schedule A and BA entities shall be reported in the Input 6 – Questions and Other Information tab. Any insurer or financial entities that would otherwise qualify as Schedule BA affiliates if owned by a U.S. insurer, but which are owned by other entities (e.g., foreign insurers or other type of Parent entity) should be reported in the Schedule 1 and Inventory tabs.[FL4]

27. To assist the Lead State Regulator in assessing the Scope of Application, the Schedule 1 and the "Inventory" tab of the template will be completed by each preparer to provide information and certain financial data on all the entities in the group. Each preparer will also use the

include/exclude column in Schedule 1 to request its own set of entities to be excluded from the calculation after applying criteria for material risk (as defined in Section II). The requests for exclusion will be described by the preparer in the template and evaluated by the Lead State Regulator. A second column will be used by the regulator to reflect entities that the regulator agrees should be excluded.

28. Although all entities must be listed in Schedule 1 and in the "Inventory" tab, the preparer is allowed to group data for certain financial entities not subject to a regulatory capital requirement and certain non-insurance and non-financial entities. Thus, while the Schedule 1 would include the full combined financial results/key financial information (for all entities directly or indirectly owned by the Ultimate Controlling Person, such data may be reported based on major groupings of entities to maximize its usefulness, reduce the number of numeric entries, and allow the Lead State Regulator to better understand the group, its structure, and trends at the sub-group as well as group level. Criteria for grouping are further described in Section V, paragraph 57~~5~~. Prior to completing the GCC annually, the Insurance Group should determine if the proposed grouping is satisfactory to the lead state or if there are certain non-insurance and non-financial entities (such entities are required to be broken out and reported separately) that should be broken out and reported separately.

C. General Process for Determining the Scope of Application

29. The starting point for "Scope of Application" (i.e., for purposes of the GCC specifically) is the entire group except in the case of an Insurance Subgroup (as defined in Section II). However, in the case of groups with material diverse non-insurance/non-financial activities isolated from the financial/Insurance Group and without cross-support mechanisms as defined in Section II, the preparer may request a narrower scope starting at the entity that controls all insurance and financial entities within the group [i.e., comprise a subset of, the entities controlled by the Ultimate Controlling Person of the insurer(s) (Broader Group)]. However, the adjustments as to the Scope of Application suggested by the preparer in consultation and in agreement with the Lead State Regulator should include consideration of guidance in paragraph 31 ("Identify and Include all Financial Entities") the totality of the facts and circumstances, as described in paragraph 19 ("Definition of material risk"). The rationale and criteria applied in allowing the reduced scope should be documented and made available to non-lead states if requested. The decision on reduced scope should be revisited when changes in the group structure or activities occur.

The fundamental reason for state insurance regulation is to protect American insurance consumers. Therefore, the objective of the GCC is to assess quantitatively the collective risks to, and capital of, the entities within the Scope of Application. This assessment should consider risks that originate within the Insurance Group along with risks that emanate from outside the Insurance Group but within the Broader Group. The overall purpose of this assessment is to better understand the risks that could adversely impact the ability of the entities within the Scope of Application to pay policyholder claims consistent with the primary focus of insurance regulators.

D. Guiding Principles and Steps to Determine the Scope of Application

30. For most groups, the Scope of Application is initially determined by the preparer in a series of steps, listed here and then further explained as necessary in the text that follows:

- Develop a full inventory of potential entities using the Inventory of the Group template (Schedule 1). This should correspond to Annual Statement Schedule Y, Part 1A

- Denote in Schedule 1 for each non-financial entity whether it is to be "included in or excluded from" the Scope of Application" using the criteria in the "Identify Risks from the Broader Group" subsection below.

- All non-financial entities, whether to be included in or excluded from the Scope of Application are to be reported in the "Inventory" tab of the template. Information to be provided for excluded entities will be limited to Schedule 1B and the corresponding columns in the Inventory tab. See paragraph 57~~5~~ for additional information on treatment of non-insurance/non-financial subsidiaries of U.S. RBC filers or such subsidiaries owned by other financial entities with regulatory capital requirements for which the non-insurance/non-financial entity is included in the capital charges for the Parent entity.

- Non-financial entities may qualify for grouping on this Inventory tab as described elsewhere in these instructions.

E. Steps for Determining the Scope of Application

31. Identify and list all entities in the Insurance Group or Insurance Subgroup (where required).

Include all entities that meet the definition of an affiliate in Section II, above and that fit the criteria identified in the definition of the Insurance Group or Insurance Subgroup (if applicable), in Section II, above except as modified in paragraph 32 (Identify Risks from the Broader Group), below. All insurance entities and entities owned directly or indirectly by the insurance entities in the group shall be included in the Scope of Application and reported in the Schedule 1 and Inventory of the Group template. Other non-insurance/nonfinancial entities within the Insurance Group may be designated as "exclude" as described in paragraph 30.

32. Identify and include all Financial Entities.

Financial Entities (as defined in Section II) within the Inventory of the Group template shall be included in (i.e., may not be designated as "excluded from") the Scope of Application, regardless of where they reside within the Broader Group.

As learned from the 2008 financial crisis, U.S. insurers were not materially impacted by their larger group issues; however, materiality of either equity or revenue of an entity might not be an adequate determinant of potential for risk transmission within the group. Furthermore, risks embedded in financial entities are not often mitigated by the activities of the insurers in the group and may amplify their (the insurers') risks.

Any discretion in evaluating the ultimate risk generated by a defined financial entity that is not subject to a regulatory capital requirement should be applied via review of the material risk definitions/principles included in paragraph 19 to set the level of risk as low, medium or high and **not** to exclude such entities from the calculation. The rationale should be documented, and all data required in Schedule 1 must be provided for the entity for purposes of analysis and trending.

33. Identify Risks from the Broader Group

An Insurance Group or Insurance Subgroup may be a subset of a Broader Group, such as a larger diversified conglomerate with insurance legal entities, financial entities, and non-financial entities. In considering the risks to which the Insurance Group or Insurance subgroup is exposed, it is important to take account of those material risks (as defined in Section II) to the Insurance Group from the Broader Group within which the Insurance Group operates.

All non-insurance/non-financial entities included within the Insurance Group or Insurance Subgroup that pose material risk to the insurers in the group should be included within (i.e., may not be designated as "excluded from") the Scope of the Application. Similarly, all non-financial entities within the Broader Group but outside the Insurance Group that pose material risks to the Insurance Group should be included within (i.e., may not be designated as "excluded from") the Scope of Application; non-material non-insurance/non-financial entities within the Broader Group or within the Insurance Group (as both terms are defined in Section II) other than those entities owned by entities subject to a specified regulatory capital requirement should be reported as "excluded." However, no such entities outside an Insurance Subgroup (as defined in Section II) should be included in the GCC. When determining which non-financial entities from the Broader Group to include in the Scope of Application, the preparer must include any entity that could adversely impact the ability of the entities within the Scope of Application to pay policyholder claims or provide services to policyholders consistent with the primary focus of insurance regulators.

34. Review of Submission

The Lead State Regulator should review the inventory of entities provided in the Group template to determine if there are entities excluded by the preparer using the criteria above that the Lead State Regulator agrees do not pose material risk (as defined herein) to its insurance operations. Additional information may be requested by the Lead State Regulator to facilitate this analysis. For entities where the Lead State Regulator agrees with the request to exclude, the GCC may exclude the data for such entities. Ultimately, the decision to include or exclude entities from the GCC will occur based on the Lead State Regulator's knowledge of the group and related information or filings available to the Lead State and whether they believe an applicable entity would not adversely impact the entities within the Scope of Application to pay policyholder claims.

The template's sensitivity analysis tab includes a calculation to reflect the impact of excluded entities requested, but not approved for exclusion by the lead state. (see instructions for Input 5 herein).

35. The preparer, together with the Lead State Regulator, would use the above steps, which includes considering the Lead State Regulator's understanding of the group, including inputs such as Form F, ORSA and other information from other involved regulators, to determine the reasonableness of the suggested Scope of Application.

36. Updating the Scope of Application

The Scope of Application could be re-assessed by the preparer and the Lead State Regulator each successive annual filing of the GCC provided there has been substantial changes in corporate structure or other material changes from the previous year's filing. Any updates should be driven by the assessment of material risk and changes in group structure as they impact the exclusion or inclusion of entities within the Scope of Application based on material risk considerations.

IV. General Instructions

37. The GCC template consists of a number of tabs (sections) within one workbook. The following provides general instructions on each of these tabs.

38. **Attestation**: This tab is intended to work similar to the annual financial statement and RBC attestations, which are both intended to give the regulator greater comfort that the company has

completed in accordance with its (these) instructions. It will also indicate whether the group consists of predominantly life, P/C, or health insurers and whether the submission is a full or limited group capital filing.

39. **Input 1 – Schedule 1**: This tab is intended to provide a full inventory of the group, including the designation by the filer of any non-financial entities to be included in, or excluded from, the Scope of Application and include sufficient data or information on each affiliated entity (see Schedule A and Schedule BA exception as described in paragraph 27~~39~~) within the group so as to allow for analyzing multiple options for scope, grouping and sensitivity criteria, as well as, allowing the Lead State Regulator to make a determination as to whether the entities to be included in the scope of application or excluded from the scope of application meet the aforementioned criteria. This tab is also used to maximize the value of the calculation by including various information on the entities in the group that allow the lead state to better understand the group as a whole, the risks of the group, capital allocation, and overall strengths and weaknesses of the group.

40. Except as noted, equity method investments reported in the Section 1B in the Inventory tab that are accounted for based on *Statement of Statutory Accounting Principles* (*SSAP) No. 48—Joint Ventures, Partnerships and Limited Liability Companies* are not required to be de-stacked (separately listed) in Schedule 1; i.e., their value would be included in amounts reported by the Parent insurer within the calculation. The basis for this approach is predicated on the purpose of the entire GCC, which is to produce an expected level of capital and a corresponding level of available capital that are derived by aggregating the amounts reported of capital of the individual entities under the GCC methodology. The available capital for such joint ventures, partnerships and limited liability companies is already considered in Schedule 1 by its inclusion in its Parent's financial statements and can be excluded from an inventory (not separately listed) because the Parent also already receives a corresponding capital charge within its RBC.

NOTE: Data for this tab is required for a Limited Group Capital filing.

41. **Input 2 – Inventory**: This tab is intended to be used by the consolidated group to provide information on the value and capital calculation for all the entities in the group before any de-stacking of the entities. While some of this information is designed to "pull" information from Schedule 1, other cells (blue cells) require input from the group. This tab will then apply the adjustments for investment in subsidiary other than where an exception is described in these instructions and adjust for intragroup arrangements. This tab is set up to subtract those adjustments from capital and therefore should be entered as: 1) a positive figure if the adjustment currently has a positive impact on the available capital or the capital calculation; or 2) a negative figure if the adjustment currently has a negative impact on the available capital or the capital calculation. It will also be used to add relevant insurance or other financial entities included as equity investments in Schedule A and Schedule BA and to aggregate the resulting adjusted values for use in the actual GCC.

NOTE: For a Limited Group Capital filing, data will be presented in a summarized format in a limited version of the "Inventory" tab in lieu of completing the full "Inventory" tab (see below).

Limited Group Capital Filing Only: Input 2 – Inventory: Manually enter data in Inventory B, Column 8 and Inventory C, Column 8 to report a single aggregated value for each entity category in the group. This will require that eliminations and adjustments normally found in a "full" Inventory B, Column 2 through Column 7 and Inventory C, Column 2 through Column 7 to be addressed offline.

42. **Input 3 – Capital Instruments**: This tab is intended to be used to gather necessary information to that will be used to calculate an allowance for additional available capital based on the

concept of structural subordination applied to senior or other subordinated debt issued by a holding company that is within the scope of application of the GCC filing. It will also provide information on all debt issued by entities within the scope of application.

NOTE: Data for this tab is NOT required for a Limited Group Capital filing.

43. **<u>Input 4 – Analytics</u>**: In recognizing a primary purpose of the GCC is to enhance groupwide financial analysis, this tab includes or draws from entity-category-level inputs reported in the tab or elsewhere in the GCC template to be used in GCC analytics. Separate guidance for Lead State Regulators to reference in analysing the data provided in the GCC template (reference applicable location of the guidance; e.g., *Financial Analysis Handbook*).

NOTE: Data for this tab is required for a Limited Group Capital filing.

44. **<u>Input 5 – Sensitivity Analysis and Inputs</u>**: This tab includes inputs and/or describes informational sensitivity analysis for other than XXX/AXXX captives, permitted and prescribed practices, debt designated as "Other," unscaled foreign insurer values and other designated sensitivity analysis. The inputs are intended to simply be a disclosure, similar to the disclosure required under Note 1 of the statutory financial statements. The analysis will be applied in the "Summary 2" tab.

NOTE: Data for this tab is NOT required for a Limited Group Capital filing.

45. **<u>Input 6 – Questions and Other Information</u>**: This tab will provide space for participants to describe or explain certain entries in other tabs. Examples include the materiality method applied to exclude entities in Schedule 1 and narrative on adjustments for intragroup debt and adjustments to available capital or capital calculations that are included in the "other adjustment" column in the "Inventory" tab.

NOTE: Data for this tab is NOT required for a Limited Group Capital filing.

46. **<u>Calc 1 – Scaling (Ins)</u>**: This tab list countries predetermined by NAIC and provides the necessary factors for scaling available and required capital from non-US insurers to be used in in sensitivity analysis to a comparable basis relative to the U.S. RBC figures. It also allows for set scaling options (which vary by insurance segment such as life, P/C, and health).

NOTE: This tab is NOT required for a Limited Group Capital filing.

47. **<u>Calc 2 – Scaling (Non-Insurance)</u>**: This tab is used to determine calculated capital for non-insurance entities.

NOTE: This tab is NOT required for a Limited Group Capital filing.

48. **<u>Summary 1 – Entity Category Level</u>**: This tab provides a summary of aggregated available capital and calculated capital for each entity category before the application of capital instruments.

NOTE: This tab is NOT required for a Limited Group Capital filing.

49. **<u>Summary 2 – Top Level</u>**: This tab calculates various informational GCC ratios resulting from applying "on top" and entity level adjustments to adjusted carrying value and adjusted calculated capital and are described in the "Sensitivity Inputs and Analysis" tab. These "what if" scenario analysis will not be part of the GCC ratio.

NOTE: This tab is NOT required for a Limited Group Capital filing.

50. **<u>Summary 3 – Analytics</u>**: Provides a summary of various GCC analytics.

NOTE: This tab is required for a Limited Group Capital filing.

51. **<u>Summary 4 – Grouping Alternatives</u>**: This tab currently calculates and displays a selected grouping option for organizing the structure of the group consistent with the way that the entities are managed..

NOTE: This tab is NOT required for a Limited Group Capital filing.

52. All cells in the template are color-coded based on the chart below. Inputs should only be made in blue cells. Do not add/delete rows, columns or cells or change the structure of the template in any way. If there appears to be an error in the formulas in the template, contact the NAIC.

The following set of colors is used to identify cells:	*Colors used*
Parameters	
Input cells	
Data from other worksheets	
Local calculations	
Results propagated	

V. Detailed Instructions **(insert link to template)**

Input 1 – Schedule 1

54. Schedule 1A indicates the version of the template being prepared.

55. More detailed information on each legal entity should be reported in Schedule 1B through Schedule 1D. The order of the entries in Schedule 1 should match that in the "Inventory" tab. The first entity listed should be the ultimate controlling party.

56. U.S. branches of foreign insurers should be listed as separate entities when they are subject to capital requirements imposed by a U.S. insurance regulator. They should be reported under the appropriate entity category in **[Sch 1B Col 6]**.

57. Entries are required for every entity within the scope of the group. However, while recognizing that Lead State Regulator retain the discretion to ask for greater detail, the following simplifications **<u>may</u>** be applied as long as information for every entity is entity is listed in Schedule 1B:

- A single numerical entry for like Financial Entities would be allowed at the intermediate holding company level, assuming that the like entities are owned by a common Parent that does not own other entity types, all use the same accounting rules (e.g., all GAAP), and are at least consistent with the way the group manages their business. The entity at which the total data is provided must be assigned an "Entity Category" in Schedule 1 that corresponds to the instructed carrying value and capital calculation for which the entry is made (e.g., an entity that would otherwise be categorized as a non-operating holding company but holds asset managers would be categorized as an asset manager). Entries for the remaining individual entities in the grouping will be reported in Schedule 1B only as "included."

- In addition, a single numerical entry would be allowed for all "included" non-insurance/non-financial entities at the intermediate holding company level assuming that the intermediate holding company owns only non-insurance/non-financial entities (i.e., does not own other entity types), all use the same accounting rules (e.g., all GAAP), and are at least consistent with the way the group manages their business. This would include any positive residual value of the holding company itself. Entries for all individual entities in the grouping will be reported in Schedule 1B only as "included.", but no stand-alone values for each entity would be required.

- Values for, non-insurance/non-financial subsidiaries of U.S. RBC filers or such subsidiaries owned by other financial entities with regulatory capital requirements for which the non-insurance/non-financial entity is included in the capital charges for the Parent entity may remain with their Parent insurers and will not be de-stacked. Entries for these individual entities in the grouping will be reported individually in Schedule 1B Columns 1 and 2 only as "included." along with other required entries in Schedule 1B, but no stand-alone values for each entity would be required in Schedules 1C or 1D. These should be reported as "included" in Schedule 1.[FL5]

- Mutual Insurance Groups may use the Total Adjusted Capital and amount of required capital from the top-level Insurer's RBC Report at 200% x ACL RBC further adjusted to de-stack foreign insurers and other financial entities owned directly or indirectly (on a look-through basis) via RBC filing subsidiaries. Such foreign insurance subsidiaries or other financial subsidiaries shall be reported at the carrying values and capital calculations as described later herein.

- Data for U.S. Branches of Foreign insurers may be omitted from Schedule 1 if they are otherwise included in the entries, values, and capital requirements of a foreign insurer in the group.

NOTE: These simplifications will be treated in a similar manner in Input 2 – Inventory.

58. Any financial entity owned by a Parent insurer and listed in Schedule A or Schedule BA, and any insurance or financial entity that is owned indirectly through a Schedule BA affiliate should be listed in Schedule 1 and in the Inventory and assigned the appropriated identifying information. (See also the instructions for Part B of the Inventory). These entities will be de-stacked from the values for the Parent insurer. The same treatment for these entities will be afforded when they owned by a foreign insurer or other non-insurance entities.

59. Schedule 1B contains descriptions of each entity. Make selections from drop-down menu where available.

- **[Sch 1B Col 1] Include/Exclude (Company)** – This column is to select entities where a request is made for exclusion. The filer will indicate which non-insurance/non-financial entities not owned directly or indirectly by an insurer that should be excluded from the GCC as not posing material risk to the group. ~~The filer's definition of material risk will be reported in the "Other Information" tab.~~ [FL6]

- **[Sch 1B Col 2] Include/Exclude (Supervisor)** – Column to be filled in by supervisor. These are entities where the Supervisor agrees with the filer's assessment of material risk and these entities will be excluded from the GCC and may be included in a sensitivity analysis later in the template.

NOTE: This column may also be completed by the filer after advance consultation with the Lead State Regulator.

- **[Sch 1B Col 3] Include/Exclude (Selected)** – Formula to determine treatment of data for later sensitivity analysis. If supervisor has made a determination of include/exclude in the prior column, that will be used. If not, company's selection will be used.

- **[Sch 1B Col 4] Entity Grouping –** Column denotes whether this is an insurance or non-insurance/non-financial entity and is also automatically populated based on the entry in Column 8.

- **[Sch 1B Col 5] Entity Identifier –** Provide a unique string for each entity. This will be used as a cross-reference to other parts of the template. If possible, use a standardized entity code such as NAIC Company Code (CoCode) or Insurance Services Office (ISO) Legal Entity Identifier. CoCodes should be entered as text and not number (e.g., if CoCode is 01234, then the entry should be "01234" and not "1234"). If there is a different code that is more appropriate (such as a code used for internal purposes), please use that instead. If no code is available, then input a unique string or number in each row in whatever manner is convenient (e.g., A, B, C, D, … or 1, 2, 3, 4…). Do not leave blank.

- **[Sch 1B Col** 6**] Entity Identifier Type –** Enter the type of code that was entered in the "Entity Identifier" column. Choices include "NAIC Company Code," "ISO Legal Entity Identifier," "Volunteer Defined" and "Other."

- **[Sch 1B Col** 7**] Entity Name –** Provide the name of the legal entity.

- **[Sch 1B Col** 8**] Entity Category –** Select the entity category that applies to the entity from the following choices (all U.S. life captives shall select the option for "RBC Filing Captive," complete the calculation using the life RBC formula in accordance with instructions below regarding "Additional clarification on capital requirements where a U.S. formula (RBC) is not required," regardless of whether the company is required by their captive state to complete the RBC formula. Insurers or financial entities that are de-stacked from an insurer's Schedule A or Schedule BA should be assigned the corresponding insurer or financial entity category:

RBC Filing U.S. Insurer (Life)	**UK Solvency II – Life**	**Colombia**
RBC Filing U.S. Insurer (P/C)	**UK Solvency II – Composite**	**Indonesia**
RBC Filing U.S. Insurer (Health)	**Australia – All**	**Thailand**
RBC Filing U.S. Insurer (Other)	**Switzerland – Life**	**Barbados**
U.S. Mortgage Guaranty Insurers	**Switzerland – Non-Life**	**Regime A (Participant Defined)**
U.S. Title Insurers	**Hong Kong – Life**	**Regime B (Participant Defined)**
Other Non-RBC Filing U.S. Insurers	**Hong Kong – Non-Life**	**Regime C (Participant Defined)**
RBC filing (U.S. Captive)	**Singapore – All**	**Regime D (Participant Defined)**
Canada – Life	**Chinese Taipei – All**	**Regime E (Participant Defined)**
Canadian – P/C	**South Africa – Life**	**Bank (Basel III)**
Bermuda – Other	**South Africa – Composite**	**Bank (Other)**
Bermuda – Commercial Insurers	**South Africa – Non-Life**	**Financial Entity with a Regulatory Capital Requirement**
Japan – Life	**Mexico**	**Asset Manager/Registered Investment Advisor – High Risk**
Japan – Non-Life	**China**	**Asset Manager/Registered Investment Advisor – Medium Risk**
Japan – Health*	**South Korea**	**Other Financial Entity without a Regulatory Capital Requirement – High Risk**
Solvency II – Life	**Malaysia**	**Other Financial Entity without a Regulatory Capital Requirement – Medium Risk**
Solvency II – Composite	**Chile**	**Other Financial Entity without a Regulatory Capital Requirement – Low Risk**
Solvency II – Non-Life	**India**	**Other Non-Ins/Non-Fin with Material Risk**
Solvency II – Non-Life	**Brazil**	**Other Non-Ins/Non-Fin without Material Risk**
UK Solvency II – Non-Life	**Argentina**	**Non-Operating Holding Co.**

* If the GCC group's Japanese insurer health business (referred to as "Third Sector") is greater than 60% of total life business (referred to as "First Sector") and health business combined, as reflected by annualized premium for the year reported, then that group may elect to use the Japan health scalar set rather than the life scalar set.

NOTE: All U.S. captives are required to complete the applicable RBC formula template. In addition, any insurer, other than U.S. captive, that submits an RBC filing to either the state of domicile or the NAIC will be considered an RBC filer.

- **[Sch 1B Col 9] Alternative Grouping –** This is an optional input field. This field should be used if you wish to show similar entities aggregated into a single line in Summary 4-Alternative Grouping.Exhibit. For example, if you have a dozen small dental HMO businesses, you may wish to show them as a single line called "Dental HMOs," as opposed to listing each entity separately. This is a level of granularity below "Entity Category" but above individual entities. No entity should be put in the same "Alternative Grouping" as its Parent. It is acceptable to put only one entity in a grouping. If any entries are left blank then, in Column 17, the "Entity Name" will be selected as the grouping. This will not impact the order of the entities for which data is entered in Schedule 1 or the "Inventory" tab.

- **[Sch 1B Col 10] Parent Identifier –** Provide the Entity Identifier of the immediate Parent legal entity for each entity, as applicable. If there are multiple Parents, select the Parent entity with the largest ownership percentage. Only include one entry. For the top holding company, enter "N/A."

- **[Sch 1B Col 11] Parent Name –** This will be populated by a formula, so input is not required.

- **[Sch 1B Col 12] % Owned by Parent –** Enter the percentage of the entity that is owned by the Parent identified earlier in the worksheet. Percentages of ownership should be based on the percentage of voting class securities (unless ownership is maintained other than by control of voting securities) consistent with what is reported pursuant to state holding company regulation filings (Form B or equivalent).

- **[Sch 1B Col 13] % Owned within Group Structure –** Enter the percentage of the entity that is owned in the aggregate by any affiliate within the Group.

- **[Sch 1B Col 14] State/Country of Domicile –** Enter state of domicile for U.S. insurance entities and country of domicile for all other entities. (Use references that are consistent with those use on Schedule Y, where available.)

- **[Sch 1B Col 15] Zero Valued and Not Admitted Entities – Report for U.S. Insurers Only.** Select the treatment of the entity from following options: "Zero Valued for RBC" or "Nonadmitted for Accounting and RBC (Direct or Indirect)."

  Zero Valued for RBC are affiliated insurance and financial entities that are otherwise reported in the RBC filer's annual financial statement at their accounting value (i.e., per SAP) but are reported at zero value and zero capital requirements for RBC purposes. Examples include non-Canadian foreign insurers directly owned by U.S. life RBC filers. The carrying value and capital calculation specified in these instructions for the specific insurance or financial entity type should be reported in Inventory B, Column 2 and Inventory C, Column 2, respectively.

  NOTE: Do not report zero values in Column 2 of Inventory B and Inventory C for these affiliates. Only RBC filing entities with this type of affiliate will report in this column.

  Nonadmitted for Accounting and RBC (Direct or Indirect) are insurance or other financial affiliates that owned directly indirectly by an RBC filer via a downstream non-financial entity or holding companies that are reported at zero value per SAP and are also reported at zero value and zero capital requirements for RBC purposes. Examples include U.S. insurers indirectly owned by a U.S. RBC filer through a nonadmitted holding company that has not been subject to an independent audit. The carrying values and capital calculations specified herein associated with the specific insurance or financial indirectly owned entity type should be reported Inventory B, Column 2 and Inventory C, Column 2, respectively.

