

NAIC Company Licensing Best Practices Handbook

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Introduction

Introduction

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Introduction

BACKGROUND

In conjunction with the NAIC, the various states, as a part of the former Accelerated Licensing Evaluation Review Technique (ALERT) Subgroup, have worked toward the goal of streamlining and achieving uniformity in the insurer licensing process. To that end, a Uniform Certificate of Authority Application (UCAA) was developed by the former Accelerated Licensing Evaluation Review Technique (ALERT) Subgroup and is currently in use. However, the implementation of UCAA requirements and the standards and procedures involved in the reviewing of applications has not proven to be consistent among the members of the NAIC.

The objective of the *Company Licensing Best Practices Handbook* (Best Practices Handbook) is to provide a framework that, while not preempting a state's authority, promotes consistent decisions while reviewing the standardized UCAA and improves the efficiency of the review process. This Best Practices Handbook is not intended to constitute a comprehensive company licensing procedures manual. Each state must assess its ability, within the confines of existing statutes, regulations and resource constraints, to implement the recommendations contained herein.

UCAA INSTRUCTIONS vs. BEST PRACTICES HANDBOOK

The ALERT Subgroup performed a monumental task in bringing order to the various state rules, regulations, requirements and forms facing an applicant. [The National Treatment and Coordination \(E\) Working Group has been monitoring updates to the application requirements and creation of the new electronic application portal.](#) That work is thoroughly documented on the UCAA website. This Best Practices Handbook contains numerous references to the forms and processes described on the UCAA website.

This Best Practices Handbook deals primarily with the qualitative processes involved in reviewing an application. The concepts and recommended processes and procedures described herein were developed through interviews with various state regulatory personnel involved in the company licensing process and a compilation of the observed best practices. During those interviews several "best practices" concepts became evident. They were:

- LICENSING PROCESSES: The company licensing function can be viewed in light of its component processes:
 - Administrative Filings: Receipt and processing of certain corporate documents that are needed to establish a corporate existence but are not subject to qualitative review.
 - Analysis of Current Financial Condition: Documentation of the current operating condition of the company.
 - Analysis of Business Plan: Review of the company's explanation for the proposed expansion and/or change in its operations and how those changes will affect the company's operating condition.

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- **INTERSTATE COMMUNICATION:** The licensing process in many states involves the re-determination of the current financial condition of the company. This information should already be known by the domestic state and can be conveyed to the applicant state. The effort saved by not reanalyzing company condition in the company license process can be used to communicate financial condition information to other states when requested.
- **PRIORITIZATION FRAMEWORK:** Several states incorporated more or less sophisticated prioritization systems as a part of the licensing function. The scope of the financial review may be adjusted based upon the prioritization of the insurer. The resources saved by reducing effort in reviewing companies on the top and bottom of the scale can be better spent performing a more thorough review of those companies where the effect of an expansion or amendment of the business plan is not so easily evident.

In addition to gathering information necessary to evaluate an applicant, the UCAA was developed to incorporate the majority of state's rules, regulations and requirements relative to company licensing. The goals of this Best Practices Handbook are uniformity and efficiency in the review of company licensing applications. In some instances, those goals conflict with filing requirements noted in the UCAA. Therefore, it is acknowledged that there may be inconsistencies between this Best Practices Handbook and any specific state's filing requirements.

DESCRIPTION OF THE BEST PRACTICES HANDBOOK

The Company Licensing Function

This chapter provides an overview of the role of the company licensing function as the initial step in state regulatory oversight. The goals of the company licensing function and the risk-based approach to achieving them are described.

Interstate Communication

This chapter discusses a framework for communication and cooperation between an applicant state, the state of domicile and other stakeholder states (if any).

Best Practices

Conceptual Framework

This chapter presents a risk-based framework for the processes involved in analyzing the application.

Review of Forms

This chapter presents a summation of best practices compiled as guidance relative to the analysis and decision making regarding the application.

