



Date: 11/9/22

Virtual Meeting

RISK RETENTION GROUP (E) TASK FORCE

Thursday, November 17, 2022

1:00 – 2:00 p.m. ET / 12:00 – 1:00 p.m. CT / 11:00a.m. – 12:00 p.m. MT / 10:00 – 11:00 a.m. PT

ROLL CALL

Kevin Gaffney, Chair	Vermont	Sharon P. Clark	Kentucky
Karima M. Woods, Vice Chair	District of Columbia	Troy Downing	Montana
Mark Fowler	Alabama	Barbara D. Richardson	Nevada
Andrew N. Mais	Connecticut	Russell Toal	New Mexico
Trinidad Navarro	Delaware	Mike Causey	North Carolina
Colin M. Hayashida	Hawaii	Michael Wise	South Carolina
Doug Ommen	Iowa	Carter Lawrence	Tennessee

NAIC Support Staff: Becky Meyer

AGENDA

1. Consider Adoption of its Oct. 5,2022 Meeting Minutes Attachment One
—*Sandra Bigglestone (VT)*
2. Consider Adoption of the Task Force Recommendation on Application of Group Capital Calculation to Risk Retention Groups Attachment Two
—*Sandra Bigglestone (VT)*
3. Consider Adoption of Financial Analysis Handbook Guidance Recommendation on Consideration of Group Capital Calculation Attachment Three
—*Sandra Bigglestone (VT)*
4. Receive Updates on Related NAIC and/or Federal Actions
—*Sandra Bigglestone (VT)*
5. Discuss Any Other Matters Brought Before the Task Force
—*Sandra Bigglestone (VT)*
8. Adjournment

SharePoint/FRS-E Committee/RRGTF/RRGTF Conference Calls/2022 Nov 17/[Agenda -RRGTF11-17-22](#)

Draft: 11/15/22

Risk Retention Group (E) Task Force
Virtual Meeting
Oct. 5, 2022

The Risk Retention Group (E) Task Force met Oct. 5, 2022. The following Task Force members participated: Kevin Gaffney, Chair, represented by Sandra Bigglestone and Christine Brown (VT); Karima M. Woods, Vice Chair, represented by Sean O'Donnell (DC); Mark Fowler represented by Sheila Travis (AL); Doug Ommen represented by Kim Cross (IA); Sharon P. Clark represented by Russell Coy (KY); Troy Downing represented by Steve Matthews (MT); Mike Causey represented by Lori Gorman (NC); Russell Toal represented by Leatrice Geckler (NM); Barbara D. Richardson (NV); Michael Wise represented by Dan Morris (SC); and Carter Lawrence represented by Jonathan Habart (TN).

1. Adopted its April 19 Meeting Minutes

Matthews made a motion, seconded by Coy, to adopt the Task Force's April 19 minutes (Attachment One). The motion passed unanimously.

2. Adopted its 2023 Proposed Charges

O'Donnell made a motion, seconded by Matthews, to adopt its 2023 proposed charges (Attachment Two). The charges were unchanged from its 2022 charges. The motion passed unanimously.

3. Adopted the Proposed RRG Preliminary Memorandum

Bigglestone stated that as a result of a 2021 survey to all states, a group of volunteers took on the task of drafting a template that can be completed by a domiciliary state when a new risk retention group (RRG) is formed and there is no Insurer Profile Summary (IPS) available. This document, the RRG Preliminary Memorandum, would form the basis of the IPS, which would then be built from the RRG Preliminary Memorandum once the first annual statement filing is received. The completed RRG Preliminary Memorandum template can be provided upon request to states that the RRG is initially registering in. There were also minor updates to the RRG best practices document to ensure consistency with the RRG Preliminary Memorandum guidance. The general feedback from state insurance regulators during the Task Force's last meeting was that this memorandum will reduce uncertainty regarding information that may be shared among states and also increase efficiencies by jumpstarting the creation of the IPS by using the RRG Preliminary Memorandum as a starting point. During the Task Force's April 19 meeting, the memorandum was exposed for a 30-day public comment period. No comments were received during the exposure.

O'Donnell stated that the District of Columbia Department of Insurance, Securities, and Banking has already used the RRG Preliminary Memorandum and that it is a useful tool to share with non-domiciliary regulators. He noted it did not add to their workload as the information included is already part of the licensing process and that it sped up the process to respond to requests from non-domiciliary states. Brown stated that the Vermont Department of Financial Regulation has also used the RRG Preliminary Memorandum and agreed it was helpful both internally during the licensing process and externally to respond to non-domiciliary requests in an efficient manner.

O'Donnell made a motion, seconded by Matthews, to adopt the RRG Preliminary Memorandum template (Attachment Three). The motion passed unanimously.