NOTE: Do not report zero values in Column 2 of Inventory B and Inventory C for these affiliates. Only RBC filing entities with this type of affiliate will report in this column. The excess value in the nonadmitted Parent entity may be reported at zero value.

No entry is required in this column for any nonadmitted directly or indirectly owned non-insurance/non-financial subsidiary. Report zero for these affiliates in Column 2 of Inventory B and Inventory C.

- **[Sch 1B Col 16] Is Affiliate on Schedule A or Schedule BA an Insurer or Other Financial Entity? –** Column is meant to identify an entity with an insurer or financial entity identifier in Column 8 that is reported on Schedule A or Schedule BA but is being de-stacked and also reported on the Inventory tab. Provide a "Y" response where that is applicable. Otherwise leave blank.

- **[Sch 1B Col 17] Selected Alternative Grouping –** This will be populated by a formula, so input is not required. If there are any blank entries in Column 9 (Alternative Grouping), this column will set them equal to the name of the entity.

60. Schedule 1C contains financials for each entity:

- **[Sch 1C Col 1] Basis of Accounting –** Enter basis of accounting used for the entity's financial reporting.

- **[Sch 1C Col 2 and Col 3] Gross and Net Written Premium** – Report for all U.S. and non-U.S. insurers. Use applicable entity annual financial statement data source for U.S. insurers (life, P/C, and health). Use equivalent local source for non-U.S. insurers or company records when available.

- **[Sch 1C Col 4] Reinsurance Assumed from Affiliates –** Report for all U.S. and non-U.S. insurers**.** Use applicable entity annual financial statement data source for U.S. insurers (assumed premiums from P/C Schedule F, Part 1 and life and health Schedule S, Part 1, Section 1, and Section 2). Use equivalent local source for non-U.S. insurers or company records when available.

- **[Sch 1C Col 5] Reinsurance Ceded to Affiliates –** Report for all U.S. and non-U.S. insurers. Use applicable entity annual financial statement data source for U.S. insurers (assumed premiums from P/C Schedule F, Part 3 and life and health Schedule S, Part 3, Section 1, and Section 2). Use equivalent local source for non-U.S. insurers or company records when available.

- **[Sch 1C Col 6] Book Assets –** This should be valued based on the applicable basis of accounting reported under the entity's local regime and represents the total assets as reported in the basic financial statements before eliminations (because that is presumed to be less burdensome on the insurance holding company). Other financial data should similarly be prepared using financial data before eliminations. However, insurance holding companies are allowed to present such figures after eliminations if they do so for all figures and consistently for all years.

- **[Sch 1C Col 7] Book Liabilities –** This should be valued based on the applicable basis of accounting reported under the entity's local regime and represents the total liabilities as reported in the basic financial statements.

- **[Sch 1C Col 8] Gross Paid-in and contributed Capital and Surplus (U.S. Insurers Only)** – For U.S. insurers, report the current year end amounts from annual financial statement Page 3 as follows:

  a. Life Insurers: lines 29, 30 and 33.

  b. P/C Insurers: lines 30, 31 and 34.

  c. Health Insurers: lines 26, 27 and 28.

61. Generally, Schedule 1D will include entries from regulatory filings or entity specific GAAP financial statements as of the reporting date. The amounts reported should be the entity value on a stand-alone (fully de-stacked) or grouped basis (where applicable). This may require use of company records in certain cases. The amounts should be reported at 100% for the entity listed. Any required adjustments for percentage of ownership will be applied later, if necessary, to calculate a capital charge.

- **[Sch 1D Col 1] Prior Year Entity Identifier –** Report the Legal Entity Identifier, NAIC company code or other identifier used for the entity in the prior year GCC filing for the prior calendar year.

- **[Sch 1D Col 2] Prior Year Equity or Capital and Surplus –** Report the value based on net equity reported in the entity stand-alone balance sheet. This will generally be the same as what is reported in the current year column in the prior year GCC filing. Where grouping is permitted, the balance reported may be on a grouped basis.

- **[Sch 1D Col 3] Net Income –** The final reported income figure from the income statement, and therefore is the figure reported after interest, taxes, extraordinary items, etc. For entities with accounting and reporting requirements that specify that dividends paid or received will be part of "net income," report the dividends received in this column. Report dividends to policyholders here as a reduction to net income if required by local accounting or reporting requirements.

- **[Sch 1D Col 4] Dividends Paid and Received (Net) –** All entity types report the net amount of dividends paid and received in reporting year to/from and affiliate, a Parent shareholder, public shareholders, or policyholders (if not required to be a reduction/increase in net income by local accounting or reporting requirements). Net dividend payments will be reported as a negative value. [FL7]All entity types that are subject to accounting and reporting requirements that specify that dividends paid or received will be reported as a surplus adjustment, will report dividends received in reporting year from affiliates in this column.

- **[Sch 1D Col 5] Capital and Surplus Contributions Received from Affiliates** – All entity types. Report sum of capital contribution (other than via surplus notes) during the reporting year received from any affiliated entity.

- **[Sch 1D Col 6] All Other Changes in Capital and Surplus** – Include total for all adjustments not listed above. This would include any investment income not already reported in Column 3 or Column 5. Also, report all stock repurchases or redemptions in this column.

  NOTE: Greater detail may be made available upon request.

- **[Sch 1D Col 7] Current Year Equity or Capital and Surplus** – Report the value based on net equity reported in the entity stand-alone Balance Sheet for the current year. This will generally be the same as what is reported for the entity in the Inventory B, Column 2. Where grouping is permitted, the balance reported may be on a grouped basis.

- **[Sch 1D Col 8] Capital and Surplus Contributions Paid to Affiliates** – All entity types report the total of capital contributions (other than via surplus notes) during the reporting year paid to any affiliated entity.

- **[Sch 1D Col 9] Dividends Declared and Unpaid –** For all applicable entities report the amount of dividends declared or approved but not yet distributed.

- **[Sch 1D Col 10] Dividends Received and Not Retained –** All holding companies, insurers and financial entities with regulatory capital requirements indicate by "Y" or "N" if part or all of dividends received reported in Column 5 have been paid (passed through) to a Parent company, to public shareholders, or used to repurchase or redeem shares of stock.

Input 2 – Inventory

62. Columns in Inventory A are being pulled from Schedule 1:

- [Column 1] Insurance/Non-Insurance
- [Column 2] Entity Identifier
- [Column 3] Entity Identifier Type
- [Column 4] Entity Name
- [Column 5] Entity Category
- [Column 6] Parent Identifier
- [Column 7] Parent Name
- [Column 8] Basis of Accounting

Columns Requiring Input

63. Enter information on adjustments to carrying value. Considerations specific to different types of entities are located at the end of this subsection.

- **[Inv B Col 1] Carrying Value (Immediate Parent Regime) –** This column is included to accommodate participants with either a U.S. or a non-U.S. based Parent company. In general, carrying values utilized should represent: 1) the subsidiary valuation required by the insurance or other sectoral regulator if the Parent is a regulated entity; or 2) in the case where the Parent is not subject to insurance or other sectoral regulatory valuation, then a subsidiary valuation based U.S. GAAP or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements. No entry is required for the Ultimate Controlling Person (UCP)

  The value in this column will include a zero value for entities not admitted per SAP or other jurisdictional regulatory rules. A single entry for all entities that qualify under the grouping criteria described in Input 1, herein may be made in lieu of individual entries on the line for the affiliate that holds the qualifying entities. This column will include double-counting.

  The values recorded for all subsidiaries should be the full value of the subsidiary regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the full value of the subsidiary adjusted to reflect total percentage of ownership within the group.

- **[Inv B Col 2] Carrying Value (Local Regime) –** Record the carrying value recognized by the legal entity's jurisdictional insurance or other sectoral supervisor. This will include the value of capital instruments (e.g., U.S. insurer issued surplus notes) that are specifically recognized by statute, regulation or accounting rule and included in the carrying value of the entity. In the case where the entity is not subject to insurance or other sectoral regulatory valuation, then U.S. GAAP equity (including OCI) or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements. If an agreed-upon change in local carrying value should become effective by 2021, Volunteer Groups are expected to report on that basis. If the group is comprised entirely of U.S.-based entities under a U.S.-based Parent company, the entries in this column will be the same as in Column 1 except in cases where the Parent owns not admitted (or otherwise zero valued financial affiliates that would be reported as not admitted in the Parent Regime column but fully admitted (per SAP valuation) in the Local Regime column). (See instructions for **[Sch 1B Col 15]**.) However, if such an entity has been listed in the **[Sch 1B Col 2] Include/Exclude**

(Supervisor) column, indicating that the Lead State Regulator agrees that the entity does not pose material risk, then a value will be reported here, but the ultimate calculation will show the results without the excluded entity's value. Directly or indirectly owned **non-insurance / non-financial** entities that were not admitted or otherwise carried at a zero value in the Parent Regime, should be reported at zero value in this column[FL8]. The carrying value for affiliates that are U.S. RBC filers will be the amount reported TAC on entity's RBC report. A change is recommended to allow the carrying value for Canadian insurers to be calculated on a net of reinsurance basis. This column will include double-counting. The values recorded for all subsidiaries should be the full value of the subsidiary regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the full value of the subsidiary adjusted to reflect total percentage of ownership within the group. The entry here should generally be the same as the value reported in Inventory B, Column 1, except where TAC for RBC filers differs from their BACV. A single entry for all entities that qualify under the grouping criteria described exceptions described herein under Paragraph 57 in the Input 1 section, above may be made in the line for the affiliate that holds the qualifying entities in lieu of individual entries.

A sensitivity analysis is included to calculate the impact of excluded entities requested but not approved for exclusion by the lead state.

	INVENTORY B – Accounting Valuation to be Used			
Parent Entity	Entity	Inv B, Column 1	Inv B, Column 2	Parent Entity Line Inv B~~C~~, Column 3
U.S. RBC filer	U.S. RBC filer	BACV Per Statutory Accounting	RBC TAC	BACV Per Statutory Accounting
U.S. RBC filer	Other U.S. Insurer	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
U.S. RBC filer	Foreign Insurer or Other Regulated w/ Capital Reqmt	BACV Per Statutory Accounting	Per Local Regulatory Accounting	BACV Per Statutory Accounting
U.S. RBC filer	Financial w/o Capital Reqmt	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
U.S. RBC filer	Non-Financial	BACV Per Statutory Accounting	No entry Required	No entry Required - Do not de-stack
Other U.S. Insurer	U.S. RBC filer	BACV Per Statutory Accounting	RBC TAC	BACV Per Statutory Accounting
Other U.S. Insurer	Any Other Entity Type	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	U.S. RBC filer	Per Local Regulatory Accounting	RBC TAC	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Other U.S. Insurer	Per Local Regulatory Accounting	BACV Per Statutory Accounting	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Regulatory Accounting	Per Local Regulatory Accounting	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Financial w/o Capital Reqmt	Per Local Regulatory Accounting	Per risk level factor x 3-year avg revenue	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Non-Financial	Per Local Regulatory Accounting	No entry Required	No entry Required – Do not de-stack
Financial w/o Capital Reqmt or Non-Financial	U.S. RBC filer	Per Local Public Accounting	RBC TAC	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Other U.S. Insurer	Per Local Public Accounting	BACV Per Statutory Accounting	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Public Accounting	Per Local Regulatory Accounting	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Financial w/o Capital Reqmt	Per Local Public Accounting*	Per Local Regulatory Accounting*	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Non-Financial	Per Local Public Accounting*	Per Local Public Accounting*	Per Local Public Accounting
		*Subject to Grouping		

In cases where a U.S. life RBC filer owns a foreign insurer and the BACV value reported for the foreign insurer in the Parent U.S. insurers financial statement is adjusted to zero for RBC purposes, then report zero in Inventory B, Column 1 and Column 3 for that foreign insurance entity.

- **[Inv B Col 3] Investment in Subsidiary –** Enter an adjustment to remove the investment carrying value of any directly owned subsidiary(ies) from Parent's carrying value. This is intended to prevent double-counting of available capital when regulated entities are stacked. The carrying value to be removed should be the investment value carried by the Parent from which the entity is being de-stacked (i.e., the value in Column 1 in Inventory B adjusted for ownership percentage). Thus, there will be no adjustment to the Parent's value in this column for entities that are reported at zero value by the Parent. Where entities are owned partially by entities outside of the group, then the Parent's percentage of ownership will be calculated based on the value owned within the group.

Generally, for all non-financial affiliates, Schedule A and Schedule BA assets will remain in the value of the Parent insurer and not entered in this column. However, if the Schedule A or Schedule BA asset is an insurance or financial entity as described herein, the value of that entity will be included in this column. For indirectly owned Schedule A or Schedule BA insurance or financial entities, only the value of that entity will be included in this column and the remaining value of the downstream Schedule BA Parent will remain with the Parent insurer. Similarly, the carrying value of U.S. branch of a foreign insurer that is listed in Schedule 1 and in this section should be entered in this column in the row of the foreign insurer if it is already included in the value of the foreign insurer so that the Parent entity may eliminate double-counting of that available capital which will now be reported by the stand-alone Branch listed in the inventory.

NOTE: The "Sum of Subsidiaries" column may provide a useful check against this entry, but it will not necessarily be equal.

When utilizing public accounting (e.g., GAAP) equity values that differ from regulatory values (e.g., SAP), it is **the GAAP equity** of the insurers must be eliminated from the GAAP Parent in this column, not the SAP value (regulatored ~~ed~~ value~~capital~~). This is necessary in order to allow the calculation to appropriately represent SAP available capital of regulated entities and GAAP equity of non-regulated entities. Data on the accounting differences between Parent and Local carrying values will be collected in **[Inventory B, Column 9]** and further detail provided in the "Questions and Other Information" tab.

NOTE: Values for Schedule A and Schedule BA affiliates that are required to be reported in the "Inventory" tab will be adjusted out of the value reported by the U.S. insurer in this column.

[Inv B Col 4] Intragroup Capital Instruments – This column is automatically calculated from inputs to the "Capital Instruments" tab. It reflects an adjustment to remove carrying value for intragroup financial instruments that that are treated as capital by the issuer and consequently create additional capital within the group upon issuance (most notably U.S. surplus notes). Example for surplus notes: In both intragroup and unaffiliated transactions, treat the assets transferred to the issuer of the surplus note as available capital. If the purchaser is an affiliate, eliminate the investment value from the affiliated purchaser of the surplus note in this column. If the purchaser is an insurer or other regulated entity, eliminate the purchaser's capital charge (e.g., RBC charge) on the surplus note investment in the corresponding adjustment column for the capital calculation. No adjustments are made for any intragroup capital instrument that is treated as a liability by the issuer.

- **[Inv B Col 5] Reported Intragroup Guarantees, LOCs and Other –** If there is an impact on the available capital / carrying value of an entity that is reported in Column 2, other than an XXX/AXXX captive, [FL9]e~~E~~nter an adjustment to reflect the notional value weighted for expected utilization for reported intragroup guarantees (including solvency insurance and capital maintenance agreements). Enter the notional value for letters of credit, or other intragroup financial support mechanisms. Explain each intragroup arrangement in the "Questions and Other Information" tab.

- **[Inv B Col 6] Other Intragroup Assets –** Enter the amounts to adjust for and to remove double-counting of carrying value reported in Column 2 for other intragroup assets, which could include intercompany balances, such as (provide an explanation of each entry in the "Questions and Other Information" tab):

  a. Loans, receivables and arrangements to centralize the management of assets or cash;
  b. Derivative transactions;
  c. Purchase, sale or lease of assets; and
  d. Other (describe).

- **[Inv B Col 7] All Other Adjustments –** Include a brief explanation in the "Description of 'Other Adjustments'" in the "Other Information" tab. This column should adjust for externally issued LOCs or other SAP adjustments included in available capital in Column 2 but not otherwise recognized in these instructions.[FL10] This will not apply to XXX/AXXX captives.

- **[Inv B Col 8] Adjusted Carrying Value** – Stand-alone value of each entity per the calculation to eliminate double-counting. This value includes permitted and prescribed practices.

- **[Inv B Col 9] Accounting Adjustments (e.g., GAAP to SAP) –** Report the sum total difference for all entities owned by a common parent between the carrying value reported in Column 1 ~~(and Column 3)~~ and the value reported in Column 2 for those entities. This column will generally apply to regulated entities where the stand-alone carrying value is based on regulatory accounting (e.g., SAP) while the value reported for that entity by the Parent is carried at a financial accounting (e.g., GAAP) value. Further detail is reported in the "Questions and Other Information" tab. The total difference in values should be reported in this column on the Parent line.[FL11]

- **[Inv B Col 10] Gross Revenue 2nd Prior Year (Financial Entities without Regulatory Capital Requirements and Non-financial Entities)** – Report gross revenue (excluding dividends from subsidiaries and affiliates).

- **[Inv B Col 11] Gross Revenue Prior Year (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities)** – Report gross revenue (excluding dividends from subsidiaries and affiliates).

- **[Inv B Col 12] Gross Revenue Current Year (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities) –** Report gross revenue (excluding dividends from subsidiaries and affiliates).

- **[Inv B Col 13] Average Revenue over 3-years (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities –** This column is populated from data in Column 10, Column 11 and Column 12.

  This column will support the capital calculation for asset managers, broker-dealers and other Financial Entities without Regulatory Capital Requirements.

64. "Adjusted Capital Calculation" is reported in a similar manner to the "Adjusted Carrying Value" above. The columns are in the same order, although it is likely that fewer entries will be needed for Column 4 through Column 7. Further guidance is below.

- **[Inv C Col 1] Entity Required Capital (Immediate Parent Regime) –** This column is included to accommodate participants with either a U.S. or a non-U.S. based Parent company. No entry is required for the Ultimate Controlling Person. In general, entity required capital should represents the capital requirements of the Parent's insurance or other sectoral regulator:

  a. For subsidiaries of foreign insurers or other non-U.S. financial entities, the unscaled capital required by the Parent's regulator of the regulated entity based on the equivalent of a Prescribed Capital Requirement (PCR) level.

  b. For subsidiaries, including applicable Schedule A and Schedule BA subsidiaries, of U.S. insurance entities that are subject to RBC, except where the subsidiary is also an RBC filer, the entry should be equivalent of what would be required in the Parent's RBC, adjusted for covariance where applicable (calculated by the preparer) reported at company action level (or two times authorized control level RBC) for that entity. Where the subsidiary is also an RBC filer, then the amount reported will be at company action level RBC (or two times authorized control level RBC) after covariance.

  c. For subsidiaries of U.S. insurers that do not file RBC, report the actual amount of capital required in the Parent's capital requirement (if any) for the subsidiary entity.

  d. In the case where the Parent is not subject to insurance or other sectoral regulatory valuation, then use zero where applicable. This column will include double-counting. The values recorded for all subsidiaries should be the 100% of the specified capital requirements regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the capital requirements of the subsidiary adjusted to reflect total percentage of ownership within the group. A single entry for all entities that qualify under the grouping criteria described in Section V, herein may be made on the line for the affiliate that holds the qualifying entities in lieu of individual entries.

- **[Inv C Col 2] Entity Required Capital (Local Regime) –** Enter required capital for each de-stacked entity, as applicable entity description below. For U.S. RBC filing subsidiaries under a U.S. RBC filing Parent the amounts will be the same in both the Parent and Local Regime columns, except where the RBC filing subsidiary is subject to an operational risk charge. In such cased the amount reported in this column for the subsidiary will include the operational risk charge while the amount reported in Column 1 will exclude the subsidiary's operational risk charge. For some entity types his will result in entries for the entities under a U.S.-based insurance Parent to be different from what U.S. RBC would dictate. In addition, where a U.S. insurer directly or indirectly owns not admitted (or otherwise zero valued) financial affiliates, those affiliates would be reported with zero value in the Parent Regime column but at the specified regulatory value described below for that financial entity type in this column. However, if such an entity has been listed in **[Sch1B Col 2] Include/Exclude (Supervisor)** column, indicating that the Lead State Regulator agrees that the entity does not pose material risk, then report the capital calculation in accordance with entity instructions in paragraph 65 below, but the ultimate calculation will show the results without the excluded entity's capital calculation. Directly or indirectly owned non-financial entities that were not admitted or otherwise carried at a zero value in the Parent Regime, should be reported at zero value in this column. A change is recommended to allow the entity required capital for Canadian insurers to be calculated on a net of reinsurance basis. In addition, an approach for non-risk based regimes (e.g. Barbados-domiciled operating companies) is going to be proposed to the GCCWG. For the required capital, they can either use a 50% factor of available capital or recalculate it using an RBC at 200% ACL and simplifications where necessary. A single entry for all entities that qualify under the grouping criteria described herein under Paragraph 57 in the Input 1 section, above may be made in the line for the affiliate that holds the qualifying entities in lieu of individual entries. This column will include double-counting. The values recorded for all subsidiaries should be the 100% of the capital requirements regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the capital requirements of the subsidiary adjusted to reflect total percentage of ownership within the group.

65. Additional clarification on capital requirements where a formula is required:

- **U.S. RBC filing Insurers**: Report RBC at Company Action Level including operational risk (200% x ACL)

- **Foreign Insurance Entities**: The local capital requirement as specified below for each jurisdiction should be reported, by legal entity, at a Prescribed Capital Requirement (PCR) level. This treatment is different than what U.S. RBC would require and recognizes other regulators view of adequate capital for insurers within another jurisdiction. It is more reflective of risk within the group context. A sensitivity analysis will be included in the "Sensitivity Analysis" tab using the jurisdictional PCR scaled per the Excess Relative Ratio method (see Appendix 1) for insurers in foreign jurisdictions that are subject to scaling.

- **European Union subsidiaries**: Use the Solvency II Solo Solvency Capital Requirement (SCR) as the PCR.

- **U.S. RBC filing subsidiaries**: The RBC Company Action Level including operational risk of each insurer should be reported.

- **Australia subsidiaries**: The PCR is the target capital as set by the insurer/group in accordance with APRA requirements. Effectively, this would be "Target capital under ICAAP." PCR is not a set multiple of MCR.

- **Bermuda subsidiaries**: The Legal Entity PCR in Bermuda for medium and large commercial insurers is called the "Enhanced Capital Requirement" (ECR) and is calibrated to Tail VaR at 99% confidence level over a one-year time horizon.

- **Hong Kong subsidiaries**: Under the current rule-based capital regime, if applied similar to the concept of PCR, the regime's PCR would be 150% of MCR for life insurers and 200% of MCR for non-life insurers.

- **Japan subsidiaries**: The PCR is the solvency margin ratio of 200%.

- **Korea subsidiaries**: The PCR is 100% of risk-based solvency margin ratio.

- **Singapore subsidiaries**: The PCR is 120% of total risk requirement (i.e., capital requirement).

- **China Taipei subsidiaries**: The PCR is 200% of RBC ratio.

- **Canada life entities**: The baseline PCR should be stated to be "100% of the LICAT Base Solvency Buffer." The carrying value should include surplus allowances and eligible deposits.

- **Canada P/C entities**: The PCR should be the MCT capital requirement at the target level.

- **South Africa subsidiaries**: The PCR is 100% of the SAM SCR.

- For any entities that cannot be mapped to the above categories, scaling will be at 100%

66. Additional clarification on capital requirements where a U.S. formula (RBC) is not required:

    - For those U.S. insurers that do not have an RBC formula, the minimum capital per state law should be used as the basis for what is used for that insurer in the GCC. This may differ from what U.S. RBC would require. It is more reflective of the regulatory view of risk in the group context. The following requirements should be used in other specified situations where an RBC does not exist:

    - **<u>Mortgage Guaranty Insurers</u>**: The minimum capital requirement shall be based on the NAIC's requirements set forth in the *Mortgage Guaranty Insurance Model Act* (#630).

    - **<u>Financial Guaranty Insurers</u>**: The minimum capital requirement shall be based on the NAIC's requirements set forth in the *Financial Guaranty Insurance Guideline* (#1626), specifically considering Section 2B (minimum capital requirements) and Section 3 (Contingency, Loss and Unearned Premium Reserves) and the other requirements of that guideline that impact capital (e.g., specific limits).

    - **<u>Title Companies</u>**: The minimum capital requirement shall represent 200% of the required level of reserves carried by the insurance company.

    - **<u>Other Companies</u>**: A selected basis for minimum capital requirements derived from a review of state laws. Where there is a one-off treatment of a certain type of insurer that otherwise would file RBC (e.g., HMOs domiciled in California), the minimum capital required by their respective regulator could be considered in lieu of requiring the entity to complete an RBC blank.

    - **<u>Captives</u>**: U.S. insurers that have captives should complete the applicable RBC formula regardless of whether the captive is required to complete it in their captive state. The amounts input into RBC by the captive shall be based on the actual assets and liabilities utilized in the regulatory reporting used by the captive. Captives used exclusively for self-insurance (either by U.S. life insurers or any other type of insurer) or insurance provided exclusively to its own employees and/or its affiliates, should not complete an RBC calculation and the entire entity should be treated as non-insurers and receive the same charge as a non-regulated entity.

67. Non-insurance financial entities subject to a specified regulatory capital requirement:

- All banks and other depository institutions – The unscaled minimum required by their regulator. For U.S. banks, that is the Office of the Comptroller of the Currency (OCC) Tier 1 or other applicable capital requirement. This is understood to be consistent with how the Federal Reserve Board would apply its Building Block Approach.

- Any other financial entity that is determined to be subject to a specified regulatory capital requirement will bring that requirement in the GCC at the first level of regulator intervention (if applicable). Application of regulatory capital requirements not specifically described in this paragraph must be approved for used by the lead-State prior to their use. Otherwise, the entity will be subject to the capital calculation described in Paragraph 68.[FL12]

- This differs from what U.S. RBC would require. It recognizes the sectoral regulator's view of risk for a particular financial entity type. It is more reflective of risk in the group context.

68. Non-insurance financial entities NOT subject to a specified regulatory capital requirement:

- All asset managers and registered investment advisors and all other financial entities as defined in Section II: Use the capital calculation specified below based the level of risk assigned to the entity by applying the material risk principles defined in Section II. However, asset managers and investment affiliates (not qualifying to be treated as non-financial entities per paragraph 9) will be reported at either medium or high risk. In certain cases, these entities may be subject to a layer of regulation (e.g., SEC or FINRA) but are not generally subject to a specified capital requirement.

  High Risk: 10% x 3-year average revenue

NOTE: A Basel Charge of 15% will be used for the IAIS ICS.

  Medium Risk: 5.0% x 3-year average revenue.

  Low Risk: 2.5% x 3-year average revenue

NOTE: Medium risk could be used as a starting point while the stratified methodology is further developed.