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Appendix A – The Uniform Certificate of Authority Application (UCAA)

This appendix presents a brief overview of the UCAA and how it is referenced in the “Best Practices: Application Review” chapter.

Appendix B – Use of Electronic Documents

This appendix presents a description of UCAA contents that are available in electronic media.

Appendix C – Review of Electronic Application Coordination and Processing (REACAP)

This appendix presents the criteria for requesting the National Treatment and Coordination (E) Working Group to monitor the timing, technology and substantive issues regarding the insurers’ electronic UCAA filings.

Appendix D – Form A Review Best Practices

This appendix presents a guide for regulatory review and analysis of Form A acquisitions, recognizing that this list may not be comprehensive and not all items will apply to every acquisition.

Appendix E – Speed to Market

This appendix presents the criteria for requesting the National Treatment and Coordination (E) Working Group to monitor the timing and coordination of expansion applications for insurers in good standing with their state of domicile (lead state).

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The Company Licensing Function

The Company Licensing Function

NAIC *Company Licensing Best Practices Handbook* The Company Licensing Function

The company licensing function stands at the threshold of an insurance department's oversight of an applicant's future operations within the state. The function encompasses virtually all areas of regulatory oversight, from solvency surveillance to market conduct, to rates and forms and producers' licensing — and not only within the applicant state insurance department, but also within the insurance department of the domiciliary state. The most difficult stages of regulatory oversight occur at the very beginning and at the very end of an insurer's regulatory life cycle. Never is a more comprehensive understanding of an insurer and its potential for success more critical than when a regulator must grant authority to conduct business and in those even more difficult circumstances when the regulator must withdraw the authority to conduct business.

In developing this Handbook, a great deal of consideration was given to the assessment of risk in the review of a company license application. All of the current NAIC guidance provided to insurance department personnel relative to insurance company surveillance deals with the assessment of risk present in the individual insurers comprising the population to be regulated. That risk, the risk of financial failure or risk of marketplace improprieties is to be measured and graded. Current guidance defines procedures in such a manner that regulators maximize the effectiveness of the surveillance process by concentrating on the areas, or companies, of greatest risk. This approach by its nature, forgoes the idea of "zero" risk. The cost of obtaining zero risk is prohibitive and the effort expended in its pursuit is better spent in other endeavors.

Similarly, regulators involved in reviewing company licensing applications must adhere to the same goals. The review of the company licensing application should be structured so that applicants' risks of financial failure or marketplace impropriety are identified and addressed. Procedures exist in the *Financial Analysis Handbook*, the *Financial Condition Examiners Handbook* and the *Market Regulation Handbook* for monitoring companies subsequent to admission. Company licensing personnel should concentrate on those issues that indicate an applicant may harm the citizens of their state, either through financial failure or marketplace improprieties, as a result of granting or amending a certificate of authority.

Therefore, the procedures described herein represent a departure from the conventional approach to the review of a company license application. In some instances, it is recommended that documents submitted with an application should be subject to minimal review. Those documents, although necessary to establish an applicant as a legal entity, do not provide significant insight into the risk profile of a company. By accepting the risk of a minor compliance violation (that, after all, will still be the subject of ongoing monitoring), the regulator will maximize the effectiveness of their department and better fulfill their responsibilities to the citizens of their state.

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Interstate Communication

Interstate Communication

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INITIATING INTERSTATE COMMUNICATION

The expansion and/or alteration of a company's operations are of equal importance to the regulators in both the expansion states and the domestic state. The results of unsuccessful expansion plans cut across state boundaries — a troubled company is “troubled” in all states. It follows that the analysis of a company's condition and business plan should be accomplished through a coordinated effort. Ultimately, each state operates under its own statutory authority and is responsible for the protection of its own policyholders. Interstate communication and cooperation is not intended to relinquish the authority of any state or to disadvantage any state; rather, it is intended to facilitate efficiencies that will be achieved when applicant states coordinate the company licensing process with all states involved, including, most importantly, the domestic state.