4. Exposed a Recommendation on the Application of GCC to RRGs

Bigglestone said that in 2020, the NAIC adopted revisions to the *Insurance Holding Company System Model Act* (#440) and the *Insurance Holding Company System Model Regulation With Reporting Forms and Instructions* (#450). The revisions include a requirement for all groups to submit a group capital calculation (GCC). Per Model #440 language, all groups with at least one insurer and one affiliate are subject to the filing, at least once. However, the Financial Regulation Standards and Accreditation (F) Committee exposed the accreditation requirement such that an exemption can be granted to the filing without the requirement to file once. This allows a holding company group to request an exemption, and the insurance commissioner has discretion to allow the exemption. The Task Force has a charge to follow the actions of the Financial Regulation Standards and Accreditation (F) Committee and assess whether and/or how the changes should apply to RRGs and their affiliates. The Task Force, therefore, is developing a recommendation regarding applicability to RRGs to provide during the one-year exposure period. Following the discussion during its last meeting, the Task Force asked NAIC staff to draft a recommendation in support of applying the standard to RRGs as long as the exemption without an initial filing remains part of the standard (Attachment Three). This proposal provides flexibility to handle each RRG group appropriately—without limiting regulatory authority, but also recognizing that authority should be applied on a case-by-case basis.

Matthews noted that the GCC will likely not apply to most RRGs and said he supports the proposal as long as the option to allow exemptions without an initial filing remains in the standard. Bigglestone stated that upon initial review of their domestic RRGs, most will not require the filing, but there are a few that will require an initial filing before determining if filings in additional years are necessary.

The Task Force exposed the recommendation regarding application of a group capital calculation to RRGs for a 30-day public comment period ending Nov. 4 (Attachment Four).

5. Exposed *Financial Analysis Handbook* Guidance on Consideration of Group Capital Calculation

Bigglestone stated that as part of the discussion on the GCC, the Task Force also discussed whether some additional guidance in the NAIC's *Financial Analysis Handbook* (Handbook) may be helpful when considering the GCC for RRGs and, specifically, factors to consider when determining if an exemption to the filing is appropriate. Following the Task Force's last meeting, a group of volunteers discussed RRG-specific considerations and drafted proposed guidance. Brown summarized the proposed guidance (Attachment Four). The proposed guidance includes additional detail on common RRG structures relevant in the determination for exemptions from the GCC. If the proposal is adopted by the Task Force, a referral will be sent to the Financial Analysis Solvency Tools (E) Working Group to consider for inclusion in the Handbook.

The Task Force exposed the recommendation to include guidance for factors to consider when determining if an RRG group should be exempt from the GCC filing for a 30-day public comment period ending Nov. 4 (Attachment Five)

6. Received an Update on Related NAIC and/or Federal Actions

Bigglestone stated that the Surplus Lines (C) Task Force continues to discuss revisions to the *Nonadmitted Insurance Model Act* (#870). The revisions affect risk purchasing groups. She said that anyone interested in this work can join the Task Force's next meeting scheduled for Oct. 17.

7. Discussed Other Matters

The Task Force often discusses and promotes training opportunities related to RRGs. The National Risk Retention Association (NRRRA) is offering a free webinar to state insurance regulators on Oct 20. Details for registration were emailed to the Task Force member and interested state insurance regulator distribution lists. The webinar is hosted solely by NRRRA; the NAIC nor the Task Force participated in creating the content.

Having no further business, the Risk Retention Group (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/ECMTE/RRGTF/10.5.22RiskTFmin

MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee
FROM: Risk Retention Group (E) Task Force
DATE: September 1, 2022
RE: Response to Group Capital Calculation Accreditation Standard Exposure

The Risk Retention Group (E) Task Force is charged with following the work of the Financial Regulation Standards and Accreditation (F) Committee and providing input on the applicability to risk retention groups (RRGs) of new or revised standards. The F Committee exposed significant elements to include the 2020 revisions to the *Insurance Holding Company System Model Act* (#440) and *Insurance Holding Company System Model Regulation* (#450) as updates to the Part A accreditation standards. The revisions implement a Group Capital Calculation (GCC) for the purpose of group solvency supervision and a Liquidity Stress Test (LST) for macroprudential surveillance.

The Task Force discussed the proposed revisions and provides the following recommendations.

Liquidity Stress Test

The Task Force recommends the proposed significant elements not be included in the RRG Part A standards because the Liquidity Stress Test applies to large life insurers and RRGs are not authorized to write life business.

Group Capital Calculation

The Task Force recommends that the proposed significant elements be included in the RRG Part A standards, with the understanding that the proposed significant elements are adopted as exposed. Specifically, the allowance for commissioners to grant exemptions to groups meeting the qualifications set forth in Model #450 Section 21A and Section 21B without the requirement to file at least once. This flexibility is necessary to allow for the unique nature of many RRG holding company groups without limiting regulatory authority in situations when the filing is appropriate.