69. Other non-insurance, non-financial entities with material risk:

- Non-insurance, non-financial entities may not be as risky as financial entities. For non-insurance, non-financial entities not owned by RBC filers or other such entities where there is not a regulatory capital charge for the entity in the capital formula, use an equity charge of 10.5% (post tax) for predominantly life Insurance Groups 9.5% for predominantly P/C Insurance Groups and 3.5% for predominantly health Insurance Groups x BACV. If the entity is not subject to a capital charge or is included in the capital charge of another financial entity, then enter zero in Column 1 and the charge specified in this paragraph in Column 2. These factors are based on average after covariance RBC charges for the respective insurer types and are calibrated at 200% x ACL RBC. This is meant to be consistent with how the entity would be treated if owned by an RBC filer while recognizing that the entity may be excluded from the GCC if it does not pose material risk to the insurers in the group.

  Non-insurance/non-financial entities owned by RBC filing insurers (or owned by other entities where a regulatory capital charge applied to the non-insurance/non-financial affiliate) will remain in the Parent's capital charge and reported at that value in Column 1 but will be reported as zero in Column 2. These non-financial entities may not be excluded from the GCC and should be reported under this entity category as "included"[FL13].

One additional informational capital calculation for all non-financial entities will be applied in the Sensitivity Analysis tab using current year gross revenue from Inventory B, Column 12 with the calculation occurring and results available in the "Calc 2" tab as follows: 5% of reporting year gross revenue based on a medium level risk for a financial entity.

70. Non-operating holding companies:

- Non-operating holding companies will be treated the same as other non-insurance/non-financial entities with material risk. Unless reported on a grouped basis (see paragraph 57~~5~~), for purposes of applying the capital calculation, the carrying value of stand-alone positive valued and negative valued non-operating holding companies will be netted. If the net value is zero or less (floored at zero for purposes of applying a charge), the charge applied will be zero. If the filer chooses to designate the non-operating holding company as a non-insurance/non-financial entity without material risk and requests exclusion, then no allowance for debt issued by that holding company may be included in the calculation.

71. Non-insurance, non-financial entities without material risk:

- Only entities not owned directly or owned by RBC filing insurers (or by other entities where a regulatory capital charge applied to the non-insurance/non-financial affiliate) should be reported in this category. In general, these entities should be "excluded" from the GCC in Schedule 1B, Column 1, subject to review and decisions to report as "include" by the lead-State regulator in Schedule 1B Column 2.[FL14]

	INVENTORY C – Capital Calculation to be Applied			
Parent Entity	Entity	Inv C, Column 1	Inv C, Column 2	Parent Entity Line Inv C, Column 3
U.S. RBC filer	U.S. RBC filer	RBC ACL (excl. op Risk) x 2	RBC ACL (incl. op risk) x 2	RBC ACL (excl. op Risk) x 2
U.S. RBC filer	Other U.S. Insurer	Affiliate risk RBC	Per GCC Entity Instructions	Affiliate risk RBC
U.S. RBC filer	Foreign Insurer or Other Regulated w/ Capital Reqmt	Affiliate risk RBC	Jurisdictional or Sectoral PCR Level Capital Reqmt	Affiliate risk RBC
U.S. RBC filer	Financial w/o Capital Reqmt	Asset risk RBC	Per risk level factor x 3-year avg revenue	Asset risk RBC
U.S. RBC filer	Non-Financial	Asset risk RBC -Post covariance	No entry Required	No entry Required - Do not de-stack
Other U.S. Insurer	U.S. RBC filer	Zero	RBC ACL (incl. op risk) x 2	Zero
Other U.S. Insurer	Any Other Entity Type	Zero	Per GCC Entity Instructions	Zero
Foreign Insurer or Other Regulated w/ Capital Reqmt	U.S. RBC filer	Per Local Capital Reqmt	RBC ACL (incl. op risk) x 2	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Other U.S. Insurer	Per Local Capital Reqmt	Per GCC Instructions	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Capital Reqmt	Jurisdictional or Sectoral PCR Level Per Local Capital	Foreign Insurer or Other Regulated w/ Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Financial w/o Capital Reqmt	Per Local Capital Reqmt	Per risk level factor x 3-year avg revenue	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Non-Financial	Per Local Capital Reqmt	No entry Required	No entry Required - Do not de-stack
Financial w/o Capital Reqmt or Non-Financial	U.S. RBC filer	Zero	RBC ACL (incl. op risk) x 2	Zero
Financial w/o Capital Reqmt or Non-Financial	Other U.S. Insurer	Zero	Per GCC Entity Instructions	Zero
Financial w/o Capital Reqmt or Non-Financial	Foreign Insurer or Other Regulated w/ Capital Reqmt	Zero	Jurisdictional or Sectoral PCR Level Capital Reqmt	Zero
Financial w/o Capital Reqmt or Non-Financial	Financial w/o Capital Reqmt	Zero	Per risk level factor x 3-year avg revenue*	Zero
Financial w/o Capital Reqmt or Non-Financial	Non-Financial	Zero	Per GCC Instructions*	Zero

Capital Calculation Adjustments

- **[Inv C Col 3] Investment in Subsidiary –** Enter an adjustment to remove the required capital of the directly owned subsidiary(ies) from Parent's required capital. The capital requirement to be removed should be the capital requirement carried by the Parent from which the entity is being de-stacked (i.e., the value reported in Column 1 in Inventory C adjusted for ownership percentage). Thus, there will be no adjustment to the Parent's value in this column for entities that are reported at a capital calculation of zero value by the parent This is intended to prevent double counting required capital when regulated entities are stacked. [Example: When de-stacking an RBC filer from another RBC filer, the amount entered on the Parent line would be the RBC of the subsidiary. When de-stacking financial entities that are subject to diversification in a capital formula (e.g., RBC) the amount entered on the Parent line is the post-diversified capital requirement as calculated by the preparer (which is also the amount to be reported for the de-stacked entity on the entity's line.

  Generally the capital requirements for Schedule A and BA affiliates and other non-financial affiliates will remain in the capital requirements of the Parent insurer and not entered in this column, except that the capital requirements for any financial entity reported in a Parent's Schedule A and BA, any financial entity indirectly owned through another Schedule A or BA affiliate listed in Schedule 1 and in this section should be entered in this column in the row of the entity that directly or indirectly owns that Schedule A and BA affiliate so that the parent entity may eliminate double counting of that capital requirement capital which will now be reported by the stand-alone Schedule A or BA affiliate listed in in the inventory.

For indirectly owned Schedule A and BA financial entities, only the capital requirements for that entity will be included in this column and the remaining capital requirement of the downstream BA Parent will remain with the Parent insurer. Similarly, the capital requirement for any U.S. Branch of a foreign insurer that is listed in Schedule 1 and in this section should be entered in this column in the row of the foreign insurer if it is already included in the capital requirement of the foreign insurer so that the parent entity may eliminate double counting of that capital requirement which will now be reported by the stand-alone Branch listed in the inventory. The amounts entered in this column for a Parent must correspond to the capital required by the parent entity which is being de-stacked from that Parent.

Capital calculations for Schedule A and Schedule BA indirectly owned **financial entities** that are owned by Schedule A or Schedule BA assets are reported in the Inventory Tab and will be adjusted out of the value reported by the U.S. insurer in this column (since the non-financial direct parent Schedule A or BA affiliate is not listed in the Inventory Tab.

In the "Questions and Other Information" tab, a capital requirement should be reported for the value of the indirectly owned insurance of other financial entity based on the insurers Schedule A or Schedule BA charge rather than a charge (which would be zero) attributable to the Schedule A or Schedule BA entity that directly owns the insurance or other financial entity. As indicated earlier, the remaining capital requirement of the entity that directly owns the insurance or other financial entity will remain with the Parent insurer.

- **[Inv C Col 4] Intragroup Capital Instruments –** This column would generally be used if there is potential double-counting of capital requirements (e.g., RBC charges on surplus notes purchased by an affiliated U.S. insurer from a U.S. insurer issuer).

- **[Inv C Col 5] Reported Intragroup Guarantees, LOCs and Other –** This column would generally be used if there is potential double-counting of capital requirements (e.g., RBC charges on guarantees or LOCs).

- **[Inv C Col 6] Other Intragroup Assets –** This column is not intended to be used for required capital but is included in case an entity believes it is necessary from reporting an inaccurate required capital figure.

  a. Loans, receivables and arrangements to centralize the management of assets or cash.
  b. Derivative transactions.
  c. Purchase, sale or lease of assets.
  d. Other (describe in "Questions and Other Information" tab).

- **[Inv C Col 7] All Other Adjustments** – Include a brief explanation in the "Description of 'Other Adjustments'" in the "Questions and Other Information" tab. Use this column is for adjustments related to required capital that correspond to adjustments in Inventory B, Column 7 and in cases where an entity believes it is necessary to adjust an inaccurate regulatory required capital figure (e.g., the RBC calculation applied as a permitted practice).

NOTE: Consider whether this column should be used rather than Column 2 for zero value entities.

- **[Inv C Col 8] Adjusted Capital Calculation** – Stand-alone capital calculation for each entity per the calculation to eliminate double-counting. This value includes the impact of permitted and prescribed practices.

- Inventory D is for "Reference Calculations Checks." These are calculations that can serve as checks on the reasonability/consistency of entries.

  a. [**Inv D Col 1 – 3] Sum of Subsidiaries (Carrying Value) –** This automatically generated column calculates the value of the carrying value of the underlying subsidiaries. It is provided for reference when filling out the "Investment in Subsidiary" column. This sum will often, but not always, be equal to the "Investment in Subsidiary" column.

  b. **[Inv D Col 4 – 6] Sum of Subsidiaries (Calculated Capital)** – Similar to above but for calculated capital.

  c. **[Inv D Col 7 – 8] Carrying Value/Adj Calc Cap –** This is a capital ratio on the adjusted and unadjusted figures. Double-check entities with abnormally large/small/negative figures to make sure that adjustments were done correctly.

Input 3 – Capital Instruments

~~71.~~72. Provide all relevant information pertaining to paid-up (i.e., any receivables for non-paid-in amounts would not be included for purposes of calculating the allowance) financial instruments issued by the Group (including senior debt issued by a holding company), except for common or ordinary shares and preferred shares. This worksheet aims to capture all financial instruments such as surplus notes, senior debt, hybrid instruments and other subordinated debt. Where a Volunteer Group has issued multiple instruments, the Volunteer Group should not use a single row to report that information; one instrument per row should be reported (multiple instruments issued under the same terms may be combined on a single line). All qualifying debt should be reported as follows.

~~72.~~73. Debt issued by U.S.-led groups:

- Surplus Notes – Report the outstanding value of all surplus notes in Column 8 whether issued to purchasers within or outside the group. The outstanding value of surplus notes issued to entities outside the group and that is already recognized by state insurance regulators and reported 100% as capital in the carrying value of U.S. insurer issuers in "Inventory B" will not be included in the calculation for an additional capital allowance. Surplus notes issued within the group generally result in double-counting and will not be included in the additional capital allowance. (See instructions below.)

- Subordinated Senior Debt and Hybrid Debt Issued (e.g., debt issuances that receive an amount of equity credit from rating agencies) – The outstanding value will be reported in Column 8. Recognition for structurally subordinated debt will be allowed to increase available capital. For purposes of qualifying for recognition as additional capital, both of the following criteria must be met:

a. The instrument has a fixed term (a minimum of five years at the date of issue or refinance, including any call options other than make whole provisions[1]). However, if the instrument is callable within the first five years from the date of issue it may be considered qualifying debt if any such call is at the option of the issuer only (the instrument is not retractable by the holder) AND it is the intent of management to replace the called instrument in full before or at redemption by a new issuance of the same or higher quality instrument.

b. Supervisory review or approval is required for any ordinary* or extraordinary dividend respectively or distribution from any insurance subsidiary to fund the repurchase or redemption of the instrument. Supervisory approval of ordinary dividends is met if the supervisor has in place direct or indirect supervisory controls over distributions, including the ability for the supervisor to limit, defer and/or disallow the payment of any distributions should it find that the insurer is presently, or may potentially become, financially distressed. There shall be no expectation, either implied or through the terms of the instrument, that such approval will be granted without supervisory review.

*The concept of approval for ordinary dividends is for GCC purposes and is met as described in subparagraph b, above. It is not intended to require explicit regulatory approval or in any way alter current provisions of Model #440 or the *Insurance Holding Company System Model Regulation* (#450).

- "Other" Debt – The outstanding value will be reported in Column 8 and will be further described in the "Other Information" tab and will be reported in a manner that is consistent with Senior Subordinated Debt, as described above. Such debt will not initially be included in the additional capital allowance for the GCC. An additional allowance of this debt as additional capital will be calculated in this tab and reported as a sensitivity analysis in the "Summary" 2 tab, subject to future determination on whether it will become part of the GCC calculation.

- Foreign Debt – Report the outstanding value of Non-U.S. senior debt issued to entities outside the group in Column 8. Debt specifically recognized by statute, regulation or accounting rule as additional capital resources by the lead jurisdiction based on contractual subordination or where a regulatory regime proactively enforces structural subordination through appropriate regulatory/supervisory controls over distributions from insurers in the group will not be included in the calculation of an additional capital allowance if it is already reported as capital in the carrying value of the issuer in "Inventory B". It will be included in the calculation of an additional capital allowance if recognized by the local jurisdiction and NOT already included in the value of the issuer in "Inventory B". Cases where the value of debt instruments issued to purchasers outside the group has not been recognized by the legal entity's insurance or other sectoral supervisor will not be included in the additional capital allowance.

[1] NAIC staff have been informed that make whole provisions are a form of a call feature that can be exercised by the issuer at any time; that they nonetheless are most frequently utilized near the end of the term of the instrument, generally in connection with refinancing; and that the cost to the issuer to exercise the make whole provision and associated financial reporting impacts, combined with the very low interest rate environment, make it much less likely that such provisions will be triggered, particularly within five years of issuance. Staff will continue their research, and assuming these observations are confirmed, the referenced criteria will continue to scope out make whole provisions.

~~73.~~74. Please fill in columns in Section 3A as follows for all capital instruments:

- **[Sec 3A Col 1] Name of Issuer –** Name of the company that issued the capital financial instrument.[2] Will populate automatically from the "Entity Identifier" column in this subsection.

- **[Sec 3A Col 2] Entity Identifier –** Provide the reference number that was input in Schedule 1.

- **[Sec 3A Col 3] Type of Financial Instrument –** Select type from the drop-down menu. Selections include Senior Debt, Surplus Notes (or similar), Hybrid Instruments and "Other" Subordinated Debt.

- **[Sec 3A Col 4] Instrument Identifier –** Provide a unique security identifier (such as CUSIP). ALL debt instruments must include an internal identifier if not external identifier is available.

- **[Sec 3A Col 5] Entity Category –** Links automatically to selection made on the "Inventory" tab worksheet.

- **[Sec 3A Col 6] Year of Issue –** Provide the year in which the financial instrument was issued or refinanced.

- **[Sec 3A Col 7] Year of Maturity –** Enter the year in which the financial instrument will mature.

- **[Sec 3A Col 8] Balance as of Reporting Date –** Enter the principal balance outstanding as reported in the general-purpose financial statements of the issuer.

- **[Sec 3A Col 9] Intragroup Issuance –** Select whether the instrument was issued on an intragroup basis (that is, issued to a related entity within the group). This column will be used to remove "double-counting." This column is a drop-down menu box with options "Y" and "N."

- **[Sec 3A Col 10] Treatment in Inventory B –** Select option that applies:

  a. **Capital** – This instrument is recognized by the applicable regulator or credited as capital in local regulatory regime and reported as part of the adjusted carrying value of the issuer and was not purchased by an affiliate. This includes the value of qualifying senior and hybrid debt instruments (if recognized as capital) and U.S. surplus notes (or similar local regime instruments) that are issued to entities outside the group and included in the issuing entity's value in the "Inventory B" tab. The outstanding value of those debt instruments will not be included in the calculation of a proxy allowance for additional capital.

  b. **Liability** – This instrument is reflected by the issuer as a liability in the adjusted carrying value in the "Inventory B" tab and was not purchased by an affiliate. This would apply to all qualifying senior and hybrid debt issued to purchasers outside the group that is not recognized as capital by the local regulator and therefore is not included in the issuing entity's value in the "Inventory B" tab. The value will be included in the calculation of a proxy allowance for additional capital.

c. **Liability designation** would also apply to all non-qualifying senior and hybrid instruments and all debt categorized as “Other” issued to purchasers outside the group that is not recognized as capital by the local regulator. The value of these instruments will NOT be included the calculation for the in the calculation of a proxy allowance for additional capital.

d. **Intragroup –** This would apply to all qualifying instruments purchased by an affiliate within the group. The outstanding value of those debt instruments will not be included in the calculation of a proxy allowance for additional capital. If the financial instrument is recognized or credited as part of the issuer’s available capital in Inventory B, then an adjustment for intragroup capital instruments is made in Inventory B, Column 4 and Inventory C adjustments (if necessary to eliminate an associated capital requirement). If the financial instrument is treated as a liability by the issuer, then no intragroup capital instrument adjustment is required in Inventory B or Inventory C.

e. The outstanding value of all non-qualifying senior and hybrid instruments and financial instruments categorized as “Other Debt” whether issued to purchasers inside or outside the group will not be included in the calculation of a proxy allowance for additional capital and no other adjustments are required in the template. However, in the unlikely event that the instrument is treated as available capital to the issuer in Inventory B, an adjustment in Inventory B, Column 4 to remove the available capital would be required.

NOTE: Additional information on instruments categorized as “Other Debt” in the Type of Financial Instrument Column will require additional information to be provided in the “Questions and Other Information” tab.

For intragroup surplus notes, the adjustment will impact the carrying value and associated capital calculation of the purchasing affiliated entity.

- **[Sec 3A Col 11] Intragroup Purchaser Identifier –** Enter the entity identify for the affiliate entity that purchased the instrument.

- **[Sec 3A Col 12] Description of Other Debt Instruments –** Provide a description of instruments designated as “Other.”

- **[Sec 3A Col 13] Call Provisions Criteria –** Respond “Y” or “N” as to whether the instrument is subject to a call provision (other than a make whole provision) in the first five years AND it is management’s intent to replace the called instrument in full before or at redemption by a new issuance of the same or higher quality instrument. Respond “X” if the instrument has a maturity of greater than five years including any call provisions.

- **[Sec 3A Col 14] Potentially Recognized Instrument –** This is an automatic calculation to determine if this is instrument that has potential to be recognized as additional capital in the GCC and/or in sensitivity analysis. The column will show “Y” if each of the following is true: 1) it is Senior Debt, Hybrid or Other instrument; 2) the instrument is not intragroup; and 3) the instrument is treated as liability on Inventory B. These are calculated using Column 3, Column 9, and Column 10, respectively.

- **[Sec 3A Col 15] Other Criteria Met–** This is an automatic calculation to determine if instrument qualifies due to criteria beyond those in Column 14. The column will show “Y” if: 1) the instrument has initial maturity of greater than five years including any call provision (i.e., “X” is reported in Column 13); and 2) it meets the “Call provisions criteria” in Column 13 (i.e., “Y” is reported in Column 13).

- **[Sec 3A Col 16] Qualified Debt –** This column is calculated automatically using data from the entries in Column 14 and Column 15. To qualify, an instrument needs a “Y” in both columns. It represents the amount of qualifying debt that will be used in the calculation of an allowance for addition capital under the alternate subordination method and the proxy allowance method. This amount will be carried into Section 3C, Column 1, Line 3.

~~74.~~75. Section 3C will be auto-filled, with the exception of Column 1, Line 2.

- **[Sec 3C Col 1, Line 1] Total Paid-In and Contributed Capital and Surplus** – This is the amount reported on Page 3 of the annual financial statement submitted to regulators by a U.S. insurer.

- **[Sec 3C Col 1, Line 2] Alternate Subordination Calculation –** This manual entry is the excess of qualifying debt issued over liquid assets held by the issuing consolidated holding company as reported in the consolidated financial statements. Liquid assets generally include cash, short-term investments (including bonds held by the hold co). In most cases the excess of liquid assets will be made up of the value of all subsidiaries owned by the consolidated hold co. No entry is expected for a mutual group.[FL15]

- **[Sec 3C Col 1, Line 4] Downstream Estimate -**The total reported under the alternate subordination approach will be compared to the total amount of gross paid-in or contributed capital and surplus reported by the insurance entities within the group as reported in Schedule 1. The greater value will be carried into the calculation for an additional capital allowance.

  NOTE: No more than 100% of the total outstanding value of qualified senior and hybrid debt will be allowed into the calculation.

- **[Sec 3C Col 1, Line 5] Proxy Calculation for Additional Capital Allowance** – A calculation will be made in this tab in Section 3B that will apply 30% of available capital plus the value of all qualifying debt to become part of the proxy allowance for additional capital for qualifying senior subordinated. An additional amount of 15% of available capital plus the value of all qualifying debt will be calculated to become part of a proxy allowance for additional capital be for hybrid debt.

  Summary Formula: Proxy Amount = (30% x (Available Capital + Qualifying Senior and Hybrid Debt)) + (15% x (Available Capital + Qualifying Senior and Hybrid Debt)).

  NOTE: No more than 100% of the total outstanding value of qualified senior and hybrid debt will be allowed into the calculation.

- **[Sec 3C Col 1, Line 6 through Line 8]** – The greater of the proxy calculation or the larger of paid in capital or alternate subordination calculation will be allowed as additional capital in **[Sec 3C Col 6]**. However, an overall limit of no more than 75% of the total adjusted carrying value in Inventory B will be applied in **[Sec 3C Col 7]**. Adjustments to increase available capital will be calculated from data on this page. The summary results of the components of the calculation (paid in capital and surplus, alternate subordination, proxy calculation and limitations) are populated as titled in the calculation columns in this section. The final amount recognized as additional capital is shown in [**Sec 3C Col 8]**.

- The additional capital allowance recognized for capital instruments will be shown as an "on-top" adjustment in the "Summary 1 – Entity Level" tab.

Summary Calculation for Debt Allowed as Additional Capital:

Step 1: Calculate the following amounts:
a) The greater of Total paid-in capital and surplus of U.S. insurers or the alternative subordination calculation (defined above)
b) A proxy value (defined above)

Step 2: Take the greater of a) or b) from Step 1, and subject that amount to two limitations:
- First, the total amount to qualify as capital cannot exceed 100% of the total outstanding value of qualified senior and hybrid debt.
- Second, the total amount to qualify as capital cannot exceed 75% of the total adjusted carrying value in Inventory B.

After applying the two limitations in Step 2, the remaining amount is allowed as additional capital.

~~75.~~76. **Informational calculation to include "Other Subordinated Debt"** – A sensitivity analysis will be applied in [**Sec 3C Col 2, Line 1 through Line 8]** and carried into the "Summary 2" tab to adjust the amount of additional capital in the proxy calculation by the amount of "Other Debt" reported in **[Sec 3C Col 8]** issued to purchasers outside the group. This informational sensitivity analysis will include an additional allowance for such debt up to 15% of available capital plus the value of all qualifying debt including qualifying "Other" debt subject to the same limitations noted for the proxy allowance in general.

Input 4 – Analytics

~~76.~~77. The entity type information supporting analytics summarized in Summary 3 – Analytics are pulled into this tab from data or information reported in other tabs in the GCC template. That data is exported into summaries in the "Summary 3 – Analytics" tab. Only 2020 data is currently to be populated. However, it is contemplated that going forward, data for prior years will also be populated such that it will provide the Lead State Regulator with metrics to identify trends over time.

Input 5 – Sensitivity Analysis and Inputs

~~77.~~78. All sensitivity analysis is ultimately calculated in the "Summary 2" tab. Inputs for Analysis 1, 2, 5, 6, and 7 are not required in this tab. They are populated from other tabs as described below and automatically calculated in the "Summary 2" tab. However certain analysis requires inputs from this tab. Inputs are required in this tab for Analysis 3, Analysis 4, Analysis 8, and Analysis 9. Those inputs are automatically pulled into the calculation in the Summary 2 tab. Sensitivity Analysis are intended to provide the Lead State Regulator additional information that helps them better understand the financial condition of the group. Similar to the sensitivity analysis included in the legal entity RBC, it provides the regulator with additional information and allows them to consider "what-if" scenarios to better understand the impact of such items. The results of these analysis will not impact the GCC ratio.

- **[Analysis 1]: GCC overall sensitivity analysis –** No additional data is needed in the tab. The overall GCC ratio will be presented at 300% x ACL level. This calculation will increase the calculated capital for most entity types by a factor of 1.5. However, entities with existing regulatory capital requirements (e.g., foreign insurers and banks) will be reported at the same level specified in these instructions for both the GCC and the sensitivity analysis (i.e., at 100% of the jurisdictional or sectoral PCR requirements).

- **[Analysis 2]: Excluded non-insurance/non-financial entities without material risk –** No additional data is needed in the tab. The data for entities where exclusion has been requested by the filer and the lead state does not agree (and changes to "include' in Schedule1B,Column 2) will be populated based on entries in **[Sch 1B Col 3]** and data in Inventory B, Column 2 and Inventory C, Column 2. This analysis will be applied and reported in the "Summary 2" tab. It will provide the regulator with the impact of excluding ~~non-agreed-upon~~ entities where the lead-State changes the status from "exclude" to "include" on the GCC ratio.[FL16]

- **[Analysis 3 and Analysis 4]: Permitted practices –** This information shows the impact of excluding the amount of U.S. permitted practices as described in the Preamble of the *Accounting Practices and Procedures Manual* and the sensitivity analysis allows the state to understand the size of the practices related to the overall group capital position and their impact on the GCC ratio.

  - **Prescribed Practices –** This information to be entered on this tab shows the impact of excluding the amount of U.S. prescribed ~~and prescribed practices~~ as described in the Preamble of the *Accounting Practices and Procedures Manual* and the sensitivity analysis allows the state to understand the size of the practices related to the overall group capital position and their impact on the GCC ratio. This analysis will be applied and reported in the "Summary 2" tab.