The NAIC Financial Regulation Standards and Accreditation Program requires states to provide for the sharing of otherwise confidential information, administrative or judicial orders, or other action, with other state regulatory officials, provided that those officials are required under their law to maintain its confidentiality. The NAIC “Master Information Sharing and Confidentiality Agreement” allows signatory states to share confidential information with other signatory states. As of this writing, 50 states and the District of Columbia have signed the agreement. Current information can be accessed through the NAIC I-SITE application under StateNet or <https://i-site-state.naic.org/cgi-bin/statenet>.

Prior to submitting an application in a foreign state, the insurer should inform the state of domicile of its plans in the foreign state(s). If the state of domicile holds important concerns regarding the applicant's plans, such concerns should be communicated to the [lead reviewer](#) (senior financial regulator) in the applicant state(s). Similarly, after receipt and an initial review of an application, the applicant state may contact the [lead reviewer](#) (senior financial regulator) in the domiciliary state to open a dialogue regarding the applicant. Preferably, this communication should occur as early in the application process as possible to allow consideration of the information within an appropriate timeframe. The dialogue should include:

- Is the Applicant Company concurrently applying to additional states?
 - If so, contact other states to coordinate information available from the domiciliary state and discuss when determine if the group plans to enter multiple states/markets at the same time or in rapid succession.
 - If so, consider the Applicant Company's seasoning/experience and intent /ability to support both financially and operationally entry into multiple markets at one time.
 - o Does the group have personnel to handle the premium volume, claims volume, and are its accounting systems adequate to support entities in multiple jurisdictions?
 - o Is the group familiar with the different regulatory regimes in the states it is proposing to enter? For instance, are they aware of state law governing marketplace activity, such as marketing and sales, underwriting and rating, claims, etc.? Do they have processes in place for underwriting and rating, claims, and marketing and sales or are they working on those documents? Are they aware of the filing requirements for forms, rates, and rules?

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- o [The applicant state may want to touch base with the market conduct and filings section with the Department to consider if additional questions are needed, or if market conduct has any additional concerns with the Applicant.](#)
 - If so, and the applicant is part of a holding company structure, contact the “Lead State” to coordinate information sharing. [Consider requesting the Group Profile Summary.](#)
 - ~~If the Applicant Company does~~ the majority of ~~its the Applicant Company’s~~ business in a state other than the domiciliary state, the ~~Applicant Company and domiciliary~~ states may consider ~~communication communicating~~ with a “Key State” as discussed below. However, even if a key state is identified, the domiciliary state will remain the primary regulator.
 - [Determine ~~If the Applicant Company understands the market it intends to enter and how it plans to compete with other, more established market participants. Are the projections provided with the application reasonable in light of the market competition in the state?~~](#)
- Domiciliary (and key) state’s analysis of current condition of the applicant.
 - Has the domiciliary state performed a risk analysis of the applicant?
 - If the risk analysis performed by the domiciliary state is understandable to the applicant state and is substantially similar to the prioritization system defined in this Handbook, the applicant state should consider accepting the analysis in lieu of performing an additional financial analysis of the Applicant Company.
 - Analysis of Business Plan by Applicant State(s)
 - Are the operations described in the business plan consistent with the demonstrated experience and expertise of the Applicant Company?
 - Does the business plan have the potential to significantly alter the condition of the Applicant Company?
 - ~~After consideration of the Applicant Company’s condition, business plan and any other relevant information, has the domiciliary state transmitted any information having a bearing on the application?~~
 - [For Health entities- ~~consideration of~~ determine the Applicant Company’s operational capabilities, include its ability to properly code for risk scoring if Medicare line is provided, and its ability to develop and maintain an adequate provider network.](#)
 - ~~Additional Review of~~ [the organizational structure and capital resources of the applicant. Determine what funding is currently available to adequately support the growth of the Applicant company and the Group. Assess whether the Group may need to raise capital from investors to support the anticipated growth and the likelihood of the capital being timely raise raised timely.](#)

LEAD STATE

Lead state(s) or designee assumes the role of coordinator and communication facilitator. The lead state(s) serves as the facilitator and central point of contact for purposes of gathering and distributing information to all regulators involved.

