NAIC Group Capital Calculation, Liquidity Stress Test & Receivership Provisions

- *In December, 2020 and August, 2021 the NAIC adopted revisions to the NAIC Holding Company Act (#440) and Model Regulation (#450).*
- *The 2020 revisions create a Group Capital Calculation (GCC) and Liquidity Stress Test (LST) to provide U.S. solvency regulators with additional tools for conducting group-wide supervision. Revisions were also made to Model #440's Section 8 on "Confidential Treatment."*
- *The 2021 revisions create receivership provisions that will ensure the continuity of essential services and functions to an insurer in receivership by affiliated entities and further clarify ownership of data and records of the insurer.*
- *The 2020 revisions will likely become an accreditation requirement, effective January 1, 2026.*

Background

The NAIC's *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450) have provided state insurance departments with the framework for insurance group supervision since the early 1970s. In 2020, the NAIC adopted revisions to #440 and #450 to create a GCC and LST.

The GCC provides U.S. solvency regulators with an additional analytical tool for conducting group-wide supervision, and will assist regulators in holistically understanding the financial condition of non-insurance entities. It provides key financial information on the insurance group; quantifies risk across the insurance group and supports transparency into how capital is allocated; and aids in understanding whether and to what degree insurance companies may be supporting the operations of non-insurance entities. The GCC is intended to satisfy the group capital assessment requirements of the Covered Agreements with the EU and UK. Without the GCC, any supervisor in the EU or UK could impose its own group capital calculation (e.g., Solvency II capital requirements) on a U.S. group operating in the EU or UK and all of the U.S. insurers within that group.

The LST was developed to provide state insurance regulators with insights into a key macroprudential risk monitored by the Financial Stability Oversight Council (FSOC) and other jurisdictions internationally, but it also enhances group supervision. The LST requires insurers to file the results of a specific year's Liquidity Stress Test to the lead state insurance commissioner. States with groups impacted by the LST should adopt the relevant revisions as soon possible.

The recently adopted receivership provisions address the continuation of essential services through affiliated intercompany agreements in a receivership. They bring affiliate service providers deemed "integral" or "essential" to an insurer's operations under the jurisdiction of a rehabilitator, conservator, or liquidator for purposes of interpreting, enforcing, and overseeing the affiliate's obligations under the service agreement. In addition, they give the commissioner authority to require that "integral" or "essential" affiliate service providers consent to such jurisdiction.

Key Points

- To date, the 2020 revisions to Model #440 have been adopted by five jurisdictions: IL, MO, MT, NV and RI.
- The revisions provide state insurance regulators with critical tools necessary for conducting effective group-wide supervision.
- Industry was supportive of the revisions and worked extensively with regulators in their development.

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