- **Permitted and Prescribed Practices** – Report values from annual financial statement Note 1 (excluding those pertaining to XXX/AXXX captives). Values or permitted or prescribed practices that decrease available capital should be reported as negative values[FL17]:

  a. Entity identifier
  b. Value of permitted practice
  c. Capital Requirement attributable to permitted practice (if any)
  d. Description of permitted practice
  e. Value of prescribed practice
  f. Capital requirement attributable to permitted practice (if any)
  g. Description of prescribed practice

- **[Analysis 5]: Foreign Insurer Capital Requirements Scaled** – No additional data is needed in the tab. This information shows the amount of foreign insurer capital calculations scaled by applying scalars using the Excess Relative Ratio approach at a 200% x ACL RBC calibration level and at 300% x ACL for all non-U.S. jurisdictions where scalar data is available (see Appendix 1). The sensitivity analysis allows the state to understand the impact of this specific scaling method on the GCC ratio. This information is populated from the "Scalar" tab. This analysis will be applied and reported in the "Summary 2" tab.

- **[Analysis 6]: Debt Classified as "Other"** – No additional data is needed in the tab. The analysis data will be populated from the "Capital Instruments" tab and the analysis and will be applied and reported in the "Summary 2" tab. The overall allowance for debt will be adjusted to include debt classified as "other" by the filer, subject to the underlying limits and overall limit that already apply with respect to Senior and Hybrid debt.[FL18]

- **[Analysis 7]: Alternative Capital Calculation for Non-Financial Entities** – No additional data is needed in the tab. The values reported will represent the alternative revenue-based values for capital calculation that is being captured in the template. The data will be populated from Schedule 1 and Inventory B and the analysis will be applied and reported in the "Scaling Non-Insurance" tab (Calc 2).

- **[Analysis 8]** For captives other than XXX/AXXX, all other U.S. captives shall make an asset adjustment as described below;

Asset Impact

~~78.~~79. For the asset impact, it is ONLY required for the assets included in a captive or an entity not required to follow the statutory accounting guidance in the *Accounting Practices and Procedures Manual*. It is not required for assets for those groups that retain such business in a non-captive traditional insurance company(ies) already required to follow the *Accounting Practices and Procedures Manual*.

NOTE: Variations for state prescribed and permitted practices are captured in the separate sensitivity analysis.

~~79.~~80. The asset impact amount shall be determined based on a valuation that is equivalent to what is required by the *Accounting Practices and Procedures Manual* (SAP). For this purpose, "equivalent" means that, at a minimum the listed adjustments (as follows) be made with the intent of deriving a valuation materially equivalent to what is required by the *Accounting Practices and Procedures Manual*, however, without requiring adjustments that are overly burdensome (e.g., mark-to market bonds used by some captives under U.S. GAAP versus full SAP that considers NAIC designations). To be more specific, the asset impact shall be developed by accumulating the impact on surplus because of an accumulation of all the following in paragraph 81~~78~~ and paragraph 82~~79~~ combined.

NOTE: Letters of credit or other financial instruments that operate in a manner like a letter of credit, which are not designated as an asset under either SAP or U.S. GAAP and are required to be adjusted out of the available assets (i.e., the asset reduction is recorded as a negative figure in the template).

~~80.~~81. To achieve the above, accumulate the effect of making the following impact and record as a negative figure in the template, an asset adjustment for all the following explicit assets not allowed to be admitted under SAP:

- Assets *specifically* not allowed under the *Accounting Practices and Procedures Manual* in accordance with paragraph 9 of *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.
- *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers.*
- *SSAP No. 16R—Electronic Data Processing Equipment and Software.*
- *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements.*
- *SSAP No. 20—Nonadmitted Assets.*
- *SSAP No. 21—Other Admitted Assets* (e.g., collateral loans secured by assets that do not qualify as investments are nonadmitted under SAP).
- *SSAP No. 29—Prepaid Expenses.*
- *SSAP No. 105—Working Capital Finance Investments.*
- Expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting as promulgated by the NAIC in the *Accounting Practices and Procedures Manual* (e.g., deferred policy acquisition costs, pre-operating, development and research costs, etc.).
- Depreciation for certain assets in accordance with the following SSAPs:
  - *SSAP No. 16R—Electronic Data Processing Equipment and Software.*
  - *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements.*
  - *SSAP No. 68—Business Combinations and Goodwill.*
- The amount of goodwill of the SCA more than 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- The amount of the net deferred tax assets (DTAs) of the SCA more than 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- Any surplus notes held by the SCA issued by the reporting entity.

~~81.~~82. In addition, record as a negative figure, an asset impact for any assets that are not recognized as an admitted asset under the principles of *SSAP No. 4—Assets and Nonadmitted Assets*, including:

- Letters of credit, or other similar instruments, that operate in a manner like a letter of credit and, therefore, do not meet the definition of "asset" as required under paragraph 2.
- Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets that are unavailable due to encumbrances or other third-party interests, should not be recognized on the balance sheet and are, therefore, considered nonadmitted.
- Assets of an insurance entity pledged or otherwise restricted by the action of a related party, the assets are not under the exclusive control of the insurance entity and are not available to satisfy policyholder obligations due to these encumbrances or other third-party interests. Thus, such assets shall not be recognized as an admitted asset on the balance sheet.

- **[Analysis 9]: Other Regulator Discretion –** This analysis is designed to reflect other regulator adjustments including for transactions other than XXX/AXXX reinsurance where there are differences in regulatory regimes exist and there is a desire to fully reflect U.S. Statutory Accounting treatment or to reflect the lead state's view of risk posed by financial entities without specified regulatory capital requirements or risk posed by non-insurance/non-financial entities that have been included in the GCC. This will be a post-submission item completed by the Lead State Regulator. Enter the following information here:

  a. Entity identifier.
  b. Amount of adjustment.
  c. Description of regulatory issue.

NOTE: This column may also be completed by the filer after advance consultation with the Lead State Regulator.

Input 6 – Questions and Other Information

~~82.~~83. This tab provides space for participants to describe or provide greater detail for specified entries in other tabs (as noted in the instructions for the columns in those tabs) or additional relevant information not captured in the template. Examples include; adjustments for intragroup debt, description of permitted practices; and adjustments to available capital or capital calculations that are included in the "other adjustment" column in the "Inventory" tab. Specified items are included in the tab. Other information that the filer believes is relevant should be added freeform in this tab.

Information or Detail for Items Not Captured in the Template

- Intercompany Guarantees – Provide requested information:

  a. Entity identifier issuing the guarantee.
  b. Entity identifier of entity or entities that are covered by the guarantee.
  c. Indicate the notional or fixed value of the guarantee.
  d. Describe the nature of the guarantee.

- Capital Maintenance Agreements – Provide requested information:

  a. Entity identifier obligated under the agreement.
  b. Entity identifier for entity or entities that are covered by the guarantee.
  c. Indicate the notional or fixed value of the agreement.
  d. Describe the nature of the agreement.

- Value of intangible assets included in non-insurance Holding Companies – Provide the requested information for all entities designated in the non-operating holding company entity category.

  a. Entity identifier.
  b. All goodwill.
  c. All intangibles related to health care services acquisitions included in local carrying value column in Inventory B. Examples include, but are not limited to, customer relationships (policy retention, long-term health services contracts) and technology/patents/trade names and provider network contracts.
  d. All other intangible assets included in local carrying value column in Inventory B.
  e. Total of line b, line c and line d.*
  f. A description of each intangible asset included in line d.

  * Auto populated.

  Further detail on amounts reported for specific intangibles other than goodwill may be requested by the Lead State Regulator during review of the GCC template.

Information or Detail for Items Captured in the Template

- Currency Adjustments – Provide requested information only for entities where the amount reported for an entity in Inventory B, Column 2 is different than the amount in Inventory B, Column 1 due to currency conversion. If an entity is reported at zero value in Column 1, but a value is required in Column 2, then enter the information for the conversion rate used in Column 2.[FL19]

  a. Entity identifier.
  b. Currency type reported in Inventory B, Column 1 and Inventory C, Column 1 (foreign currency).
  c. Conversion rate applied.
  d. Source of conversion rate applied.

- Intragroup Assets – Description of Adjustments for intragroup assets reported in Inventory B, Column 6 and Inventory C, Column 6. Provide the following information:

  a. Entity identifier.
  b. Amount reported in Inventory B, Column 6.
  c. Description of adjustment.

- Other Adjustments – Description of adjustments reported in Inventory B, Column 7 and Inventory C, Column 7. Provide the following information:

  a. Entity identifier.
  b. Amount reported in Inventory B, Column 7.
  c. Description of adjustment.

- Accounting Adjustments – Provide requested information only for entities where the amount reported for an entity in Inventory B, Column 1 is different than the amount in Inventory B, Column 2 due to differences in accounting basis

  a. Entity identifier.
  b. Value reported in Inventory B, Column 1.*
  c. Value reported in Inventory B, Column 2.*
  d. Total amount of adjustments related to difference in accounting basis.*
  e. Nature of adjustment (e.g., GAAP to SAP).

  * Auto populated.

- Stress Scenario Narrative – If the participating group believes that the standard stress scenario represents a reasonable adverse scenario, they can state so in the narrative and no further work is required. However, to further inform the GCC and lead state regulators and to enhance the value of the Trial, participating groups may provide a high-level description of the anticipated market conditions or other reasonably likely group specific drivers that would lead to the group's own specified level of stress results (i.e., the group specific potential adjustments to available capital and calculated capital) with focus on the impact on the debt allowance. These are independent assumptions from those automatically calculated in the Stress inputs tab (as described in the Stress Inputs section and in Appendix 2). The group assumed percentage adjustment may or may not align with the standardized thirty percent in general or any entity specific adjustments calculated in the Stress Summary tab. In addition, provide any comments relating to the potential for procyclical or otherwise unintended GCC ratio results in specific areas of the calculation.

- The tab also includes a listing of all Schedule A and Schedule BA affiliates, along with the following information:

  a. Parent identifier (if available) – This is the same information as is included in Schedule 1 **[Sch 1B Col 3]** as would be entered for non-Schedule A/Schedule BA affiliates.

  b. Parent Name – Enter the Name of the Parent.

  c. Is Parent a Schedule A or Schedule BA Asset? – ~~This column is only required for financial entities that are Directly owned by a Schedule A or Schedule BA Affiliate. No other downstream affiliates owned by Schedule A or Schedule BA entities need to be listed.~~ Entities directly owned by Schedule A / BA affiliates~~These entities~~ are not normally independently reported in Schedule A and Schedule BA. These downstream entities if financial in nature must be listed per previous instructuions herein. However,~~ so are~~ ~~extra~~ entries for downstream non-insurance / non-[FL20]financial entities may be required in order for a full reconciliation with Schedule Y~~.~~

  d. Financial? (Y/N) – If the entity meets the criteria as being a financial entity, indicate with a "Yes" response. A "No" response is not required for other entities listed. "Yes" entries should correspond to "Yes" entries in Schedule 1 **[Sch 1B Col 16]**.

  e. Carrying Value of Immediate Parent – Report the value listed in Schedule A and Schedule BA of the Parent insurer. For those cases where an indirect financial entity is reported use the value used by the direct Parent.

f. Capital Requirement for Immediate Parent – Report the value listed in the RBC report of the Parent insurer (pre-tax where applicable). For those cases where an indirect financial entity is listed, report the value of the capital requirement attributable to the Insurer rather than the direct non-financial Schedule BA Parent. The capital requirement reported in this column for the immediate Schedule BA Parent should be adjusted to deduct the amount moved to Schedule 1 and Inventory C.

Calc 1 – Scaling (Insurance Entities)

~~83.~~84. All entries in this tab are calculation cells populated using data from within the tab or using data from elsewhere in the template. Scaled values for calculated capital will become part of the GCC ratio. The calculated values will be summarized by entity type in the "Summary 1 – Entity Level" tab. The concept of a scalar was first introduced to address the issue of comparability of accounting systems and capital requirements between insurance regulatory jurisdictions. The idea is to scale capital requirements imposed on non-U.S. insurers so as to be comparable to an RBC-based requirement. Two approaches for scaling related to foreign insurers were presented, and others are being explored and will be reviewed. A decision on the scaling methodology to be adopted into the GCC template will be made at the end of the review. In the interim a scalar of 100% of the jurisdictional PCR will be applied to all jurisdictions where a risk-sensitive capital requirement is in place.

~~84.~~85. Information on the Excess Relative Ratio (ERR) scalar methodology will be collected and applied in the "Sensitivity Analysis" tab.

NOTE: See Appendix 1 for more information and examples on how the ERR scalars are calculated.

~~85.~~86. For jurisdictions without risk-sensitive capital requirements a 100% charge will be applied to adjusted carrying value.

Calc 2 – Capital Calculations for Non-insurance Entities

~~86.~~87. All entries in this tab are either calculation cells using data from within the tab or using data populated from elsewhere in the template. Calculated capital for all entities except insurers will be reported in this tab. The calculated values will be summarized by entity type in the "Summary 1 – Entity Level" tab.

~~87.~~88. In addition, one informational option for calculated capital for financial entities without an existing regulatory capital requirement and one informational option for calculated capital for non-financial entities will be reported in this tab. Those calculation will not be carried into the "Summary 1 – Entity Level" tab and will not be part of the GCC ratio.

~~88.~~89. Only amounts for entities that the filer and the Lead State Regulator agree should **not** be excluded **[Sch 1B Col 2]** will be brought into the calculation in this tab and the "Summary 1 – Entity Level" tab. Entities where the Lead State Regulator does not agree with the filer's request to exclude an entity will be part of the GCC ratio.

Summary 1 – Entity Level GCC Summary

~~89.~~90. Summarized results by entity type for the GCC ratio will be reported in this tab. An on top adjustment for debt allowed as additional capital will be added at the bottom of the table. All informational sensitivity analysis will be reported in Summary 2 and will not impact the GCC ratio.

Summary 2 – Informational Sensitivity Tests

~~90.~~91. Summary results for each informational sensitivity analysis described in the "Sensitivity Analysis Inputs" tab will be shown here. Each sensitivity analysis will be shown on a stand-alone basis. It is expected that each informational sensitivity analysis will run automatically in the background and the results for each displayed in this tab. The results for the informational sensitivity analysis will not be included in the "Summary 1 – Entity Level" tab.

Summary 3 – Analytics

~~91.~~92. Summary results for metrics described in the Analytics Guidance **[insert attachment or appendix reference]** and utilizing data collected in the "Input 4 – Analytics" tab or other tabs in the GCC will be calculated and presented here.

Summary 4 – Alternative Grouping Option(s)

~~92.~~93. One sample alternative structure for grouping by entity type or jurisdiction in the GCC is displayed based on a suggested method. It can be modified, or other suggestions can be accommodated based on combining data from **Schedule 1 and the Inventory** in defined ways.

This tab is intended to be an additional analytical tool. The tool summarizes the GCC based on how a reporting entity views its organization, and provides regulators that view, to align it with regulatory information, other than what is reported elsewhere in the GCC template, that the reporting entity has submitted such as current filings, communications, etc. In this summary view, entities are organized into like regimes (e.g., RBC filers, foreign insurers, banks, financial, or non-financial entities) and multiple entities may be grouped together, in order to create a view of capital that is easy to review and analyze within each grouping. The intent of this approach is to provide an additional analytical tool designed to enhance dialogue between the Lead State Regulator and the company contemplated by the GCC filing. This view is transparent (no scalers, no adjustments, no de-stacking) so that financial information may be cross-walked to other financial submissions such as RBC filings. However, it does contain double counting of available and required capital "(i.e., intra-company investments and transactions are not eliminated) and cannot be used to create a GCC ratio.

~~93.~~94. The results are dependent on how the reporting entity populated. Input 1 – Schedule 1, Column 9 Alternative Grouping. For example, if you have a dozen small dental HMO businesses, you may wish to collapse the results to a single line called "Dental HMOs," by populating Input 1 – Schedule 1, Column 9 Alternative Grouping for each dental HMO as "Dental HMOs." Then right-click and select "Refresh" to see the results with the "Dental HMOs" combined.

~~94.~~95. For reference, the data for the Summary 4 – Grouping Alternative is from Calc 1 – Scaling (Ins, Bank), which is fed by the inputs made in Input 1 – Schedule 1, Input 2 – Inventory, etc.

Stress Inputs

~~95.~~96. All entries in this tab (Columns D thru W) are either calculation cells using data from within the tab or using data populated from elsewhere in the template in a standardized approach. Available capital and calculated capital for all entities using the standardized stress level of 30% will be reported in this tab. The calculated values will be summarized in the "Stress Summary" tab.

~~96.~~97. The filer may use the available Company Input section in the tab (Columns Y thru AH) that allows data entry in order to apply the standardized 30% stress level to additional entity categories not adjusted in the standardized approach (e.g., foreign insurers subject to scalars in the sensitivity analysis). If utilized, the additional adjustments are considered the group's view on enhancements to the standardized approach. As with the standardized stress scenario generally, these are independent of the text narrative included in the Input 6 tab. Completion of these columns is not required and would be used for review purposes. The inputted values will be summarized in the "Stress Summary tab.

NOTE: This tab is not required for groups that are not including an allowance for qualifying debt as additional capital. However, automated entries will appear in the tab as currently constructed.

~~97.~~98. Separate from this standardized stress scenario, a text narrative describing the group's own assumptions on potential stress drivers should be included in the Input 6 tab as specified in the instructions for the Input 6 tab.

NOTE: Also **s**ee Appendix 2 for more detail related to the Stress inputs and separate narrative.

Stress Summary

~~98.~~99. Summarized results by entity type will be reported in this tab.

Appendix 1 – Explanation of Scalars

~~99.~~100. The concept of a scalar is to equate the local capital requirement to an adjusted required capital level that is comparable to U.S. levels. The purpose of a scalar is to address the issue of comparability of accounting systems and capital requirements between jurisdictions. The following provides details on how the scalars were calculated by the NAIC, or how they are to be used when the NAIC has not developed a scalar for a country due to lack of public data.

Excess Relative Ratio Approach

~~100.~~101. Included below are various steps to be taken in calculating the excess relative ratio approach to developing jurisdiction-specific scalars. In order to numerically demonstrate how this approach could work, hypothetical capital requirements and financial amounts have been developed for Country A. Based on preliminary research that has been performed by NAIC staff, it appears that the level of conservatism built into accounting and capital requirements within a jurisdiction may differ significantly for life insurers and non-life insurers. Therefore, ideally each jurisdiction would have two different scalars based on the type of business. The example below includes information related to life insurers in the U.S. and Country A.

Step 1: Understand the Jurisdiction's Capital Requirements and Identify the First Intervention Level

a. The first step in the process is to gain an understanding of the jurisdiction's capital requirements. This can be done in a variety of ways including reviewing publicly available information on the regulator's website, reviewing the jurisdiction's Financial Sector Assessment Program (FSAP) reports and discussions with the regulator.

In Country A, assume that the capital requirements for life insurers are based on a capital ratio, which is calculated as follows:

$$\text{Capital ratio} = \frac{\text{Total available capital}}{\text{Base required capital (BRC)}}$$

In the U.S., capital requirements are related to the insurer's RBC ratio. For purposes of the Relative Ratio Approach, an Anchor RBC ratio is used and calculated as follows:

$$\text{Anchor RBC ratio} = \frac{\text{Total adjusted capital}}{\text{100\% Company Action Level RBC*}}$$

* 100% Company Action Level RBC is equal to the Total RBC After Covariance including operational risk, without adjustment or 200% Authorized Control Level RBC.

b. Similar to legal entity RBC requirements in the U.S., Country A utilizes an early intervention approach by establishing target capital levels above the prescribed minimums that provide an early signal so that intervention will be timely and for there to be a reasonable expectation that actions can successfully address difficulties. Presume that this target capital level is similar to the U.S. Company Action Level (CAL) event, both of which can be considered the first intervention level in which some sort of action—either on the part of the insurer or the regulator—is mandated. A separate sensitivity calculation will be applied in the GCC template using trend test level RBC.

c. For Country A, the target capital level is presumed to be a capital ratio of 150%. That is, the insurer's ratio of total available capital to its BRC should be above 150% to avoid the first level of regulatory intervention. Again, this is similar to the U.S. CAL event, which is usually represented as an RBC ratio of 200% of Authorized Control Level (ACL) RBC (ignoring the RBC trend test). In the Relative Ratio approach, the Anchor RBC ratio represents the Company Action Level event (or first level of regulatory intervention) as 100% CAL RBC (instead of 200% ACL RBC), because CAL RBC is the reference point that is used to calibrate against other regimes. The Anchor RBC Ratio (Total Adjusted Capital ÷ 100% CAL RBC) tells us how many "multiples of trigger level capital" that the company holds. Conceptualizing the CAL event as 100% CAL RBC allows the consistent definition of local capital ratios that are calibrated against a "multiples of the trigger level" approach, to ensure an "apples-to-apples" comparison.[3]

Step 2: Obtain Aggregate Industry Financial Data

~~101.~~102. The next step is to obtain aggregate industry financial data, and many jurisdictions include current aggregate industry data on their websites. Included below are the financial amounts for use in this exercise.

U.S. Life Insurers – Aggregate Data
Total Adjusted Capital = $495B
Authorized Control Level RBC = $51B
Company Action Level RBC = $102B
Country A Life Insurers – Aggregate Data
Total Available Capital = $83B
BRC = $36B

Step 3: Calculate a Jurisdiction's Industry Average Capital Ratio

~~102.~~103. To calculate a jurisdiction's average capital ratio, the aggregate total available capital for the industry would be divided by the minimum or base capital requirement for the industry in computing the applicable capital ratio. In Country A, this would be the BRC. In the U.S., this base or minimum capital requirement is usually seen as the ACL RBC, but because the Relative Ratio Approach is using 100% CAL RBC as a reference point to calibrate other regimes to, the Relative Ratio formula uses 100% CAL RBC as the baseline and the first-intervention level to calculate the Average Capital Ratio and Excess Capital Ratio. As a result, the scaled ratio of a non-U.S. company should inform regulators how many multiples of first-intervention level capital the non-U.S. company holds. Included below is the formula to calculate a jurisdiction's industry average capital ratio:

While it is mathematically equivalent to use 200% ACL RBC as the denominator, the Approach is designed to use the representation of first-intervention level capital levels as the conceptual underpinning of the Relative Ratio Approach, where 100% CAL RBC is the reference point to calibrate against other regimes.

Calculation of U.S. Industry Average Capital Ratio – Life Insurers	
$495B (Total Adjusted Capital) / $102B (CAL RBC)	= **485%**

Calculation of Country A Industry Average Capital Ratio – Life Insurers	
$83B (Total Available Capital) / $36B (BRC)	= **231%**

Step 4: Calculate a Jurisdiction's Excess Capital Ratio

~~103.~~104. The next step is to understand the level of capital the industry is holding above the first intervention level. Therefore, to calculate a jurisdiction's excess capital ratio, one would first need to calculate the amount of the capital ratio carried in excess of the capital ratio required at the first intervention level. This amount would then need to be divided by the capital ratio required at the first intervention level.

General Excess Capital Ratio Formula
Average Capital Ratio – Capital Ratio at the First Intervention Level / Capital Ratio at the First Intervention Level

~~104.~~105. Based on the formula above and information provided in Step 2 and Step 3, included below are how to calculate each jurisdiction's excess capital ratio.

NOTE: The first intervention level in the U.S. is defined in the Relative Ratio Approach as 100% CAL RBC, while the first intervention level in Country A is a capital ratio of 150%.[4]

Calculation of U.S. Excess Capital Ratio – Life Insurers	
485% (Average Capital Ratio) – 100% (Capital Ratio at the First Intervention Level) / 100% (Capital Ratio at the First Intervention Level)	= **385%**

Calculation of Country A Excess Capital Ratio – Life Insurers	
231% (Average Capital Ratio) – 150% (Capital Ratio at the First Intervention Level) / 150% (Capital Ratio at the First Intervention Level)	= **54%**

[4] 100% CAL RBC translates to an ACL RBC level of 200%, but for conceptual purposes, the Relative Ratio Approach refers to the U.S. first intervention level as 100% CAL RBC, as 100% CAL RBC is the reference point to which the Relative Ratio Approach calibrates other regimes. In other words, 100% CAL RBC ensures that the scaled ratio of Country A results in a ratio that determines how many multiples of first-intervention level capital that the company in Country A is holding.

Step 5: Compare a Jurisdiction's Excess Capital Ratio to the U.S. Excess Capital Ratio to Develop the Scalar

~~105.~~106. Based on the information above, the U.S. excess capital is 385%. In other words, life insurers in the U.S. carry approximately 385% more capital than what is needed over the first intervention level. Country A's excess capital ratio is 54%. That is, life insurers in Country A carry approximately 54% more capital than what is needed over the first intervention level.

~~106.~~107. To calculate the scalar, one would divide a jurisdiction's excess capital ratio by the U.S. excess capital ratio. Therefore, the calculation of Country A's scalar for life insurers would be 54% ÷ 385% = 14%. Therefore, Country A's scalar for life insurers would be 14%.

Step 6: Apply to the Scalar to the Non-U.S. Insurer's Amounts in the GCC

~~107.~~108. In order to demonstrate how the calculation of the scalar works, it would be best to provide a numerical example. For purposes of this memo, assume that a life insurer in Country A reports required capital of $341,866 and total available capital of $1,367,463. (These are the amounts previously used in a hypothetical calculation example that was discussed by the Working Group during its July 20, 2016, conference call.) As noted previously, the above information and calculation suggests that U.S. life insurers carry capital far above the minimum levels, while life insurers in Country A carry capital far closer to the minimum. Therefore, in order to equate the company's $341,866 of required capital, we must first calibrate the BRC to the first regulatory intervention level by multiplying it by 150%, or Country A's capital ratio at the first intervention level. The resulting amount of $512,799 is then multiplied by the scalar of 14% to get a scaled minimum required capital of $71,792.

~~108.~~109. Further, the above rationale suggests that the available capital might also be overstated (because it does not use the same level of conservatism in the reserves) by the difference between the calibrated required capital of $512,799 and the required capital after scaling of $71,792, or $441,007. Therefore, we should now deduct the $441,007 from the total available capital of $1,367,463 for a new total available capital of $926,456. These two recalculated figures of required capital of $71,792 and total available capital of $926,456 is what would be included in the group's capital calculation for this insurer. These figures are further demonstrated below.

Calculation of Scaled Amounts for GCC
Amounts as Reported by the Insurer in Country A
Total available capital = 1,367,463
Minimum required capital (BRC) = 341,866
Calibration of BRC to 1st Regulatory Intervention Level
341,866 (BRC) * 150% = 512,799
Scaling of Calibrated Minimum Required Capital
512,799 (Calibrated BRC) * 14% (Scalar) = 71,792 (Difference of 441,007)
Scaled Total Available Capital
1,367,463 (Total Available Capital) – 441,007 (Difference in scaled required capital) = 926,456

~~109.~~110. Given these scaled amounts, one can calculate the numerical effect on the company's relative capital ratio by using the unscaled and scaled amounts included below.