Thank you for the opportunity to comment on this matter.

VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) – Analyst Reference Guide

Considerations When Exempting Groups

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

To these points, the NAICs Model Holding Company Act and corresponding regulation contain possible exemptions for groups that have less than \$1 billion in premium and that do not possess any of the three characteristics just described. The possible exemptions exist after the GCC has been filed once, because without seeing the completed GCC at least once for a group, it may be difficult for the lead-state to determine if the GCC has value. However, it should also be understood that these three criteria of non-U.S. insurer, bank, or non-material non-insurers are not the only situations where the GCC would be valuable to the lead-state. As a reminder, all states are required to assess the sufficiency of capital within the holding company structure; prior to the GCC, this was done using various methods (e.g., debt to equity ratios, interest coverage ratios, existing RBC ratios and relative size of insurance). The GCC is expected to enhance a state's ability to make this assessment more easily. Therefore, in deciding if a group should be exempted, the lead-state will need to consider a number of factors, including how easily it can make this assessment without the GCC. For small groups where the U.S. RBC operations and assets are much larger than the non-insurance operations, it is likely the GCC would provide a smaller degree of value and exempting from the GCC may be appropriate. However, the analyst should also consider the fact that the simpler the holding company structure, the more easily the GCC can be completed. Specifically, given all of the data included in the GCC is existing data and therefore readily available to the company, a smaller and simple structured group should be able to accumulate into the GCC template in a short period of time. Also worth considering is that if such operations are contained within a number of different U.S. insurers where it is difficult to determine the degree of double counting of capital, the GCC may provide more value. To be clear, these are not the only situations where the GCC might be helpful even with a relatively small group. This is because the value may come from figures the GCC requires that the state may have otherwise not been aware of. Specifically, the GCC may identify non-RBC filers who may be experiencing some level of financial difficulties. This possible identification of information the lead-state was not otherwise aware of is the primary reason the Working Group suggested the GCC be filed once before deciding on whether a group should be exempted. While the NAIC Accreditation program may not require a state to have such authority to have the GCC filed once before exempting, this background information provided herein is intended to encourage the state to consider such possibilities before deciding on exempting a group, particularly since it may be difficult to stop an exemption in a given year once it's provided. In summary, as with everything else described in this documentation, the GCC requires judgement on behalf of the analyst and the lead-state which is based upon multiple factors including the lead-state's existing knowledge of the group. The same applies when considering whether a group should be exempt.

VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) – Analyst Reference Guide

Special Consideration for RRGs when Exempting Groups

RRG's often have unique structures that impact how they are regulated, how risks are assessed, and the potential sources of capital. For RRGs in a holding company system, the type of entities in the group as well as the amount of information readily available for the other entities in the group play a key role in regulatory oversight, including granting exemptions from the GCC calculation.

The following are some examples of unique circumstances/structures and related procedures that should be considered for RRGs when granting exemptions from the GCC. There may be other examples when evaluating RRGs and the regulator should clearly document the justification if an exemption is granted.

- RRG is affiliated with a commercial carrier and the RRG is not the controlling entity in the holding company:
 - The lead state of the commercial carrier will determine whether GCC is required.
 - Commercial carrier will prepare GCC, which will include RRG results.
- Closely held RRG:
 - Obtain and review sponsoring organization's audited financial statements to assess the ability to infuse capital if needed and consider any other impacts to the RRG.
 - Check sponsoring organization website and/or perform internet research for news headlines as to any current changes to the sponsor structure such as mergers, acquisitions or any other significant occurrences that could impact the RRG. This would be done periodically/quarterly to anticipate changes requiring a Form D filing.
 - Review the RRG's balance sheet for the asset receivable from parent, subsidiaries, and affiliates, as well as the liability payable to parent, subsidiaries, and affiliates to determine whether there are concerns with the level of affiliated receivables/payables.
- RRG with affiliated offshore reinsurer:
 - Obtain and review most recent audited financials for the affiliated reinsurer.
 - Ensure compliance with credit for reinsurance requirements.
- RRG itself is the ultimate controlling entity, has one or more non-insurance subsidiaries, and no one policyholder owns or controls 10% or more of the RRG:
 - Through review of RRG policies and procedures, corporate documents, subscription agreements, and policy provisions, determine the RRG's access to capital in the event a capital infusion would be needed. Consider the need to obtain financial information of policyholders, however, where no one policyholder owns or controls 10% or more of the RRG, it is not contemplated that the state would routinely collect financial information of the RRG's individual policyholders.
 - Obtain and review most recent financials for the subsidiaries.

In addition to structure, factors consistent with the above guidance for all holding company groups should be considered when exempting an RRG from the GCC. Factors to consider include how easily the information necessary to understand the group's capital situation can be obtained without the GCC and whether the state already has a process to obtain and review the information needed to easily assess the sufficiency of capital within the holding company system.