	Unscaled Amounts from Table Above	*Scaled Amounts from Table Above*
Total Available Capital (TAC)	1,367,463	926,456
Base Required Capital (BRC)	341,866	71,792
Capital Ratio (= TAC ÷ BRC)	400%	1290%

~~**110.**~~**111.** Considering the fact that life insurers in Country A hold much lower levels of capital over the first intervention level as compared to U.S. life insurers, the change in the capital ratio from 400% (unscaled) to 1290% (scaled) appears reasonable and consistent with the level of conservatism that we understand is built into the U.S. life RBC formula driven primarily from the conservative reserve valuation.

Note: In the above example, the company has an unscaled ratio (400%) that is above the industry average in Country A (231%) and a scaled ratio (1290%) that is higher than the US life industry average (485%). If the company had unscaled ratio that was lower than the industry average in Country A, its scaled ratio would be lower than the US life industry average. company with an unscaled ratio equal to its own country's industry average will have a scaled ratio equal to the anchor RBC ratio."

Data for industrywide U.S RBC ratios is sourced from the aggregate RBC Statistics maintained by the NAIC. Data for industrywide capital ratios for foreign insurance jurisdictions was derived from publicly available aggregate industry data. If this scalar methodology is retained, then the data will require periodic updating.

Appendix 2 – Stress Scenario

~~111.~~112. What follows is a proposal for a 30% standardized stress to be applied to the GCC to test how the limits on recognition of capital instruments as capital behave under stress. In designing this stress, an emphasis was placed on simplicity. The proposed scenario requires no input or calculation on the part of volunteers beyond that already necessary for completing the GCC template. Further scenarios, if any, could follow this same structure:

- (1) A scenario that includes one (or more) stresses to a Group's financial position
- (2) Specification of how each stress impacts the available capital and calculated capital for each type of legal entity
- (3) Input of the adjusted carrying value and adjusted calculated capital after the impact of the stress(es)
- (4) Re-calculation of the same calculations (e.g., application of limits on debt and scaling) and summary tables (including sensitivity tests)

Proposal

~~112.~~113. **Scenario:** A standardized loss event that results in a proportional reduction in available capital across the Group's entire operations. What follows is a description based on a 10% reduction.

~~113.~~114. **Specification:** The scenario should result in 30% reduction in the adjusted available capital for all non-holding company entities. For entities where calculated capital is a fixed percentage of available capital (e.g., non-insurance / nonfinancial entities and foreign insurers in jurisdictions without a risk-based capital requirements) and for entities where capital is a fixed percentage of revenue), 30% reductions in calculated capital are assumed to result as well. As an approximation of the impact of the impact of this scenario on revenue, the calculated capital for financial entities with revenue-based exposure should reduce by 30% as well.

~~114.~~115. **Inputs:** No direct input needed. Instead, the inputs will be automatically calculated in the new Stress Inputs tab and summarized in the new Stress summary tab as follows:

Type of Entity	Impact on Adj Carrying Value	Impact on Adj Calc Capital
US Insurance Entities	30% reduction	No Impact
Fin (Banking and Other W Cap Req)	30% reduction	No Impact
Fin (Asset Mgmt and Other W/O Req)	30% reduction	3~~1~~0% reduction based on corresponding revenue reduction
Non-US (w/ Risk Based CC)	30% reduction	No Impact on unscaled GCC though XS Relative Ratio factors should be adjusted for sensitivity test
Non-US (non-Risk Based))	30% reduction	3~~1~~0% reduction based on corresponding reduction in equity value
HoldCo	No Impact	No Impact
Other	30% reduction	3~~1~~0% Reduction based on corresponding reduction in equity value
Capital Instruments	No Impact	N/A

Other potential user driven adjustments may be added to the template using the optional Inputs section in the Stress Inputs tab in columns Y thru AH. Such adjustments will be at the standardized 30% stress level. Any user inputs will automatically be brought into in the new Stress Summary tab

~~115.~~116. **Outputs:** The GCC template will be configured to automatically calculate outputs and resulting GCC ratios using the inputs above, at the standardized 30% level of stress. Various additional levels of stress can be tested during the review. All will include the impact on the allowance for qualifying debt. This can be presented on an additive basis (e.g. start with reduction in available capital alone and then add the impact on each entity type's calculated capital one at a time building to the full scenario outlined in the chart, above.

Additional Information:

~~116.~~117. Although the impact on adjusted carrying value in this scenario is standardized, such generic assumptions cannot be prescribed. Assumptions vary by industry and product mix as the underlying cause and the effect on the adjusted carrying value varies group to group. Therefore, in addition to completing the Stress Input tab each group submitting data may provide its own independent high- level narrative in the space provided in the "Input 6" tab, describing the unique assumptions and corresponding stress levels (% adjustments) in available capital and calculated capital considered appropriate by the group). The assumptions provided in the narrative are NOT required to align with the standardized adjustments reported in the "Stress Inputs" tab.

~~117.~~118. The narrative should be submitted with the completed template.

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Group Capital (E) Working Group

DATE:________________	**FOR NAIC USE ONLY**
CONTACT PERSON: ________________	Agenda Item #__________
TELEPHONE: ________________	Year __________
EMAIL ADDRESS: ________________	**DISPOSITION**
ON BEHALF OF: ________________	[ ] ADOPTED __________
NAME: ________________	[ ] REJECTED __________
TITLE: ________________	[ ] DEFERRED TO __________
AFFILIATION: ________________	[ ] REFERRED TO OTHER NAIC GROUP
ADDRESS: ________________	[ ] EXPOSED __________
________________	[ ] OTHER (SPECIFY) __________

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

[ ] GCC Template
[ ] GCC Instruction

DESCRIPTION OF CHANGE(S)

REASON OR JUSTIFICATION FOR CHANGE **

Additional Staff Comments:

**** This section must be completed on all forms.** **Revised 7-2021**

Group Capital (E) Working Group

GCC Proposal Form

1. Complete this form for EACH proposal to modify GCC documents.
2. Under "Identification of Sources and Form(s)/Instructions to Change", mark all appropriate boxes for the forms or instructions that apply.
3. Under "Description of Changes", state in specific terms the changes to be made for this proposal. Include the line(s) to be changed, as well as the Page number(s), and the Paragraph or Item number(s), or other identification and specific reference to items to be changed.
4. Under "Reason or Justification for Change", state in specific terms the enhancement to the GCC to be derived from this proposal.
5. All attachments should be presented in Word and/or Excel format wherein new language is underscored and deletions struck through.
6. Original forms, etc., are available from NAIC staff support for the GCC Working Group.
7. All Submission Forms and Attachments must be Typed and Submitted electronically directly to the NAIC staff support.

PROCEDURES OF THE FINANCIAL CONDITION (E) COMMITTEE'S GROUP CAPITAL CALCULATION WORKING GROUP IN CONNECTION WITH PROPOSED AMENDMENTS TO GCC TEMPLATE AND INSTRUCTIONS

The following establishes procedures and rules of the Financial Condition (E) Committee's Group Capital Calculation Working Group with respect to proposed amendments to the NAIC GCC Template and Instructions.

1. The Working Group may consider relevant proposals to change the GCC Template and Instructions at the national meeting or designated interim meeting as scheduled by the Working Group.

2. All proposals for suggested changes and amendments shall use NAIC Proposal Forms and shall be stated in a concise and complete manner and include the appropriate blank and instruction modifications. The Proposal Form and its instructions are available online under related documents and resources at https://content.naic.org/cmte_e_grp_capital_wg.htm and should be emailed to the appropriate NAIC staff support.

   The following guidelines apply:
   - Any proposal that affects the GCC Template must be exposed by the Working Group by January 31 of the effective year of the change and adopted by the Working Group no later than April 30 of the effective year of the change.
   - Any proposal that only affects the instructions or factors must be exposed by the Working Group by April 30 and adopted by the Working Group by June 30 of the current year.
   - The Working Group may extend the June 30th adoption deadline for previously considered proposals regarding instructions or factors upon a super majority (two-thirds) consent of the Working Group members present where such extension can be no later than July 30th of the current year. This would be considered only in rare circumstances where urgency of such adoption is high.

   An illustration of the proposed change to the GCC Template and Instructions should accompany the Proposal Form.

   The Working Group will review the proposal and determine whether to receive the proposal and expose for public comment (initial exposure of at least 30-days) or whether to reject the proposal. The comment period ends at least 10 days prior to the next designated national or interim ~~meeting~~meetings of the Working Group. The Working Group will consider comments received on each proposal at its next meeting. To the extent that the proposal represents a change that is considered a technical correction, a clarification of the original intent, or a routine annual update, the single exposure of 30 days will generally be considered adequate unless the Working Group believes further exposure is necessary based upon discussion. However, for those proposals that fall outside "technical corrections", "clarifications", or "routine annual updates", or may impact a fundamental element of the GCC, the general expectation is that such proposals will be accompanied by a more robust description of the proposed change and may be discussed on more than one occasion before being drafted into a formal proposal where at least a 30-day exposure would be needed. The significance of the impact of the proposal, either from the perspective of the methodology change it suggests, or the extent of work required on behalf of the preparer, or potential dollar impact on the industry as a whole, or any other consideration, will be considered by the Working Group in determining either the number of exposures needed, length of timed needed for the exposure, or number of discussions needed before finalizing into a formal policy. In summary, these types of changes are expected to require more discussion than those which are more clarifying or corrections, and the Working Group will be sensitive to this fact when considering exposure periods and number of discussions needed before final adoption. ~~Proposals under consideration may be deferred by the Working Group if there is general consensus among members that the proposal has merit but warrants additional work or input. However, the Working Group will limit the number of deferrals to two. The proposal must be acted upon by the third meeting, and absent action, the proposal is deemed to have been rejected and will be removed from the agenda.~~ The Working Group may also refer proposals to other NAIC groups due to their technical expertise or for additional review. If a proposal has been referred to another NAIC group, it will be considered again in the form of a modified or new proposal after comments/recommendations are received.

3. Proposals filed with the appropriate NAIC staff support shall be considered at the next regularly scheduled meeting of the Working Group if the proposal is filed at least twenty days prior to the meeting. Items filed less than twenty days prior to a regularly scheduled meeting will be considered at the following regularly scheduled meeting.

4. The NAIC staff support shall prepare an agenda of all suggested proposals. The agenda will be posted one week prior to the scheduled meeting.

5. At each meeting, the Working Group will review comments that were received by the comment exposure due date for suggested proposals.

6. NAIC staff support will present to the Working Group a list of necessary non-substantive changes discovered in the process of implementing proposals, e.g., reference changes due to new SSAPs or required changes discovered in the process of implementing proposals. The Working Group will review these changes and may adopt the appropriate items at any regularly scheduled meeting. Such actions will be documented in the minutes of the Working Group. NAIC staff support may also request that the Working Group reconsider items adopted, if these items contain substantial errors.

7. The Working Group may, when deemed necessary, appoint an Ad Hoc Drafting Group to study proposals and/or certain issues.

8. The NAIC will publish each agenda approximately one week prior to each interim or national meeting (including proposals received for comment and comments received) on the NAIC Web site.

9. The NAIC will retain all current and subsequent adopted proposals on the Working Group website up to the publication date of November 1 for current and subsequent years.

10. The NAIC will publish the GCC Template and Instructions for the next subsequent year on, or about November 1 each year. NAIC staff support will post to the NAIC Web site any subsequent corrections to these publications.

ACLI
Financial Security for Life

September 24, 2021

Mr. John Rehagen, Chair
Missouri Department of Insurance
Division Director – Financial Institutions & Professional Registration
NAIC Group Capital Calculation Working Group
Via e-mail: ddaveline@naic.org

Re: Comments on NAIC Group Capital Calculation (E) Working Group exposed proposed Group Capital Calculation (GCC) Procedures

Dear Mr. Rehagen:

The American Council of Life Insurers appreciates the opportunity to comment on the Proposed Group Capital Calculation ("GCC") Procedures (hereafter the "GCC Process"). We appreciate the significant and thoughtful work that has gone into the GCC framework and the NAIC's ongoing commitment to developing a GCC that is fit-for-purpose.

ACLI is generally supportive of establishing a clear procedure for amending the GCC template and instructions, however, we are concerned that the proposed 30-day exposure period for additions or amendments, may be sufficient for routine maintenance, but may not provide regulators, consumer representatives and the industry enough time to fully evaluate or provide meaningful feedback on GCC amendments that impact fundamental elements of the GCC, are complex or may have a significant impact on a group's GCC results.[1] For example, should the GCC amendment process be identical for both annual scalar maintenance and the adoption of a scalar methodology? We believe that there may be circumstances when the nature of the proposed amendment/addition to the GCC will merit additional vetting prior to adoption, and a longer minimum exposure period, than what is currently provided in the current exposure.

We respectfully recommend that the Working Group consider adopting an approach to GCC amendments that differentiates between additions or changes that are (1) routine annual updates or technical corrections or clarifications; and (2) those that fall outside of the bucket of "routine annual updates or technical corrections" and may impact a fundamental element of the GCC, are particularly complex, or impactful to GCC results. The Working Group could consider developing two parallel tracks for GCC amendments. One track could allow routine annual updates and technical corrections or clarifications to be exposed and adopted after a 30-day exposure, while all other amendments or additions would be subject to greater rigor and opportunity for review.

[1] As we note later in our letter, a GCC amendment may not impact GCC results on the aggregate, across the industry or line of business, but it could significantly impact a particular group's GCC ratio. We would consider both scenarios as "impactful."

We believe that this topic merits further collaboration and conversation among Working Group members and stakeholders to identify and define the type of amendments or additions that would fall into the second bucket (*e.g.*, issues that are connected to a fundamental element of the GCC or especially complex or impactful). Below, we have preliminarily identified several changes to the GCC amendments that we believe may fall into the category requiring a more rigorous process for adoption:

- Scalar methodology. It is likely that the GCC's ultimate scalar methodology will likely be incorporated into the GCC as an amendment to the template and instructions. Scalar methodology – as opposed to routine updates to existing scalars[2] - is an illustrative example of the type of an amendment that should necessitate greater analysis and exposure than what is currently provided in the proposed GCC Process. Scalars are a fundamental feature of an aggregation method, like the GCC and they will be relatively complex.[3] We believe the adoption of a scalar *methodology* should require a longer exposure period than what is contemplated as the acceptable minimum in the exposed GCC Process. Scalars are a foundational element of any aggregation method, and they are highly complex. Any proposed scalar methodology change or addition should require careful vetting, and potentially a charge from the parent committee. We recognize that routine scalar *maintenance* may not require an elevated level of scrutiny and in most cases, could be conducted under the proposed GCC amendment process
- Senior/Hybrid debt limit. The cap on the amount of senior or hybrid debt that counts towards available capital is another complex and meaningful area in the GCC that we believe will necessitate a more robust process than the exposure provides.

- Treatment of non-insurance entities. Because the treatment of non-insurance entities is a fundamental element of a group capital calculation, we believe that non-technical corrections or clarifications to the treatment of non-insurance entities would benefit from additional review and analysis prior to exposure and adoption.

These examples are not exhaustive – indeed, we encourage the Working Group to consider where and how to draw the line between routine updates and technical amendments, and the type of amendments that may warrant a more rigorous exposure period and analysis.

We wish to raise an additional concern that we believe weighs in favor of having a longer minimum exposure period, and that is the fact that the GCC will apply to a large universe of heterogenous groups of varying sizes and business models. It is possible that a change that may appear negligible to one type of group – or even most groups - may have a much greater impact on another type of group. The true impact of proposed amendments may not be immediately apparent unless, and until, the larger universe of affected groups are afforded the opportunity to

[2] We understand that once the scalar methodology has been adopted, the NAIC will need to perform regular scalar maintenance. In general, we would differentiate between scalar methodologies and scalar maintenance. The adoption of scalar methodologies would require robust engagement with stakeholders prior to adoption. However, it is likely that scalar maintenance may, in some cases, be a technical update as data sets are updated. Whether scalar maintenance is a routine technical update may depend on the methodology selected.

[3] The Academy reported that scalars had an inverse relationship between simplicity and validity – the simpler the scalar, the less accurate it is. *See Aggregating Regulatory Capital Requirements Across Jurisdictions: Theoretical and Practical Considerations (Executive Summary)*, American Academy of Actuaries Research Paper 2021, No. 1, *available at* https://www.actuary.org/sites/default/files/2021-04/Scalars.ExecSummary.pdf.

evaluate it and provide feedback on its impact. We encourage the Working Group to keep this in mind as they evaluate the proposed GCC amendment process.

In addition, we encourage the Working Group to consider if the proposed GCC Process would benefit from adding language or steps that would increase the level of review or consensus required before a GCC addition or amendment is formally approved for exposure. One way to do that could be to require some form of collective action or consensus of the Working Group or a charge from the parent committee prior to the exposure of certain amendments or additions to the GCC. This additional step may also enhance the stability of the GCC,

Conclusion

Thank you for the opportunity to provide these comments. As always, we would be happy to discuss them with you or your staff at your convenience.

Regards,

Mariana Gomez-Vock

Mariana Gomez-Vock

Gabrielle Griffith

Gabrielle Griffith

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ACLI
Financial Security for Life

Mariana Gomez-Vock
Vice President & Deputy, Policy Development
marianagomez@acli.com

October 25, 2021

Mr. John Rehagen, Chair
Missouri Department of Insurance
Division Director – Financial Institutions & Professional Registration
NAIC Group Capital Calculation Working Group
Via e-mail: ddaveline@naic.org

Re: Comments on the NAIC Group Capital Calculation Working Group's exposed referral to the Capital Adequacy ("E") Task Force ("CADTF")

Dear Mr. Rehagen:

The American Council of Life Insurers ("ACLI") appreciates the opportunity to comment on the Proposed Group Capital Calculation ("GCC") Procedures. We appreciate the significant and thoughtful work that the Working Group has exercised throughout the development of the GCC.

ACLI agrees that it is desirable to align the GCC, RBC and broader statutory accounting frameworks, where appropriate. In general, the GCC should reflect existing RBC and statutory accounting rules, rather than re-writing them. If the implementation of the GCC causes regulators, the NAIC, or other stakeholders to rethink existing RBC and statutory accounting treatment/rules, then we would expect that regulators would respect and use the existing RBC and accounting governance process to propose potential changes to those regulatory frameworks. Once alignment between the frameworks is achieved, we would expect that the GCC would, where relevant, pull inputs from statutory financial statements and RBC calculations, with CADTF consistency across RBC formulas.

Thank you for the opportunity to comment. We look forward to continuing to support the efforts of the Working Group and staff as work continues on other GCC elements, like scalar methodology. As always, we would be happy to discuss our comments, or any other issue, with you or your staff at your convenience.

Regards,

Mariana Gomez-Vock

Mariana Gomez-Vock

American Property Casualty Insurance Association
INSURING AMERICA apci.org

October 25, 2021

John Rehagen, Chair
Group Capital Calculation (E) Working Group
National Association of Insurance Commissioners

Re: Proposed Referral to the Capital Adequacy (E) Task Force

Dear Mr. Rehagen:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to comment on the Group Capital Calculation (E) Working Group's proposed draft referral to the Capital Adequacy (E) Task Force regarding potential changes to the various risk-based capital (RBC) formulas for the treatment of insurance company subsidiaries and financial entities. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

APCIA broadly agrees with the goal of aligning factors for the GCC with the comparable charges in the RBC formulas, and we agree that the GCC and RBC should treat similar assets similarly. However, we believe it would be premature at this time to consider changing RBC charges to make them consistent with the GCC factors for subsidiary non-U.S. insurance companies and other financial subsidiaries. We are concerned that reconciling differences in the way these subsidiaries are treated in the P/C, life, and health RBC formulas would make this task unpracticable at this time.

Instead, over the first years of the GCC's implementation, APCIA recommends that the Group Capital Calculation (E) Working Group work together with the Capital Adequacy (E) Task Force and its working groups to study how the GCC and RBC can best be aligned. This can involve consideration, for example, of whether to move certain entities out of covariance in RBC formulas to make treatment of those entities more aligned with the GCC's. In addition, the GCC introduced a new high/medium/low-risk concept for the capital charges for some financial affiliates, and further study will allow more time to collect data and refine guidance concerning how these new differentiated charges are applied. Finally, we believe further study is warranted to assess the relevant differences in the P/C, life, and health RBC formulas and the reasoning for those differences, because this analysis will better inform the decision of how the GCC and RBC can best be aligned.

APCIA appreciates the Working Group's efforts to begin consideration of aligning the GCC and RBC, and we look forward to a continuing dialogue as this process continues.

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Please contact us if you have any questions, and we look forward to discussing our comments with you and the Working Group.

Sincerely,

____
Stephen W. Broadie
Vice President, Financial & Counsel
steve.broadie@apci.org

____
Matthew Vece
Manager, Financial & Tax Counsel
matthew.vece@apci.org

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October 29, 2021

Dan Daveline, Director, Financial Regulatory Services, NAIC
By e-mail at: ddaveline@naic.org

Re: Re-exposure of the Financial Analysis Handbook Text Relating to the Group Capital Calculation

Mr. Daveline:

This submission is on behalf of a group of eight interested parties (IP Group) and in response to the September 14, 2021, re-exposure by the Group Capital Calculation (E) Working Group (GCCWG). The re-exposure relates to proposed guidance about the Group Capital Calculation (GCC) that has been drafted for inclusion in the NAIC's Financial Analysis Handbook (FAH) for eventual use by financial analysts of state insurance departments.

As you know, the IP Group provided many comments and marked text suggestions to the initial exposure of revisions to the FAH text through our written submission of July 31, 2021. Those comments and suggestions were intended to help clarify the text, and in some cases to address concerns of the IP group about how analysts might use the GCC or interpret GCC results inappropriately.

The IP Group is very grateful to now see that many of the comments and suggestions it submitted on July 31, 2021, have apparently been accepted by the GCCWG as seen in the text of the re-exposure. Consequently, as a group, we are more comfortable that the re-exposure text fairly portrays the GCC and how it should be appropriately used and interpreted by regulatory analysts.

Moreover, we would like to express our satisfaction with the level of engagement that we have enjoyed with NAIC staff and the GCCWG, the way in which the GCCWG's deliberative and exposure processes were handled, and that we were provided ample time to consider the proposals and to comment in a thoughtful manner.

With that, and as the IP Group, we have no further comments on the re-exposure. We understand that some of the undersigned members of the IP Group may separately provide additional comments intended to clarify certain portions of the FAH text so as to further improve its clarity and readability for the benefit of analysts. We encourage you to consider their comments in the same thoughtful manner as was afforded comments submitted earlier by the IP Group as a whole.

Sincerely, and on behalf of the IP Group:

America's Health Insurance Plans – Bob Ridgeway
American Council of Life Insurers – Mariana Gomez
American International Group, Inc. – Marty Hansen
American Property Casualty Insurance Association – Steve Broadie
Anthem, Inc. – Doug Wright
Blue Cross and Blue Shield Association – Joseph Zolecki
MetLife Inc. – Martin Mair
UnitedHealth Group – Jeff Martin

Liberty Mutual.
INSURANCE

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Via Email

10/29/2021

Dan Daveline
Director – Financial Regulatory Services
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Re: Draft Group Capital Calculation Regulatory Guidance and Analyst Reference Guide

Dear Mr. Daveline:

Liberty Mutual Insurance Company (hereinafter "Liberty Mutual") appreciates the opportunity to comment on the Draft Group Capital Calculation Regulatory Guidance and Analyst Reference Guide. As you are aware, Liberty Mutual has been a strong supporter of the NAIC's Group Capital Calculation ("GCC") and supports the fundamental goal of enhancing group wide supervision, including the GCC provisions that will allow for assessment of capital adequacy of an entire group.

To that end, Liberty Mutual endorses the current version of the proposed guidance to be added to the Financial Analysis Handbook. The draft guidance is fully consistent with the NAIC's overall goal that the GCC be used as an additional analytical tool for regulators to conduct group-wide analysis. Liberty Mutual particularly appreciates the inclusion of language throughout the proposal that makes clear the GCC was not designed to be a trigger for regulatory action.[1]

Liberty Mutual also supports the draft guidance's emphasis that the mitigation of potential issues regarding an insurance group's GCC should be taken largely at the insurance company legal entity level, which is where regulatory capital is primarily located in an insurance group and where state insurance regulators have the most authority. Liberty Mutual also believe that the technical components of the draft guidance are prudent and that the five Procedural Steps,

[1] *See, e.g., Draft Group Capital Calculation Regulatory Guidance at 2* ("Analysts should be mindful that any stated threshold in the following procedures is for analysis purposes only and DOES NOT constitute a trigger for regulatory action").

subparts of those Steps, and the various Benchmarks associated with each step are reasonable and logical. Further, the proposal's provisions that clarify that these technical components should not be used as a checklist, but rather as a guide that properly aligns the GCC with existing insurance supervisory measures, is appropriate and consistent with the underlying rationale of the GCC as analytical tool.

In conclusion, we urge the NAIC to move promptly to adopt this version of the draft guidance so that states may begin implementing the GCC promptly and effectively. Should you have any questions, I'd be happy to discuss them with you.

Sincerely,

Mark J. Sagat

Mark J. Sagat

State Farm™

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October 26, 2021
Via Electronic Delivery

Mr. John F. Rehagen, Division Director
Division of Insurance Company Regulation
Missouri Department of Insurance
301 West High Street
Jefferson City, Missouri 65105

Attention: Mr. Dan Daveline

RE: NAIC Regulatory Guidance for GCC and Analyst Reference Guidance for the GCC exposed the Group Capital Calculation (E) Working Group

Mr. Rehagan:

State Farm Mutual® Automobile Insurance Company and its affiliates ("State Farm"), appreciate the opportunity to submit these comments concerning the exposed draft of the NAIC Regulatory Guidance for GCC and Analyst Reference Guidance for the GCC via the Group Capital Calculation (E) Working Group (the "Working Group"). State Farm has been providing comments throughout the creation of the aggregation-based method of calculating capital for insurance groups under the National Association of Insurance Commissioners ("NAIC") and U.S. Federal Reserve Notice of Proposed Rulemaking under a similar process.

State Farm appreciates the edits to address most of our previous stated concerns with both the Regulatory Guidance for GCC (Regulatory Guidance) and Analyst Reference Guidance for the GCC (Analyst Reference) documents. Additionally, State Farm wants to express the openness and discussion on these topics with Mr. Daveline and all of his efforts on this project. However, there are few more areas of clarification or concerns within the documents that are discussed below and in that attached documents with comments.

The focus of State Farm's comments and concerns are around the documents' expression of group capital, group action and group risk. As expressed previously, the construct of "group" does not have legal entity status and as such does not hold, generate or distribute capital. Furthermore, the risk is faced by the legal entities that make up the group. As a result, the GCC is not calculating the "total available capital" for the group but is calculating the aggregated capital held by the legal entities that make up the group with capital still held by the individual

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Corporate Headquarters
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Bloomington, IL 61710-0001

legal entities. As noted previously the aggregation-based method of calculating capital for insurance groups or the GCC recognizesthat the capital is legally owned by the individual entities that are being aggregated by utilizing the regulatory capital regime when one is available to establish the entity's capital for the purposes of aggregating. The application of the GCC does not change underlying legal process that the entities operate under or change the legal obligations of the individual entity.

Finally, State Farm is still concerned that the Regulatory Guidance and Analyst Reference documents are not recognizing the "walls" in place in insurance regulations as well as the applicable non-insurance laws of the United States or the existing body of insurer regulatory financial surveillance by not fully recognizing the limitations of risk obligation transference among members of a group, particularly those that are insurers and not acknowledging that surplus held by an insurer in a group is not readily available by any other member in the group. In fact, the maintenance of the walls aspect of the current regulatory scheme would be aided by the GCC process by identifying the entities within the group that are identified as holding or generating risk which then the regulators could monitor transactions of the regulated insurance entities with the at risk entity to ensure that the risk is not somehow transferred or transferred in manner that inappropriately places risk on the regulated insurer.

Hopefully this provides the basis for the background of the comments provided in the draft RegulatoryGuidance and Analyst Reference that are enclosed.

Thank you for your time and consideration in this project and to our comments. If there are any questions concerning the comments, please contact me.

Sincerely,

Chuck Feinen
State Farm Mutual Automobile Insurance Company

Enclosures

Review of the Group Capital Calculation

Consideration of the Insurance Holding Company System Structure

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

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

- Gather appropriate background information for your group(s) (e.g., Group Profile Summary, ORSA, RBC Reports, Schedule Y) (Consider adding a review of the most recent financial examination(s) of the insurance entities within the group.)
- Determine that all Schedule Y entities are listed in schedule 1 or in the schedule BA list in the other information tab or that an entity's omission is understood / explained
- Evaluate requests for exclusion of non-insurance/ non- financial entities w/o material risk to determine if you agree with exclusion.
- Confirm that all insurers and financial entities are de-stacked in the inventory tab.
- Determine if grouping has been properly applied.
- Evaluate level of risk assigned by filer to financial entities w/o regulatory capital requirements.
- Test check that the numbers reported in Schedule 1 and Inventory Tab look reasonable, especially for the insurers. A sample check should be sufficient.

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

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

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

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

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

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

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

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

Procedure Step 1-Understand the Adequacy of Group Capital

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

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

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

Procedures Step 2-Understand Decreases in Total Available Capital

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

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

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

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

Commented [CF1]: With the understanding that RBC is not definitive and there is more information to review and consider, the RBC is part of the "windows and walls" approach to the solvency regulation information concerning the regulated insurance entity should be included in GPS.

Procedure Step 3-Understand Increases in Operating Leverage

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

Like step 2, the intent of step 3 is to determine the actual source of the negative issues. The difference between step 3 and step 2 is simply the types of issues. Step 2 is focused on issues that have resulted in negative capital trends. Step 3; however, is focused on the issues that impact the risk being evaluated ~~measured~~ in the GCC. In most cases that risk is from the insurers and either from the asset side or from the liability side where in both cases there has been an increase in such risk that has not been offset by a corresponding or equal increase in capital. In general, this is referred to as operating leverage, where this risk can manifest itself either through increased insurance writings (e.g., the ratio of premiums to capital or liabilities to capital), or through increased assets that also carry risk. The expectation is that other regulated entities also have capital requirements that increase as these different types of risks increase, similar to how the NAIC RBC considers different types of products and assets that carry more risk. However, it is possible to have increased leverage outside of the insurance companies through for example increased exposure, which can manifest itself through increased liabilities or through increased assets. However, similar to other items noted in this document, such increases do not necessary represent negative trends, rather simply things the analyst may need to further understand the drivers of such. In most cases, this equates to pinpointing the legal entity(ies) driving any negative trends. Similar to step 2, using an understanding of items in Procedure Step 4, to understand more fully the actions the group, or the legal entity(ies) driving the negative trends already being taken or planned to be taken by the group to address the issues identified in step 2 that the group believes is needed.

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

decrease in riskier assets to mitigate the otherwise likely increase in market and credit risk.		
g. If due to a decrease connected to a regulated insurance entity the analyst should review the Risk-based Capital (RBC) to determine if the decrease triggers regulatory action and if not, the analyst should note this information in the GPS.		

Commented [CF2]: Same reasoning as above, if not included in the above Step.

Unless obvious from the information obtained in step 3, the analyst should proceed to step 5, using understanding of items in Procedure 4, to understand more fully the actions being taken by the group, or the legal entity(ies) or planned to be taken ~~by the~~ or planned to be taken by the group to address the issues that the group believes is needed, if any. However, in some cases, it is possible that no further follow up with the group will be necessary, and that the lead state should simply update the GPS to be certain issues are known to all of the regulators utilizing the GPS.

Procedure Step 4-Understand the Capital Allocation Patterns

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

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

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

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

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

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

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

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

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

Background Information

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

Benefits of the GCC & Methods to Achieve Them

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

The manner in which the GCC achieves some of these benefits or points varies. For example, with regard to understanding how capital is distributed across an entire group, this can be seen in two ways. One, is by viewing the Tab titled "Input 4-Analytics" in the display of the "Ratio of Actual to Required Capital". Two is by viewing the same Tab and in the display of "Required Capital" in a separate column. The degree of subsidization can also be seen in the "Input 4-Analytics" tab, with the display of the columns as follows: 1) Capital Contributions Received/(Paid); 2) Net Income. While one year of information can show this exists, most will not be seen until after further years of the GCC are reported within the template. Once at least five years of data are displayed in this "Input 4-Analytics" tab, it will allow the analyst to better understand the financial condition of the group as a whole as well as the risks posed by non-insurance entities in the group. Of course, such conclusions can only be made once the analyst sees the data and understands from the group what is occurring that is leading to such figures.

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

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

Commented [CF1]: Regulatory action should be on the legal entity level.

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

Other Considerations When Considering Such Benefits

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

Commented [CF2]: How are these terms defined? Is "available capital" the same as total available calculated capital done under the GCC process? If so, what is "calculated capital"?

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

Commented [CF3]: ORSA does not necessarily provide capital needed to run a company and there is concern that this misunderstanding may raise issues elsewhere. ORSA may only represent the amount of capital needed to meet the established risk appetite. Capital needed to meet risk appetite is not the same as capital needed to run a company.

Overall Theme of Remaining Guidance

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

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

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

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

GCC Construction That Also Impact its Utilization and Review

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

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

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

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

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

Group Capital Calculation (GCC) Summary

Summarize your assessment of the GCC both quantitatively and qualitatively, including any such items as may not be applicable to a branded risk category. For example, it may be appropriate to indicate "*The review of the group's GCC indicated the scope of the application is consistent with the lead state's determination*" and if possible, to summarize succinctly, the general scope of the GCC. For example, "*the GCC includes all U.S. and Bermuda operations, but excludes ABC non-insurance operations in South American countries"*. It may also be appropriate to identify key drivers of risks for the group within the GCC that are discussed later in the branded risk categories, as those risks may be related to, and supplement existing risk assessments derived from holding company analysis or they may be new risks that warrant further review. "*The group's GCC of 201% in the current year was impacted by a decline in Total Calculated Available Capital of $X which is related to group's non-insurance operations in Bermuda and as well as the negative impact of market risks in the U.S. insurance legal entity ratio components, which based on further analysis has resulted from the recent financial market volatility*".

Branded Risk Assessment

Strategic: *The group's Group Capital Calculation is assessed as low and stable and is a positive consideration in the overall assessment of strategic risk. The GCC has generally been reasonable and consistent over the past five years as illustrated in the following table. Additionally, refer to the GCC Summary for further details.*

	CY	*PY*	*PY1*	*PY2*	*PY3*
GCC Ratio	*201%*	*207%*	*163%*	*202%*	*197%*

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

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

particular trends that are noteworthy on specific risks , further documentation into that (applicable) branded risk may be appropriate.

A determination for when documentation of risks from the GCC into other branded risk categories may be appropriate is driven by both the question of whether any of the thresholds in Procedures 1 were met, and the rest of the GCC information as described in Procedures 2-4. The GCC Summary is intended to be high-level, therefore other more detailed observations from reviewing the GCC should generally not be documented into the GPS unless they are specifically insightful, add to a high-level understanding of the group's financial condition, or are specific to a branded risk category as stated.

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

- If the group has a significant amount of business in legal entities that are domiciled in jurisdictions whose capital regime is based on market-based valuations, the GCC will inherently be more volatile (as compared to a pure U.S.-based group for which RBC and statutory valuations are the norm).
- Similarly, a group may have legal entities that are solely based in jurisdictions that utilize a standard model for capital requirements or have entities in jurisdictions where the use of internal models has been approved. All else being equal, the manner in which capital measures quantify requirements and behave over time will differ to some extent between the two. Also, a change from a standard method to one based on internal models for a key subsidiary will likely produce a noticeable change in the GCC that is not reflective of changes in the entity's underlying business.
- The GCC provides a means for analysts to identify non-insurance operations outside of the insurance group and to determine the extent of risk they may pose to the insures within the group. However, in doing so, analysts should understand that findings from review of Forms B, D and F might be equally valuable in these situations.
- When understanding capital requirements for non-insurer financial entities that are not subject to regulatory capital requirements, consideration should be given to the appropriateness of the GCC's capital charge for a specific entity's financial operations (e.g., an entity conducting large volume or size of complex transactions but with little net revenue or equity).
- When understanding capital requirements for non-insurer / non-financial entities, consideration should be given to the appropriateness of the level of risk assigned to specific entities.

Detailed Observation Documentation:
More detailed observations shall be documented separately from the GPS and in a form not dictated by this handbook. As in all holding company analysis, the level of documentation is determined by the lead state insurance department and is dependent on the characteristics and complexity of the group and its risks. These detailed observations generally need to only note those that are indicative of drivers of trends and/or actions being taken by the group to mitigate risks. In some cases, these points can be easily summarized into the GPS. In other cases they are too detailed and should be documented instead within a separate document not dictated in form by this handbook. The analysts are not expected, nor should they spend time documenting subtle changes within either the GCC or individual company movements that either do not create a trend at the group

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

Specific Procedures for Completing Review and Understanding of the GCC

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

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

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

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

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

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

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

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

Commented [CF4]: How is profitability measured in this context?

Income & Leverage Table Template Groupings		Net Income ($)					Return on Capital				
		2025 [1]	2024 [2]	2023 [3]	2022 [4]	2021 [5]	2025 [1]	2024 [2]	2023 [3]	2022 [4]	2021 [5]
US Ins	[1]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Non-US Ins	[2]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

Non-Financial Entities	[3]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bank	[4]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Asset Manager	[5]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Other Financial w/Capital Requirement	[6]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Financial Entities w/o Capital Requirements	[7]										
Total	[8]	XXXX	XXXX	XXXX	0	0	XXXX	XXXX	XXXX		

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

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

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

Procedures Step 3a-3f

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

Insurance Leverage Table		Net Premium Written ($)					Liabilities ($)/Capital & Surplus				
Template Groupings		2025	2024	2023	2022	2021	2025	2024	2023	2022	2021
		[1]	[2]	[3]	[4]	[5]	[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Hong Kong - Life	[18]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Hong Kong - Non-Life	[19]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Singapore - All	[20]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Chinese Taipei - All	[21]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

South Africa - Life	[22]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Africa - Composite	[23]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Africa - Non-Life	[24]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Mexico	[25]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
China	[26]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Korea	[27]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Malaysia	[28]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Chile	[29]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Brazil	[30]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
India	[31]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Other Regime	[32]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
TOTAL	[33]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

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

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

Commented [CF5]: There are several capital transactions among affiliates that require prior notice filings with the regulators that do not require to be considered extraordinary before regulatory review. Suggest ending after "approval

Insurance Capital Table		**Capital Contributions $ Received/(Paid)**				
Template Groupings		**20254**	**2024**	**2023**	**2022**	**2021**
		[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX		

Canadian - P&C	[7]	XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX		

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

Procedures Step 5a-5h. Procedures 5a-5h are designed for those uncommon situations where the group believes they need to reduce risk because raising capital may be unlikely (see appendix for further discussion on that topic). In performing this procedure, the analyst should understand that Procedure S~~s~~tep 2 (Evaluating Decreases in Total Capital) and Procedure S~~s~~tep 3 (Evaluating Increases in Operating Leverage) have already been considered, and therefore concluded that either capital is decreasing, or operating leverage is increasing. As such, after considering information that may already be available to the regulator on the business plan, Procedure 5b is largely focused on better understanding directly from the group the drivers of the apparent negative trends. The analyst should understand that some of these trends may have already been known, through for example the ORSA review and discussions by the lead state of the ORSA. In fact, the key takeaways may already be documented in the GPS and therefore the remaining procedures in this section may be irrelevant and could be skipped if recently considered and understood. In addition, such trends from Procedure Steps 2 and 3 may suggest no additional understanding is necessary. It is for this reason the first procedure is focused on the group's existing business plan as it is possible these trends may have been expected. Further, Procedure

5a is based on the belief that reducing risk by the group may have been previously incorporated into the group's latest business plan, which may have been obtained from the Annual Form F Filing.

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

Commented [CF6]: Should this reference Procedures 1&2 or 3 identifying the cause of the negative trend?

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

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

Additional Procedures – Business Plans

While there is a multitude of possibilities which are beyond the scope of ~~-~~this guidance to address, the following provides some~~-~~ of the related issues that may be helpful to the analyst to consider (See also section 6 regarding the analyst's consideration of the structure of the group and capital infusion issues).

~~Group's~~ Business Plan:

Planning Process:

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

Commented [CF7]: A lot of this material is covered by the financial examiners and it may be worthwhile for the analyst to review the most recent examination report to understand the legal entity better.

Variances to Projections:

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

Evaluating a Business Plan:

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

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

Consultation with Other Regulators

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

Commented [CF8]: Shouldn't the "negative event" or trend be material to the group?

Considerations of Group's Capacity to Raise Capital

Commented [CF9]: A group does not raise capital. The individual entities raise and hold capital.

Consider changing to:

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

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

New Equity Considerations

Public Holding Company

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

Private Holding Company

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

Mutual Insurance Company

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

Mutual Holding Company

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

Non-profit Health Company

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

Fraternal Associations

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

Reciprocal Exchanges

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

New Debt Considerations

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

- Total debt service requirements.
- Revenue streams expected to be utilized to service the debt.
- Any new guarantees for the benefit of affiliates.

- Any new pledge assets for the benefit of affiliates.
- Any new contingent liabilities on behalf of its affiliates.

International Holding Company Considerations

International Holding Company Structure

This section is applicable only to those international groups that are required to complete the GCC, which may be relatively few considering many international holding companies have a non-US groupwide supervisor and are exempt from the GCC. Those foreign groups that are required to complete the GCC will generally file a “subgroup” GCC that included entities that are part of the group’s U.S. operations. In those situations, the analysts should understand the structure to determine if it has any impact on this analysis. 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 appropriate organization contact to ensure a prompt reply or resolution if the insurance regulator is not responding.

Capital / Operational Commitment to U.S. Operations

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.

Primer on the Group Capital Calculation Formula

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

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

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

The GCC includes the following types of entities and sets forth the general approach of calculated capital toward each.

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

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

DRAFTING NOTE: While the GCC utilizes the available capital and home jurisdictions' capital requirement, for jurisdictions where data is available, the use of appropriate scalars is currently being explored to produce more comparable measures for risk which can be aggregated into the group-wide measure. One such scaling methodology is included as part of sensitivity Analysis in the GCC template. That scalar methodology uses aggregated data from the U.S. and other jurisdictions at first intervention level to recognize that (for example), state regulators often have much higher reserve requirements that are required to be carried as required capital in other jurisdictions. For jurisdictions where the data is not available, the full jurisdictional requirement at first intervention level ~~us~~ is used.

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

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

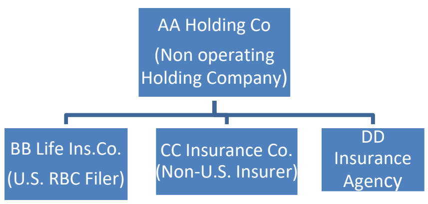
Financial and non-financial operations not subject to regulatory capital requirements – In general, financial entities (as defined in the GCC Instructions) are subject to a higher capital charge in the GCC than the non-financial entities. However, the GCC does require available capital/financial resources and calculated capital to be gathered for all such entities that pose a material risk to insurers. In both cases the GCC will utilize the valuation used by such legal entities (typically U.S. GAAP) and a calculated capital based upon a risk factor. There are two important exceptions:

- All entities within the defined insurance group (definition included in GCC Instructions) must be included
- All financial entities (definition included in GCC Instructions) must be included
- The level of risk (low / medium / high) and associated capital calculation assigned to a financial entity will be selected by the group and evaluated by the lead State reviewer
- Non-financial entities that are subsidiaries of U.S. insurers, foreign insurers, or banks where a capital charge for the non-financial entity is included in the regulated Parent's capital formula will remain with the Parent and will not be inventoried. Regulators already have access to the financials of these entities if needed (if causing unrealized losses within the insurer).

Eliminations

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

EE Insurance Group (EEIG)



EEIG Financial Information

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

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

Calculation of ARC

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

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

Calculation of MRC

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

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

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

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

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

Other Information Included in the GCC

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

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

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

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

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

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

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

Considerations When Exempting Insurers

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

To these points, the NAICs Model Holding Company Act and corresponding regulation contain possible exemptions for groups that have less than $1 billion in premium and that do not possess these types of situations. The possible exemptions exist after the GCC has been filed once. The general consideration in developing the requirement in the model that the GCC must first be filed once for all groups, was that without seeing the completed GCC, it may be difficult for the lead-state to determine if the GCC has no value or is at least cost beneficial to require filing. However, it should also be understood that these three criteria of non-U.S. insurer, bank, or non-material non-insurers are not the only situations where the GCC would be valuable to the lead-state. As a reminder, all states are required to assess the sufficiency of capital within the holding company structure and that prior to the GCC, this was done by states using various methods (e.g., debt to equity ratios, interest coverage ratios, existing RBC ratios and relative size of insurance). The GCC is expected to enhance a state's ability to make this assessment more easily, even if it is only used as a general gauge as its intended. Therefore, in deciding if a group should be exempted, the lead-state will need to consider a number of factors, including how easily it can make this assessment without the GCC, again, only as a general gauge. For small groups where the U.S. RBC operations and assets are much larger than the non-insurance operations, it is likely the GCC would provide a smaller degree of value and exempting from the GCC may be appropriate. However, the analyst should also consider the fact that the simpler the holding company structure, the more easily the GCC can be completed. Specifically, given all of the data included in the GCC is existing data and therefore readily available to the company, a smaller and simple structured group should be able to accumulate into the GCC template in a short period of time. Also worth considering is that if such operations are contained within a number of different U.S. insurers where it is difficult to determine the degree of double counting of capital, the GCC may provide more value. To be clear, these are not the only situations where the GCC might be helpful even with a relatively small group. This is because the value may come from figures the GCC requires that the state may have otherwise not been aware of. Specifically, the GCC may identify non-RBC filers who may be experiencing some level of financial difficulties. This possible identification of information the lead-state was not otherwise aware of is the primary reason the Working Group suggested the GCC be filed once before deciding on whether a group should be exempted. While the NAIC Accreditation program may not require a state to have such authority to have the GCC filed once before exempting, this background information provided herein is intended to encourage the state to consider such possibilities before deciding on exempting a group, particularly since it may be difficult to stop an exemption in a given year once it's provided. In summary, as with everything else described in this documentation, the GCC requires judgement on behalf of the analyst and the lead-state which is based upon multiple factors including the existing knowledge of the group. This fact is no different when considering whether a group should be exempt.

Review of the Group Capital Calculation

Consideration of the Insurance Holding Company System Structure

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

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

- Gather appropriate background information for your group(s) (e.g., Group Profile Summary, ORSA, RBC Reports, Schedule Y)
- Determine that all Schedule Y entities are listed in schedule 1 or in the schedule BA list in the other information tab or that an entity's omission is understood / explained
- Evaluate requests for exclusion of non-insurance/~~-~~non-~~-~~financial entities with~~/~~out material risk to determine if you agree with exclusion.
- Confirm that all insurers and financial entities are de-stacked in the inventory tab.
- Determine if grouping has been properly applied.
- Evaluate the level of risk assigned by the filer to financial entities with~~/~~out regulatory capital requirements.
- ~~Test c~~Check that the numbers reported in Schedule 1 and Inventory Tab look reasonable, especially for the insurers. A sample check should be sufficient.

The holding company structure and activities should also be utilized by the lead state in determining how to understand the GCC ratio. More specifically, information on structure can help in understanding~~impact~~ the flow of capital ~~used by the group to make decisions on how to utilize resources~~ [BJR1][JKM2]among entities within the holding company structure. ~~Therefore~~Also, understanding the following can assist in evaluating the flow of capital resources:

- Domestic insurance operations
- International insurance operations

- Banking or other financial services operations subject to regulatory capital requirements
- Financial and non-financial operations not subject to regulatory capital requirements*

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

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

In-as-much[BJR3] as the GCC is a new analytical tool for use by regulators, ~~and that~~ it will take a number of years before there is both (1) sufficient data for any given group to provide the trend identification ultimately anticipated for the GCC; and (2) experience by regulators with its use. Analysts should be mindful that any stated threshold in the following procedures is for analysis purposes only and DOES NOT constitute a trigger for regulatory action. Rather, the stated threshold should be used as an opportunity for an analyst to understand issues and concerns that may be emerging and address them with the group, if needed. Nonetheless, the following procedure steps provide analysts with a framework to consider the GCC results in conjunction with other data and tools at their disposal, and to begin to gain and benefit from experience in utilizing the GCC as a new analytical tool.

- Procedure Step 1 suggests that a review of the components of the GCC is appropriate when the GCC ratio is trending downward.
- When Procedure Step 1 identifies the need to look further, Procedure Step 2 suggests ~~from a high level~~ determining, at a high level, the drivers of any decreases in the total available capital in the GCC. While there are numerous benefits of the GCC over consolidated approaches, the ability to drill down on the drivers is one of the more significant and is consistent with the states' approach to not just looking at capital, but to the drivers of capital issues.
- When Procedure Step 1 identifies the need to look further, Procedure Step 3 suggests ~~from a high level~~ determining, at a high level, the drivers of any increases in operating leverage, which is typically what drives insurance capital requirements up, be it asset risk/leverage or writings leverage. Similar to drivers of capital decreases, the GCC has detailed information on financial figures and ratios that can be used to isolate the issues.
- When either Procedure Step 2 or Step 3 identify the need to understand the situation better, Procedure Step 4 is similar in that it ~~too~~ utilizes detailed information on capital allocation patterns used by the group over time that are necessary for the analyst to understand if there are any future negative trends in the GCC.
- When Procedure Steps 2, 3 and 4 together identify the need to understand the situation better, Procedure Steps 5~~, depending upon the analysis performed in previous Steps, is similar to legal entity analysis, where there is likely a need to~~ determines what steps the group/company is already taking or plans to take in order to address any~~the~~ issues that they perceive~~feel are appropriate~~.
- The guidance provided in these procedures is not intended to be exhaustive, but rather should give the analyst a starting point in better understanding the various issues.[BJR4]

- If the analyst determines after completing any of the above procedures (steps)~~,~~ that no further work is deemed necessary to fully document their understanding of the material risks of the group observable from the GCC (as well as the required information to be included in all GPS from the GCC), the rationale for this determination should be documented by the analyst in any workpapers deemed appropriate by the state~~ and include the general reason, therefore~~. In making this determination, it should be reiterated these procedures are not intended to be used in a checklist manner and judgement based upon an~~d~~ existing understanding of the group and existing information on the group obtained from the Form F, ORSA, or any other source is certainly part of that decision.

Procedure Step 1-Understand the Adequacy of Group Capital

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

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

If the answer to any of the above questions is "yes", but it is obvious that ~~either~~ the negative trend is caused by something such as a restriction on the allowable debt, or a change in a corporate tax rate, or some other factor external to the group's operations~~non-indicator of negative trends~~[BJR5][JKM6], note as such but do not proceed to step 2. In addition, if it is obvious that the negative trend is clearly driven from one entity in the group, understand the cause and document as such but do not proceed to step 2. However, in all other cases if the answer to any of the above questions is "yes", the analyst should proceed with procedure step 2, understanding decreases in total available capital and/or procedure step 3, understanding increases in leverage to determine the cause(s) of the negative trends.

Procedures Step 2-Understand Decreases in Total Available Capital

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

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

	Branded Risk	*Benchmark*
a. Review the ratio of available capital to calculated capital from each of the reported entities and compare to the same ratio from the prior year. Determine which entities may have led to the negative trends.		<-10%
b. If the change in the GCC is not driven from a legal entity, and instead the change in allowable debt, note as such.	ST	N/A
c. Review the levels of profitability for each of the reported entities in the GCC in the current and prior years (as reported in the GCC) to determine if there are particular entities showing losses~~signs of decreasing profitability which may eventually lead to losses and future decreases in the GCC ratio or total available capital~~.[BJR7][JKM8]	OP, PR/UW	<-10%
d. For each of the reported entities showing either 1) a meaningful decrease in the GCC due to a decrease in the total available capital, or 2) losses~~negative profitability trends~~, request information that identifies the issues by inquiring of the legal entity regulator first or the group itself (e.g., non-insurance company), if applicable.	OP, PR/UW, ST	N/A
e. If due to pricing or underwriting issues, understand if the issues are the result of known pricing policies that are currently being modified, ~~or if the~~ business ~~is~~ in runoff, ~~recently identified products where metrics can quantify the issues~~[BJR9][JKM10] whether new product lines, ~~or~~ geographic or other concentrations, volume/growth business strain, or other issues. When considering pricing that is being modified, include those products for which the price is adjusted through crediting rates.	PR/UW	N/A

f. If due to reserve issues, understand the reserve development trends, whether reserve and pricing adjustments have been made as well as changes in business strategy apart from those products.	RV, ST	N/A
g. If due to market risk issues—i.e., capital losses—understand not only why the losses occurred, but the likely near-term impact given current and likely prospective economic conditions. Market issues include not only changes in equity prices, but also impact/exposure to interest rates and other rates such as foreign currency exchange rates or rates on various hedging products used by the group.	MK, CR	N/A
h. If due to strategic issues such as planned growth, planned decline in writings or changes in the investment strategy, utilize the business plan from the Form F to better understand the anticipated changes and how the actual changes compare. Understanding the variance from the business plan is important in assessing the ongoing risk either in projected future profitability or in some cases the investments.[BJR11]	ST, PR/UW, OP	N/A
i. If due to negative reputational issues, for example, have adversely impacted new business or retention of existing business, understand the issues more closely, whether potential ongoing changes in stock prices or financial strength ratings that may further impact market perception, or what the group is doing to address the potential future impact be it sales projections or access to the capital markets.	RP	N/A
j. If due to credit losses, understand the current and future concentration in credit risks, be it investments, reinsurance, or other source of credit losses.	CR, MK	N/A
k. If due to operational issues, such as extremely large catastrophe events, IT or cybersecurity events or relationships, understand the current and prospective impact.	OP, ST	N/A
l. If due to legal losses, understand the underlying issues and degree of potential future legal losses.	LG	N/A
m. If due to non-insurance reported entities in the group, understand the relationship of the non-insurance operations to the insurance entities and the potential impact to the insurance operations (i.e., intercompany agreements, services, capital needs, etc.).	ST, OP	N/A

Procedure Step 3-Understand Increases in Operating Leverage

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

Like step 2, the intent of step 3 is to determine the actual source of the negative issues. The difference between step 3 and step 2 is simply the types of issues. Step 2 is focused on issues that have resulted in negative capital trends. Step 3,~~;~~ however, is focused on the issues that impact the risk being measured in the GCC. In most cases that risk is from ~~the insurers and~~ either from the asset side or from the liability side where in both cases there has been an increase in such risk that has not been offset by a corresponding or equal increase in capital. In general, this is referred to as operating leverage, where this risk can manifest itself either through increased insurance writings (e.g., the ratio of premiums to capital or liabilities to capital), or through increased assets that also carry risk. The expectation is that other regulated entities also have capital requirements that increase as these different types of risks increase, similar to how the NAIC RBC considers different types of products and assets that carry more risk. ~~However, i~~It is also possible to have increased leverage outside of the insurance companies and other regulated entities.~~through for example increased exposure, which can manifest itself through increased liabilities or through increased assets.~~ However, similar to other items noted in this document, such increases do not necessarily represent negative trends~~; rather simply things~~ the analyst should~~may need to~~ further understand the drivers of such changes. In most cases, this equates to pinpointing the legal entity(ies) driving any negative trends. ~~Similar to step 2, using an understanding of items in Procedure Step 4, to understand more fully the actions the group, or the legal entity(ies) driving the negative trends already being taken or planned to be taken by the group to address the issues identified in step 2 that the group believes is needed.~~[BJR12]

	Branded Risk	*Benchmark*
a. Review the ratio of available capital to calculated capital from each of the reported entities and compare to the same ratio from the prior year. Determine which entities may have led to the negative trends based upon corresponding increases in leverage (e.g., writings/capital ratios or liability to capital ratios).	MK, CR, RV, ST, OP, RP	<-10%
b. Review the levels of operating leverage for each of the reported entities in the GCC as well as the same for the prior years as reported in the GCC to determine if there are particular entities showing signs of increasing operating leverage which may lead to future decreases in the GCC ratio or total available capital.	MK, CR, RV, ST, OP, RP	<-10%
c. For each of the reported entities contributing to~~showing~~[BJR13] a meaningful decrease in the GCC due to an increase in operating leverage, request information that identifies the issues by inquiring first from the legal entity regulator or the group itself (e.g., non-insurance company), if applicable.	MK, CR, RV, ST, OP, RP	N/A
d. If operating leverage has increased, consider if growth may have resulted from underpriced products or a change in underwriting. Specifically inquire to determine if pricing was reduced to increase sales, or whether the growth is in new product lines or new geographic focus where the group may not have expertise. When considering pricing being modified, include those products that the price is adjusted through crediting rates.	PR/UW, OP, ST	N/A
e. If operating leverage has increased, consider if reserving risk has also increased, through potential underpricing that ultimately manifests itself into reserve adjustments. To do so, obtain current profitability information on the products leading to the increased leverage.	RV	N/A
f. If operating leverage has increased, obtain current information on the asset mix to be certain that there is a corresponding	CR, MK	N/A

decrease in riskier assets to mitigate the otherwise likely increase in market and credit risk.		

~~Unless obvious from the information obtained in step 3, t~~The analyst should proceed to steps 4 and 5~~, using understanding of items in Procedure 4,~~ to understand more fully the actions ~~being taken by~~ the group, or the legal entity(ies) driving the negative trend, are already taking or plann~~ed~~ to ~~be~~ take~~n~~ ~~by the or planned to be taken by the group~~ to address the issues identified in step 3, if that is not already clear from the information obtained in step 3~~that the group believes is needed. However, in some cases, it is possible that no further follow up with the group will be necessary, and that the lead state should simply update the GPS to be certain issues are known to all of the regulators utilizing the GPS~~.[BJR14]

Procedure Step 4-Understand the Capital Allocation Patterns

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

Steps 2 and 3 are critical in understanding the issues faced by the group and in identifying the source of negative trends; and while additional follow up with the group is expected, before proceeding to Step 5, the lead state should understand the historical capital allocation patterns within~~taken by~~ the group and~~or~~ the ~~likely~~ future ~~needed~~ capital allocation actions~~patterns~~ that may be needed by the group if negative trends continue. The GCC includes data on historical capital allocation patterns (e.g., contributed capital received/paid or dividends received/paid), which help to illustrate which entities have historically needed more capital and which entities have capital that they have provided other entities in the group~~ in the past~~[JKM15]. While these patterns do not necessarily repeat themselves from one period to the next, there is often consistency in terms of entities that need capital or have excess capital, which may or may not be driven by losses, or by a change in strategy (e.g., increased writings at one company over another) by the group. These trends can also assist in discussions with the group about where capital may come from as a result of a future unexpected material event. Where similar information is also disclosed in Form F, the detail in the GCC may confirm what is already known by the analyst in this area and in some cases may provide greater detail.

	Branded Risk	*Benchmark*
a. Review the underlying data from the GCC Analytics tab to determine the historical capital allocation patterns within the group and summarize the result of this analysis.	ST	N/A
b. Using this data, as well as any recent information on net losses, or likely expected funding, determine if there may be an impact on the capital available to the insurance entities (either through the likelihood of higher dividends or through less capital being available for infusions). ~~and to fund future possible losses from other entities in the group and potentially become troubled themselves, regardless of the current capital in excess of RBC requirements.~~[BJR16]	OP, ST	N/A

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

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

Steps 5 is designed to assist in understanding the group's plans for addressing any meaningful decreases in the GCC ratio or total available capital that were~~are~~ not intended~~otherwise already planned~~ by the group (i.e., that are not the results of capital management so as to efficiently utilize capital while still maintaining sufficient levels for Enterprise Risk Management needs). The specific plans of the group may or may not fully address all the issues but to the extent the group believes they have addressed what is needed, ultimately what is most important is that such information and the regulators plan for evaluating and monitoring the situation is known to the other regulators. There is a multitude of possibilities, and this guidance is not intended to address all of those. This includes the ~~multitude of~~ possib~~i~~l~~iti~~e~~s~~ actions by the group and its legal entities~~ and the ultimate results~~. This also includes the ~~multitude of~~ possib~~i~~l~~iti~~e~~s~~ actions to be taken by the ~~legal entity~~ regulators of the individual legal entities, which may includ e~~ing the fact that in some cases some~~ regulators ~~may~~ choosinge to put their legal entity into ~~some type of~~ supervision, conservation, or some other form of receivership (which , by necessity and intent, would presumably be done based upon existing legal entity authority and not the group's GCC). Similar to other areas, where similar information is also disclosed in Form F, further information may already be known in this area.

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

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

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

Background Information

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

Benefits of the GCC & Methods to Achieve Them

The Group Capital Calculation Instructions describes the background, intent, and calculation for the GCC in detail. As stated in the Group Capital Calculation Instructions, the GCC and related reporting provides more transparency about a group’s structure and related risks to insurance regulators and makes those risks more identifiable and more easily quantified. In this regard, this tool is intended to assist regulators in better understanding the risks that the non-insurance entities may pose to the group, how capital is distributed across an entire group, and whether and to what degree insurance companies’ capital may be put at risk from the operations of non-insurance entities, potentially undermining the insurance company’s financial condition ~~and/or placing upward pressure on the insurers in the group~~[JKM1]. An analyst is not expected to understand non-insurance industries represented within the group but is expected to understand through this calculation if a non-regulated entity could place pressure on or provide relief to a regulated entity.

The manner in which the GCC achieves some of these intentions~~benefits or points~~ varies. For example, with regard to understanding how capital is distributed across an entire group, this can be seen in two ways. One~~,~~ is by viewing the Tab titled “Input 4-Analytics” for~~in~~ the display of the “Ratio of Actual to Required Capital”. The other~~Two~~ is by viewing the same Tab for~~and in~~ the display of “Required Capital” in a separate column. The degree of capital movement~~subsidization~~[JKM2] can also be seen in the “Input 4-Analytics” tab, with the display of the columns as follows: 1) Capital Contributions Received/(Paid); 2) Net Income. While one year of information can provide insight~~show this exists~~, a better understanding will be obtainable~~most will not be seen until~~ after further years of the GCC are reported within the template. Once ~~at least~~ [BJR3]five years of data are displayed in this “Input 4-Analytics” tab, it will allow the analyst to better understand the financial condition of the group as a whole as well as the risks posed by non-insurance entities in the group. Of course, such conclusions can only be made once the analyst sees the data and understands from the group what is occurring that is leading to such figures.

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

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

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

Other Considerations When Considering Such Benefits

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

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

Overall Theme of Remaining Guidance

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

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

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

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

GCC Construction That Also Impact its Utilization and Review

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

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

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

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

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

Group Capital Calculation (GCC) Summary

Summarize your assessment of the GCC both quantitatively and qualitatively, including any such items as may not be applicable to a branded risk category. For example, it may be appropriate to indicate "*The review of the group's GCC indicated the scope of the application is consistent with the lead state's determination*" and if possible, to summarize succinctly, the general scope of the GCC. For example, "*the GCC includes all U.S. and Bermuda operations, but excludes ABC non-insurance operations in South American countries"*. It may also be appropriate to identify key drivers of risks for the group within the GCC that are discussed later in the branded risk categories, as those risks ~~may be related to, and~~ supplement existing risk assessments derived from holding company analysis or are~~they may be~~ new risks that warrant further review. "*The group's GCC of 201% in the current year was impacted by a decline in Total Available Capital of $X which is related to group's non-insurance operations in Bermuda and as well as the negative impact of market risks in the U.S. insurance legal entity ratio components, which based on further analysis has resulted from the recent financial market volatility*".

Branded Risk Assessment

Strategic: *The group's Group Capital Calculation is assessed as low-risk and stable and is a positive consideration in the overall assessment of strategic risk. The GCC has generally been reasonable and consistent over the past five years as illustrated in the following table. Additionally, refer to the GCC Summary for further details.*

	CY	***PY***	***PY1***	***PY2***	***PY3***
GCC Ratio	*201%*	*207%*	*163%*	*202%*	*197%*

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

Other Branded Risk Documentation:
To the extent the ratio is trending negatively, or available capital is~~was~~[BJR4] decreasing, the analyst may choose to include more information in the strategic branded risk[BJR5] section of the GPS that summarizes any key drivers of such findings if they did not fall into one of the branded risk categories. Those drivers of the change might~~would likely~~ be documented in other specific branded risk categories, for example Pricing/Underwriting if driven by group-wide weak insurance underwriting, or reserving if the group-wide drivers were reserve deficiencies, etc. References to other branded risk categories may also be appropriate. However, this may not always occur or be possible for the analyst to pinpoint given the multitude of risks within any insurer's regulatory capital requirement formulas. This guidance is simply meant to suggest that if the GCC does in fact appear to

show particular trends that are noteworthy on specific risks , further documentation into that (applicable) branded risk may be appropriate.

A determination for when documentation of risks from the GCC into other branded risk categories may be appropriate is driven by ~~both the question of~~ whether any of the thresholds in Procedure~~s~~ 1 were met, and by the rest of the GCC information as described in Procedures 2-4. The GCC Summary is intended to be high-level, therefore other more detailed observations from reviewing the GCC should generally not be documented into the GPS unless they are specifically insightful, add to a high-level understanding of the group's financial condition, or are specific to a branded risk category as stated.

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

- If the group has a significant amount of business in legal entities that are domiciled in jurisdictions whose capital regime is based on market-based valuations, the GCC will inherently be more volatile (as compared to a pure U.S.-based group for which RBC and statutory valuations are the norm).
- Similarly, a group may solely have legal entities that are ~~solely~~ based in jurisdictions that utilize a standard model for capital requirements or have entities in jurisdictions where the use of internal models has been approved. All else being equal, the manner in which capital measures quantify requirements and behave over time will differ to some extent between the two. Also, a change from a standard method to one based on internal models for a key subsidiary will likely produce a noticeable change in the GCC that is not reflective of changes in the entity's underlying business.
- The GCC provides a means for analysts to identify non-insurance operations outside of the insurance group and to determine the extent of risk they may pose to the insurers within the group. However, in doing so, analysts should understand that findings from review of Forms B, D and F might be equally valuable in these situations.
- When understanding capital requirements for non-insurer financial entities that are not subject to regulatory capital requirements, consideration should be given to the appropriateness of the GCC's capital charge for a specific entity's financial operations (e.g., an entity conducting a large volume or ~~size~~large dollar amount of complex transactions but with little net revenue or equity).
- When understanding capital requirements for non-insurer / non-financial entities, consideration should be given to the appropriateness of the level of risk assigned to specific entities.

Detailed Observation Documentation:
More detailed observations shall be documented separately from the GPS and in a form not dictated by this handbook. As in all holding company analysis, the level of documentation is determined by the lead state insurance department and is dependent on the characteristics and complexity of the group and its risks. These detailed observations generally need to only note the~~those that are indicative of~~ drivers of trends and/or actions being taken by the group to mitigate risks. In some cases, these points can be easily summarized into the GPS. In other cases they are too detailed and should be documented instead within a separate document not dictated in form by this handbook. The analysts ~~are not expected, nor~~ should not~~they~~ spend time documenting either subtle changes within ~~either~~ the GCC or individual company movements that ~~either~~ do not create a trend at the

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

Specific Procedures for Completing Review and Understanding of the GCC

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

Procedures Step 1

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

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

Procedures Step 2a-2m

Unlike step 1, the intent of step 2 (and 3) is to determine the actual source of the negative issues and where they should be documented in the GPS. Procedure 2a is specifically focused on identifying the category of legal entities (and subsequently the individual legal entities) that might be driving the issues by looking at the ratio of actual-to-required capital for the legal entity insurers[BJR6] over the available years reported. The following sample of a table from the GCC calculation completed by the group from the data in Schedule 1 can be helpful in determining the source of the issues.

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

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

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

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

Income & Leverage Table Template Groupings		Net Income ($)					Return on Capital				
		2025	2024	2023	2022	2021	2025	2024	2023	2022	2021
		[1]	[2]	[3]	[4]	[5]	[1]	[2]	[3]	[4]	[5]
US Ins	[1]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Non-US Ins	[2]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

Non-Financial Entities	[3]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bank	[4]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Asset Manager	[5]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Other Financial w/Capital Requirement	[6]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Financial Entities w/o Capital Requirements	[7]										
Total	[8]	XXXX	XXXX	XXXX	0	0	XXXX	XXXX	XXXX		

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

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

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

Procedures Step 3a-3f

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

Insurance Leverage Table		Net Premium Written ($)					Liabilities ($)/Capital & Surplus				
Template Groupings		2025	2024	2023	2022	2021	2025	2024	2023	2022	2021
		[1]	[2]	[3]	[4]	[5]	[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Hong Kong - Life	[18]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Hong Kong - Non-Life	[19]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Singapore - All	[20]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Chinese Taipei - All	[21]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

South Africa - Life	[22]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Africa - Composite	[23]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Africa - Non-Life	[24]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Mexico	[25]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
China	[26]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Korea	[27]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Malaysia	[28]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Chile	[29]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Brazil	[30]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
India	[31]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Other Regime	[32]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
TOTAL	[33]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

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

Procedures Step 4a-4b. Procedure 4a is intended to help the lead state understand the historical capital allocation patterns or the likely future needed capital allocation patterns by simply documenting those in the detail analysis workpapers. This includes, for example, noting that there is consistency in the entities generating net income and distributing it further through the group, and in some cases may require distribution through other insurers, which in the US often requires approval if considered extraordinary. Procedure 4a[BJR7] is intended to utilize that knowledge, along with other planned actions of the group, to understand whether problems with repaying debt or other obligations in the group could occur. The intent is to be in a better position for discussions with the group on where the group may expect~~deem~~ capital to come from to support future expected activity or future unexpected material events. The following sample of tables from the GCC calculation using data in Schedule 1 can be helpful in determining the source of the issues.

Insurance Capital Table **Template Groupings**		**Capital Contributions $ Received/(Paid)**				
		20254	**2024**	**2023**	**2022**	**2021**
		[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX		

Canadian - P&C	[7]	XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX		

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

Procedures Step 5a-5h. Procedures 5a-5h are designed for those uncommon situations where the group believes they need to reduce risk because raising capital may be unlikely [BJR8](see appendix for further discussion on that topic). ~~In~~Before performing this procedure, ~~the analyst should understand that~~ Procedure step 2 (Evaluating Decreases in Total Capital) and Procedure step 3 (Evaluating Increases in Operating Leverage) will have already been performed to determine whether~~considered, and therefore concluded that either~~ capital is decreasing, or operating leverage is increasing. As such, after considering information that may already be available to the regulator on the business plan, Procedure 5b is largely focused on better understanding directly from the group the group's reaction to~~drivers of~~ the apparent negative trends. The analyst should understand that some of these trends may have already been known, through for example the ORSA review and discussions of the ORSA by the lead state~~ of the ORSA~~. In fact, the key takeaways may already be documented in the GPS and therefore the remaining procedures in this section may be irrelevant and could be skipped if recently considered and understood. In addition, such trends from Procedure Steps 2 and 3 may suggest no additional information~~understanding~~ is necessary. It is for this reason that the first procedure is focused on the group's existing business plan as it is possible these trends may have been expected. Further, Procedure 5a is based on the belief that reducing risk by the group may have been previously incorporated into the group's latest business plan, which may have been obtained from the Annual Form F Filing.

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

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

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

Additional Procedures – Business Plans

While there is a multitude of possibilities which are beyond the scope of this guidance to address, the following provides some of the related issues that may be helpful to the analyst to consider. (See also section 6[BJR9] regarding the analyst's consideration of the structure of the group and capital infusion issues.)~~.~~

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

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

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

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

Consultation with Other Regulators

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

Considerations of Group's Capacity to Raise Capital

The following is designed simply as a reminder of considerations the lead state would contemplate when discussing the group system response to the issues identified in this section. More specifically, in most situations a group will first consider ways to reduce risk. In limited situations, it may consider trying to raise additional capital. While this is typically not an option for a group that is currently not performing as ~~it~~ anticipated, in some situations alternative sources of capital may be raised if the holders of the newly issued equity securities ~~capital~~ [BJR10]are given rights that are attractive to the holder. In addition, in some cases the group may have the ability to issue other forms of capital (e.g., debt), which can be used to inject into the insurance subsidiaries. While these facts are not unique to the utilization of the group capital calculation, they are worth a reminder along with relevant other related details.

New Equity Considerations

Public Holding Company

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

Private Holding Company

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

Mutual Insurance Company

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

Mutual Holding Company

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

Non-profit Health Company

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

Fraternal Associations

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

Reciprocal Exchanges

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

New Debt Considerations

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

- Total debt service requirements.
- Revenue streams expected to be utilized to service the debt.

- Any new guarantees for the benefit of affiliates.
- Any new pledge of assets for the benefit of affiliates.
- Any new contingent liabilities on behalf of ~~its~~ affiliates.

International Holding Company Considerations

International Holding Company Structure

This section is applicable only to those international groups that are required to complete the GCC, which may be relatively few considering many international holding companies have a non-US groupwide supervisor and are exempt from the GCC. Those foreign groups that are required to complete the GCC will generally file a "subgroup" GCC that included entities that are part of the group's U.S. operations. In those situations, the analysts should understand the structure to determine if it has any impact on this analysis. 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 appropriate organizational contact to ensure a prompt reply or resolution ~~if the insurance regulator is not responding~~[BJR11].

Capital / Operational Commitment to U.S. Operations

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.

Primer on the Group Capital Calculation Formula

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

The GCC Aggregation Methodology
As illustrated in the sample tables above, the proposed GCC is an aggregation or grouping of the available financial resources and calculated ~~required~~[BJR12] capital of all legal entities in a~~n insurance~~ group that could potentially pose material risk to the insurers in the group. The GCC allows some discretion in determining what entities under common control but outside of the defined Insurance Group may be excluded from the scope of application in the GCC. When reviewing a group's choice of entities to be excluded from application of the GCC, the following points should be considered:

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

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

U.S. Insurers – The available capital of U.S. domiciled insurers is determined by statutory accounting principles (SAP) as defined by state law and the NAIC Accounting Practices and Procedures Manual, which defines assets, liabilities, and in-turn[BJR13] net available capital/financial resources, sometimes referred to as policyholder surplus. The calculated capital for these insurers is subject to state law that requires these insurers to maintain minimum capital based on the applicable NAIC Risk-Based Capital formula at 200% x Authorized Control Level .

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

DRAFTING NOTE: While the GCC utilizes the available capital and home jurisdictions' capital requirement, for jurisdictions where data is available, the use of appropriate scalars is currently being explored to produce more comparable measures for risk which can be aggregated into the group-wide measure. One such scaling methodology is included as part of a sensitivity ~~A~~analysis in the GCC template. That scalar methodology uses aggregated data from the U.S. and other jurisdictions at the first intervention level to recognize that (for example)~~,~~, state regulators often have much higher reserve requirements, incorporating amounts that are required to be carried as ~~required~~ capital in other jurisdictions. For jurisdictions where the data is not available, the full jurisdictional requirement at the first intervention level ~~u~~is used.

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

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

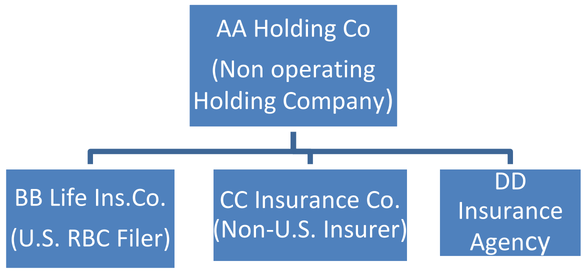
Financial and non-financial operations not subject to regulatory capital requirements – In general, financial entities (as defined in the GCC Instructions) are subject to a higher capital charge in the GCC than the non-financial entities. However, the GCC does require available capital/financial resources and calculated capital to be gathered for all such entities that pose a material risk to insurers. In both cases the GCC will utilize the valuation used by such legal entities (typically U.S. GAAP) and a calculated capital based upon a risk factor. ~~There are two important exceptions:~~[BJR14]

- All entities within the defined insurance group (definition included in GCC Instructions) must be included
- All financial entities (definition included in GCC Instructions) must be included
- The level of risk (low / medium / high) and associated capital calculation assigned to a financial entity will be selected by the group and evaluated by the lead~~-S~~state reviewer
- Non-financial entities that are subsidiaries of U.S. insurers, foreign insurers, or banks where a capital charge for the non-financial entity is included in the regulated Parent's capital formula will remain with the Parent and will not be inventoried. Regulators already have access to the financials of these entities if needed (if causing unrealized losses within the insurer).

Eliminations

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

EE Insurance Group (EEIG)



EEIG Financial Information

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

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

Calculation of ARC

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

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

Calculation of MRC

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

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

In the above example, available capital/financial resources are referred to as available regulatory capital (ARC) and total authorized capital (TAC[1][BJR15]) and minimum calculated capital is referred to as minimal[BJR16] regulatory capital (MRC) and authorized control level (ACL[2][BJR17]). The GCC will allow non-insurance / non-financial entities owned by RBC filers in the group to remain within the available capital and calculated~~regulatory~~ capital of the parent, so no eliminations are required for these entities. As shown, since AA Holding Company owns each of the other business entities in the organizational chart, $38 million (which is the amount of available capital/financial resources in the subsidiaries of AA) is eliminated from the TAC column since accounting methods include those as an asset on AA Insurance Company's balance sheet. Also, the GCC includes capital calculations for AA Holding Company and DD Insurance Agency as part of the MRC in addition to the regulatory capital already included for the insurance subsidiaries. The MRC of the subsidiaries is eliminated from the parent's (AA Holding Company) calculated capital. Therefore, in this example $4.81 million of calculated capital is eliminated from the MRC. Finally, the MRC of U.S. insurance subsidiary is multiplied by 2 in order to reflect Company Action Level (CAL) RBC as required in the GCC.

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

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

Other Information Included in the GCC

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

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

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

Sensitivity analysis – A tab devoted to individual[BJR18] sensitivity analysis is included in the GCC. These informational items provide the regulator with impact of discretion in excluding listed entities and alternative perspectives on risk charges for non-financial entities and foreign insurers. Monitoring of these items can help the regulator identify areas where the GCC may be improved, or capital calculations adjusted in the future. One item included in the sensitivity analysis is a "sensitivity test" that increases the overall calibration of the calculated capital in the GCC from its normal 200% x ACL RBC calibration to 300% x ACL RBC.

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

Intangible Assets – Acquisitions, mergers and reorganization often can create significant intangible assets at a holding company level or possibly at an operating company (other than a regulated entity) level. The GCC template collects information on intangible assets held by inventoried entities in the Other Information Tab. The available capital associated with the value of entities whose assets are materially comprised of intangible assets should be evaluated in the context of fungible resources[BJR19] and in assessing the adequacy of the capital calculation assessed on such entities.

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

Considerations When Exempting Groups~~Insurers~~

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

To these points, the NAICs Model Holding Company Act and corresponding regulation contain possible exemptions for groups that have less than $1 billion in premium and that do not possess any of the three characteristics just described~~these types of situations~~. The possible exemptions exist after the GCC has been filed once, because~~. The general consideration in developing the requirement in the model that the GCC must first be filed once for all groups, was that~~ without seeing the completed GCC at least once for a group, it may be difficult for the lead-state to determine if the GCC has ~~no~~ value~~ or is at least cost beneficial to require filing~~. However, it should also be understood that these three criteria of non-U.S. insurer, bank, or non-material non-insurers are not the only situations where the GCC would be valuable to the lead-state. As a reminder, all states are required to assess the sufficiency of capital within the holding company structure;~~, and that~~ prior to the GCC, this was done ~~by states~~ using various methods (e.g., debt to equity ratios, interest coverage ratios, existing RBC ratios and relative size of insurance). The GCC is expected to enhance a state's ability to make this assessment more easily~~, even if it is only~~

~~used as a general gauge as its intended~~. Therefore, in deciding if a group should be exempted, the lead-state will need to consider a number of factors, including how easily it can make this assessment without the GCC~~, again, only as a general gauge~~. For small groups where the U.S. RBC operations and assets are much larger than the non-insurance operations, it is likely the GCC would provide a smaller degree of value and exempting such groups from the GCC may be appropriate. ~~However, the analyst should also consider the fact that the simpler the holding company structure, the more easily the GCC can be completed. Specifically, given all of the data included in the GCC is existing data and therefore readily available to the company, a smaller and simple structured group should be able to accumulate into the GCC template in a short period of time.~~ [BJR20]~~Also worth considering is that~~ However, if such operations are contained within a number of different U.S. insurers where it is difficult to determine the degree of double counting of capital, the GCC may provide more value. ~~To be clear, these are not the only situations where the GCC might be helpful even with a relatively small group. This is because the value may come from figures the GCC requires that the state may have otherwise not been aware of. Specifically~~Also, the GCC may identify non-RBC filers who may be experiencing some level of financial difficulties. This possible identification of information the lead-state was not otherwise aware of is the primary reason the Working Group suggested the GCC be filed once before deciding on whether a group should be exempted. While the NAIC Accreditation program may not require a state to have such authority to have the GCC filed once before exempting, this background information provided herein is intended to encourage the state to consider such possibilities before deciding on exempting a group, particularly since it may be difficult to stop an exemption in a given year once it's provided. In summary, as with everything else described in this documentation, the GCC requires judg~~e~~ment on behalf of the analyst and the lead-state which is based upon multiple factors including the lead-state's existing knowledge of the group. ~~This fact is no different~~The same applies when considering whether a group should be exempt.

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Review of the Group Capital Calculation

Consideration of the Insurance Holding Company System Structure

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

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

- Gather appropriate background information for your group(s) (e.g., Group Profile Summary, ORSA, RBC Reports, Schedule Y)
- Determine that all Schedule Y entities are listed in schedule 1 or in the schedule BA list in the other information tab or that an entity's omission is understood / explained
- Evaluate requests for exclusion of non-insurance/~~-~~non- financial entities with~~/~~out material risk to determine if you agree with exclusion.
- Confirm that all insurers and financial entities are de-stacked in the inventory tab.
- Determine if grouping has been properly applied.
- Evaluate the level of risk assigned by the filer to financial entities with~~/~~out regulatory capital requirements.
- On a sample basis, ~~Test~~ check that the numbers reported in Schedule 1 and Inventory Tab look reasonable, especially for the insurers. A sample check should be sufficient.

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

- Domestic insurance operations
- International insurance operations

- Banking or other financial services operations subject to regulatory capital requirements
- Financial and non-financial operations not subject to regulatory capital requirements*

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

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

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

- Procedure Step 1 suggests that a review of the components of the GCC is appropriate when the GCC ratio is trending downward.
- When Procedure Step 1 identifies the need to look further, Procedure Step 2 suggests ~~from a high level~~ determining, at a high level, the drivers of any decreases in the total available capital pursuant to ~~in~~ the GCC. While there are numerous benefits of the GCC over consolidated approaches, the ability to drill down on the drivers is one of the more significant and is consistent with the states' approach to not just looking at capital, but to the drivers of capital issues.
- When Procedure Step 1 identifies the need to look further, Procedure Step 3 suggests ~~from a high level~~ determining, at a high level, the driver of any increases in operating leverage, which is typically what drives insurance capital requirements up, be it asset risk/leverage or writings leverage. Similar to drivers of capital decreases, the GCC has detailed information on financial figures and ratios that can be used to isolate the issues.
- When either Procedure Step 2 or Step 3 identify the need to understand the situation better, Procedure Step 4 is similar in that it ~~too~~ utilizes detailed information on capital allocation patterns used by the group over time that are necessary for the analyst to understand if there are any future negative trends in the GCC.
- When Procedure Steps 2, 3 and 4 together identify the need to understand the situation better, Procedure Steps 5, ~~depending upon the analysis performed in previous Steps, is similar to legal entity analysis, where there is likely a need to determine what~~ helps understand the steps the group/company is already taking or plans to take in order to address the issues they feel are appropriate, if any, considering existing capitalization levels may drive the group's evaluation and therefore when steps may not be necessary. The guidance provided in these procedures is not intended to be exhaustive, but rather should give the analyst a starting point in better understanding the various issues.
- The guidance in these procedures is not intended to be exhaustive, but rather should give the analyst a starting point in better understanding the various issues.

- If the analyst determines after completing any of the above procedures (steps), that no further work is deemed necessary to fully document their understanding of the material risks of the group observable from the GCC (as well as the required information to be included in all GPS from the GCC), the rational for this determination should be documented by the analyst in any workpapers deemed appropriate by the state ~~and include the general reason, therefore.~~ In making this determination, it should be reiterated these procedures are not intended to be used in a checklist manner and judgement based upon and existing understanding of the group and existing information on the group obtained from the Form F, ORSA, or any other source is certainly part of that decision.

Procedure Step 1-Understand the Adequacy of Group Capital

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

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

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

Procedures Step 2-Understand Decreases in Total Available Capital

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

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

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

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

Procedure Step 3-Understand Increases in Operating Leverage

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

Like step 2, the intent of step 3 is to determine the actual source of the negative issues. The difference between step 3 and step 2 is simply the types of issues. Step 2 is focused on issues that have resulted in negative capital trends. Step 3; however, is focused on the issues that impact the risk being considered ~~measured~~ in the GCC. In most cases that risk is ~~from the insurers and~~ either from the asset side or from the liability side where in both cases there has been an increase in such risk that has not been offset by a corresponding or equal increase in capital. In general, this is referred to as operating leverage, where this risk can manifest itself either through increased insurance writings (e.g., the ratio of premiums to capital or liabilities to capital), or through increased assets that also carry risk. The expectation is that other regulated entities also have capital requirements that increase as these different types of risks increase, similar to how the NAIC RBC considers different types of products and assets that carry more risk. ~~However, I~~It is also possible to have increased leverage outside of the insurance companies and other regulated entities~~through for example increased exposure, which can manifest itself through increased liabilities or through increased assets~~. However, similar to other items noted in this document, such increases do not necessary represent negative trends; ~~, rather simply things~~ the analyst should ~~may need to~~ further understand the drivers of such. In most cases, this equates to pinpointing the legal entity(ies) driving any negative trends. Similar to step 2, using an understanding of items in Procedure Step 4, to understand more fully the actions the group, or the legal entity(ies) driving the negative trends already being taken or planned to be taken by the group to address the issues identified in step 2 that the group believes is needed.

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

~~Unless obvious from the information obtained in step 3, T~~Tthe analyst should proceed to steps 4 and 5~~, using understanding of items in Procedure 4,~~ to understand more fully the actions ~~being taken~~ by the group, or the legal entity(ies) driving the negative rend, are already taking or plan~~ned~~ to ~~be~~ take~~n by the or planned to be taken by the group~~ to address the issues identified in step 3, if that is not already clear from the information obtained in step 3~~that the group believes is needed~~. However, in some cases, it is possible that no further follow up with the group will be necessary, and that the lead state should simply update the GPS~~ to be certain issues are known to all of the regulators utilizing the GPS~~.

Procedure Step 4-Understand the Capital Allocation Patterns

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

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

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

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

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

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

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

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

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

Background Information

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

Benefits of the GCC & Methods to Achieve Them

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

The manner in which the GCC achieves some of these intentions ~~benefits or points~~ varies. For example, with regard to understanding how capital is distributed across an entire group, this can be seen in two ways. One~~,~~ is by viewing the Tab titled “Input 4-Analytics” for~~in~~ the display of the “Ratio of Actual to Required Capital”. The other ~~Two~~ is by viewing the same Tab for ~~and in~~ the display of “Required Capital” in a separate column. The degree of capital movement ~~subsidization~~ can also be seen in the “Input 4-Analytics” tab, with the display of the columns as follows: 1) Capital Contributions Received/(Paid); 2) Net Income. While one year of information can provide insights~~show this exists~~, a better understanding will be obtainable ~~most will not be seen until~~ after further years of the GCC are reported within the template. Once ~~at least~~ five years of data are displayed in this “Input 4-Analytics” tab, it will allow the analyst to better understand the financial condition of the group as a whole as well as the risks posed by non-insurance entities in the group. Of course, such conclusions can only be made once the analyst sees the data and understands from the group what is occurring that is leading to such figures.

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

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

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

Other Considerations When Considering Such Benefits

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

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

Overall Theme of Remaining Guidance

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

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

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

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

GCC Construction That Also Impact its Utilization and Review

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

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

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

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

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

Group Capital Calculation (GCC) Summary

Summarize your assessment of the GCC both quantitatively and qualitatively, including any such items as may not be applicable to a branded risk category. For example, it may be appropriate to indicate "*The review of the group's GCC indicated the scope of the application is consistent with the lead state's determination*" and if possible, to summarize succinctly, the general scope of the GCC. For example, "*the GCC includes all U.S. and Bermuda operations, but excludes ABC non-insurance operations in South American countries"*. It may also be appropriate to identify key drivers of risks for the group within the GCC that are discussed later in the branded risk categories, as those risks ~~may be related to, and~~ supplement existing risk assessments derived from holding company analysis or are~~they may be~~ new risks that warrant further review. "*The group's GCC of 201% in the current year was impacted by a decline in Total Available Capital of $X which is related to group's non-insurance operations in Bermuda and as well as the negative impact of market risks in the U.S. insurance legal entity ratio components, which based on further analysis has resulted from the recent financial market volatility*".

Branded Risk Assessment

Strategic: *The group's Group Capital Calculation is assessed as low-risk and stable and is a positive consideration in the overall assessment of strategic risk. The GCC has generally been reasonable and consistent over the past five years as illustrated in the following table. Additionally, refer to the GCC Summary for further details.*

	CY	*PY*	*PY1*	*PY2*	*PY3*
GCC Ratio	*201%*	*207%*	*163%*	*202%*	*197%*

GCC Summary and Strategic Branded Risk Documentation:

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

Other Branded Risk Documentation:

To the extent the GCC ratio is trending negatively, or GCC available capital is~~was~~ decreasing, the analyst may choose to include more information in the strategic branded risk section of the GPS that summarizes any key drivers of such findings if they did not fall into one of the branded risk categories. Those drivers of the change might ~~would likely~~ be documented in other specific branded risk categories, for example Pricing/Underwriting if driven by group-wide weak insurance underwriting, or reserving if the group-wide drivers were reserve deficiencies, etc. References to other branded risk categories may also be appropriate. However, this may not always occur or be possible for the analyst to pinpoint given the multitude of risks within any insurer's regulatory capital requirement formulas. This guidance is simply meant to suggest that if the GCC does in fact appear to show particular trends that are noteworthy on specific risks , further documentation into that (applicable) branded risk may be appropriate.

A determination for when documentation of risks from the GCC into other branded risk categories may be appropriate is driven by ~~both the question of~~ whether any of the thresholds in Procedures 1 were met, and by the rest of the GCC information as described in Procedures 2-4. The GCC Summary is intended to be high-level, therefore other more detailed observations from reviewing the GCC should generally not be documented into the GPS unless they are specifically insightful, add to a high-level understanding of the group's financial condition, or are specific to a branded risk category as stated.

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

- ~~If the group has a significant amount of business in legal entities that are domiciled in jurisdictions whose capital regime is based on market-based valuations, the GCC will inherently be more volatile (as compared to a pure U.S.-based group for which RBC and statutory valuations are the norm).~~
- Asset-liability accounting or economic mismatches may lead to volatility within components of the GCC ratio, and potentially in the GCC ratio as a whole. For instance, if an entity is in a market-based regime, and if economic risks are unhedged, the entity's solvency ratio may fluctuate with economic conditions. As another example, if an insurance entity's liabilities are subject to U.S. RBC and statutory valuations, and if associated hedging is subject to a market-based valuation, volatility may result due to accounting mismatches. The factors that create volatility will be significantly influenced by the accounting standards used in each applicable regime.
- ~~Similarly, a group may have legal entities that are solely based in jurisdictions that utilize a standard model for capital requirements or have entities in jurisdictions where the use of internal models has been approved. All else being equal, the manner in which capital measures quantify requirements and behave over time will differ to some extent between the two. Also, a change from a standard method to one based on internal models for a key subsidiary will likely produce a noticeable change in the GCC that is not reflective of changes in the entity's underlying business.~~
- Regime changes may lead to noticeable changes in the GCC ratio that are not necessarily reflective of changes in the entity's underlying business. Regime changes can include changes in valuation, risk-based capital, available capital, tax rates, or the use/discontinuation of permitted or prescribed practices. In some jurisdictions a regime change could involve the use/discontinuation of an "internal model" or "partial internal model," which is a tailored set of risk charges and/or risk correlations and is intended to align insurer and regulatory perspectives of risk and capital.
- The GCC provides a means for analysts to identify non-insurance operations outside of the insurance group and to determine the extent of risk they may pose to the insures within the group. However, in doing so, analysts should understand that findings from review of Forms B, D and F might be equally valuable in these situations.
- When understanding capital requirements for non-insurer financial entities that are not subject to regulatory capital requirements, consideration should be given to the appropriateness of the GCC's capital charge for a specific entity's financial operations (e.g., an entity conducting a large volume or large dollar ~~size~~ of complex transactions but with little net revenue or equity).

- When understanding capital requirements for non-insurer / non-financial entities, consideration should be given to the appropriateness of the level of risk assigned to specific entities.

Detailed Observation Documentation:
More detailed observations shall be documented separately from the GPS and in a form not dictated by this handbook. As in all holding company analysis, the level of documentation is determined by the lead state insurance department and is dependent on the characteristics and complexity of the group and its risks. These detailed observations generally need to only note the ~~those that are indicative of~~ drivers of trends and/or actions being taken by the group to mitigate risks. In some cases, these points can be easily summarized into the GPS. In other cases they are too detailed and should be documented instead within a separate document not dictated in form by this handbook. The analysts ~~are not expected, nor~~ should not ~~they~~ spend time documenting either subtle changes within ~~either~~ the GCC or individual company movements that ~~either~~ do not create a trend at the group level or identify a growing weakness in the group. However, judgment is required to make this determination. For example, a 10% (not point change) decrease in an RBC ratio of one of the smaller insurers within the group generally would not be documented. By contrast, a 10% decrease (not point change) in an RBC ratio in one of the larger insurers in the group that causes, either alone or jointly with other insurers, a 10% decrease in the GCC should be noted. However, it should be understood also that this 10% threshold is not intended to be a used as a “bright-line.” In fact it is possible the 10% is not necessarily indicative of any negative trends at all. This could be the case when for example there was a change in the regulatory capital requirement. Therefore, again, judgement is required in making these determinations and this, as well as other thresholds used in this guidance, are not meant to be bright lines. As the GCC is used more, both by the individual analyst~~,~~ and by the various states, using judgement around these thresholds is~~are~~ expected to become easier as the judgement is informed by~~with~~ experience.

Specific Procedures for Completing Review and Understanding of the GCC

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

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

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

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

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

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

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

Total	[8]	XXXX	XXXX	XXXX	0	0

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

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

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

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

Solvency II -- Composite	[13]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

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

Procedures Step 3a-3f

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

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

Solvency II - Life	[12]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Hong Kong - Life	[18]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Hong Kong - Non-Life	[19]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Singapore - All	[20]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Chinese Taipei - All	[21]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Africa - Life	[22]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Africa - Composite	[23]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Africa - Non-Life	[24]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Mexico	[25]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
China	[26]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Korea	[27]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Malaysia	[28]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Chile	[29]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Brazil	[30]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
India	[31]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Other Regime	[32]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
TOTAL	[33]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

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

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

Insurance Capital Table Template Groupings		Capital Contributions $ Received/(Paid)				
		20254	2024	2023	2022	2021
		[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX		

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

Procedures Step 5a-5h. Procedures 5a-5h are designed for those uncommon situations where the group believes they need to ~~reduce~~ reduce risk because raising capital may be unlikely (see appendix for further discussion on that topic). Before~~In~~ performing this procedure, ~~the analyst should understand that~~ Procedure ~~s~~Step 2 (Evaluating Decreases in Total Capital) and Procedure S~~s~~tep 3 (Evaluating Increases in Operating Leverage) will have already been performed to determine whether ~~considered, and therefore concluded that either~~ capital is decreasing, or operating leverage is increasing. As such, after considering information that may already be available to the regulator on the business plan, Procedure 5b is largely focused on better understanding directly from the group the group's reaction to ~~drivers of~~ the apparent negative trends. The analyst should understand that some of these trends may have already been known, through for example the ORSA review and discussions of the ORSA by the lead state ~~of the ORSA~~. In fact, the key takeaways may already be documented in the GPS and therefore the remaining procedures in this section may be irrelevant and could be skipped if recently considered and understood. In addition, such trends from Procedure Steps 2 and 3 may suggest no additional information ~~understanding~~ is necessary. It is for this reason that the first procedure is focused on the group's existing business plan as it is possible these trends may have been expected. Further, Procedure 5a is based on the belief that reducing risk by the group may have been previously incorporated into the group's latest business plan, which may have been obtained from the Annual Form F Filing.

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

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

Procedure 5d contemplates that the group or legal entity may believe no action is necessary because it believes current capital is adequate to meet its business plan, which ~~and~~ is more likely to be the case when ~~the company~~

~~experienced~~ a one-time reduction of capital as opposed to a growth in leverage that may continue. Procedure 5e is for the rare situation where the legal entity insurers have been strained or face impending pressure contemplated within NAIC Model 385–*Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition* that would suggest one or more of the insurers may be in a hazardous financial condition. Procedure 5f is designed to suggest the analyst bring the collective supervisors of the legal entity insurers together for a supervisory college to fully understand what is occurring and the identified legal entity's ~~group's~~ plans for addressing the underlying issues. Procedure 5g is an extension of Procedure 5f as it contemplates the regulators discussing whether ~~-~~the proposed actions from the legal entity(ies) in the group is~~are~~ adequate. This action could represent something either informally done before an insurer is in a regulatory action level, or formally once an insurer is in a regulatory action level. Procedure 5h is similar to the other actions contemplated within a supervisory college or, for example, to address a troubled insurance company under Accreditation requirements regarding communication with other states.

Additional Procedures – Business Plans

While there is a multitude of possibilities which are beyond the scope of this guidance to address, the following provides some of the related issues that may be helpful to the analyst to consider (See also section 6 regarding the analyst's consideration of the structure of the group and capital infusion issues).

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

Planning Process:

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

Variances to Projections:

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

Evaluating a Business Plan:

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

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

Consultation with Other Regulators

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

Considerations Regarding Ability of the Entities in the ~~of~~ Group~~'s Capacity~~ to Raise Capital

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

New Equity Considerations

Public Holding Company

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

Private Holding Company

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

Mutual Insurance Company

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

Mutual Holding Company

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

Non-profit Health Company

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

Fraternal Associations

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

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

New Debt Considerations

Through discussions with the group, understand the potential impact of any new debt on the group system, including specifically the extent of future additional reliance on the insurance operations and whether those insurers have the capacity for such. Also consider an updated review of the following:
- Total debt service requirements.
- Revenue streams expected to be utilized to service the debt.
- Any new guarantees for the benefit of affiliates.
- Any new pledge of assets for the benefit of affiliates.
- Any new contingent liabilities on behalf of ~~its~~ affiliates.

International Holding Company Considerations

International Holding Company Structure
This section is applicable only to those international groups that are required to complete the GCC, which may be relatively few considering many international holding companies have a non-US groupwide supervisor and are exempt from the GCC. Those foreign groups that are required to complete the GCC will generally file a "subgroup" GCC that includes~~d~~ insurance entities that are part of the group's U.S. operations. In those situations, the analysts should understand the structure to determine if it has any impact on this analysis. ~~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 appropriate organization contact to ensure a prompt reply or resolution ~~if the insurance regulator is not responding~~. In some organizations, the appropriate organization contact will often be associated with the U.S. insurance operations, while in others, an advisory board may have been established to communicate with regulators.

Capital / Operational Commitment to U.S. Operations
Some ~~foreign~~ holding companies may consider their U.S. insurance enterprises non-core and may be less invested in ~~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. insurance operations. This commitment may include a written or verbal parental guarantee.

Primer on the Group Capital Calculation Formula

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

The GCC Aggregation Methodology

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

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

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

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

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

DRAFTING NOTE: While the GCC utilizes the available capital and home jurisdictions' capital requirement, for jurisdictions where data is available, the use of appropriate scalars is currently being explored to produce more comparable measures for risk which can be aggregated into the group-wide measure. One such scaling methodology is included as part of a sensitivity a~~A~~nalysis in the GCC template. That scalar methodology uses aggregated data from the U.S. and other jurisdictions at the first intervention level to recognize that (for example)~~,~~ state regulators often have much higher reserve requirements, incorporating amounts that are required to be carried as ~~required~~ capital in other jurisdictions. For jurisdictions where the data is not available, the full jurisdictional requirement at the first intervention level is~~us~~ used.

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

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

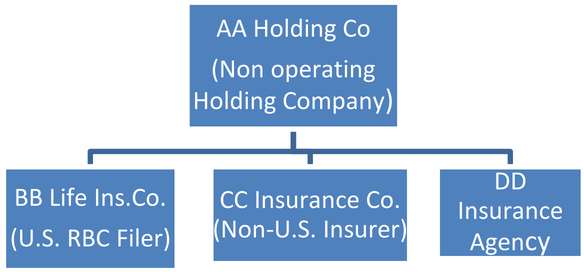
Financial and non-financial operations not subject to regulatory capital requirements – In general, financial entities (as defined in the GCC Instructions) are subject to a higher capital charge in the GCC than the non-financial entities. However, the GCC does require available capital/financial resources and calculated capital to be gathered for all such entities that pose a material risk to insurers. In both cases the GCC will utilize the valuation used by such legal entities (typically U.S. GAAP) and a calculated capital based upon a risk factor. ~~There are two important exceptions:~~

- All entities within the defined insurance group (definition included in GCC Instructions) must be included
- All financial entities (definition included in GCC Instructions) must be included
- The level of risk (low / medium / high) and associated capital calculation assigned to a financial entity will be selected by the group and evaluated by the lead -s~~S~~tate reviewer
- Non-financial entities that are subsidiaries of U.S. insurers, foreign insurers, or banks where a capital charge for the non-financial entity is included in the regulated Parent's capital formula will remain with the Parent and will not be inventoried. Regulators already have access to the financials of these entities if needed (if causing unrealized losses within the insurer).

Eliminations

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

EE Insurance Group (EEIG)



EEIG Financial Information

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

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

Calculation of ARC

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

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

Calculation of MRC

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

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

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

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

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

Other Information Included in the GCC

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

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

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

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

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

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

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

Considerations When Exempting Groups~~Insurers~~

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

To these points, the NAICs Model Holding Company Act and corresponding regulation contain possible exemptions for groups that have less than $1 billion in premium and that do not possess any of the three characteristics just described~~these types of situations~~. The possible exemptions exist after the GCC has been filed once, because ~~. The general consideration in developing the requirement in the model that the GCC must first be filed once for all groups, was that~~ without seeing the completed GCC at least once for a group, it may be difficult for the lead-state to determine if the GCC has ~~no~~ value ~~or is at least cost beneficial to require filing~~. However, it should also be understood that these three criteria of non-U.S. insurer, bank, or non-material non-insurers are not the only situations where the GCC would be valuable to the lead-state. As a reminder, all states are required to assess the sufficiency of capital within the holding company structure; ~~and that~~ prior to the GCC, this was done ~~by states~~ using various methods (e.g., debt to equity ratios, interest coverage ratios, existing RBC ratios and relative size of insurance). The GCC is expected to enhance a state's ability to make this assessment more easily, ~~even if it is only used as a general gauge as its intended.~~. Therefore, in deciding if a group should be exempted, the lead-state will need to consider a number of factors, including how easily it can make this assessment without the GCC~~, again, only as a general gauge~~. For small groups where the U.S. RBC operations and assets are much larger than the non-insurance operations, it is likely the GCC would provide a smaller degree of value and exempting from the GCC may be appropriate. However, the analyst should also consider the fact that the simpler the holding company structure, the more easily the GCC can be completed. Specifically, given all of the data included in the GCC is existing data and therefore readily available to the company, a smaller and simple structured group should be able to accumulate into the GCC template in a short period of time. Also worth considering is that if such operations are contained within a number of different U.S. insurers where it is difficult to determine the degree of double counting of capital, the GCC may provide more value. To be clear, these are not the only situations where the GCC might be helpful even with a relatively small group. This is because the value may come from figures the GCC requires that the state may have otherwise not been aware of. Specifically, the GCC may identify non-RBC filers who may be experiencing some level of financial difficulties. This possible identification of information the lead-state was not otherwise aware of is the primary reason the Working Group suggested the GCC be filed once before deciding on whether a group should be exempted. While the NAIC Accreditation program may not require a state to have such authority to have the GCC filed once before exempting, this background information provided herein is intended to encourage the state to consider such possibilities before deciding on exempting a group, particularly since it may be difficult to stop an exemption in a given year once it’s provided. In summary, as with everything else described in this documentation, the GCC requires judgement on behalf of the analyst and the lead-state which is based upon multiple factors including the lead-state’s existing knowledge of the group. The same applies~~This fact is no different~~ when considering whether a group should be exempt.