KEY STATE

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In some instances other states may have information pertinent to the application. In those instances, a “Key State” may be considered for consultation in addition to the domiciliary state. The Key State may emerge based on the state with the largest premium volume, the state of domicile of the parent of the holding company, or other reasons. The “Key State” should not assume the responsibilities of either the applicant state or the domiciliary state. A “Key State” should be identified solely as an additional source of information regarding the applicant.

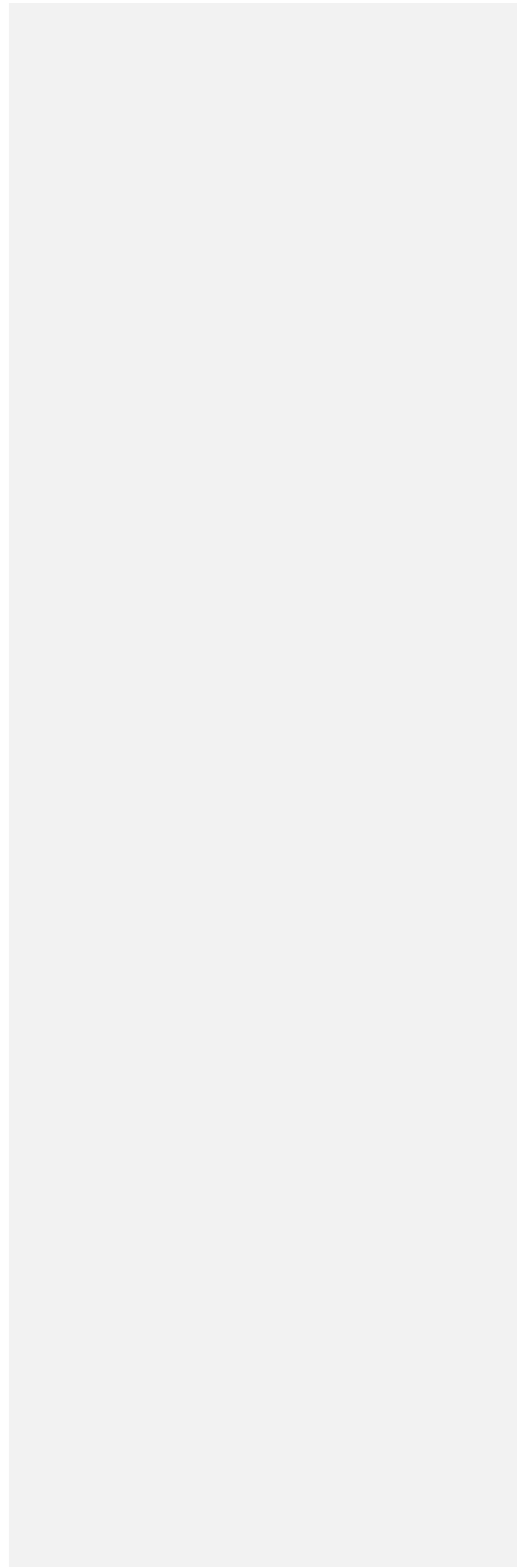
COMMUNICATIONS AND THE DOMICILIARY STATE

As previously stated, the Applicant Company should inform the domiciliary state of its plans to file company licensing applications in foreign states. In addition, communications between the applicant state(s) and the insurer may contain information regarding specifics of the applicant state’s marketplace that may significantly impact the insurer’s proposed business plan. The use of the electronic UCAA provides a mechanism for tracking such correspondence [via the state-to-state communication link](#). This will allow the domiciliary state to remain cognizant of these communications and the relevant information, while the decision on the expansion remains with the expansion state.

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Best Practices: Conceptual Framework of Processes and Procedures

Best Practices: Conceptual Framework of Processes and Procedures



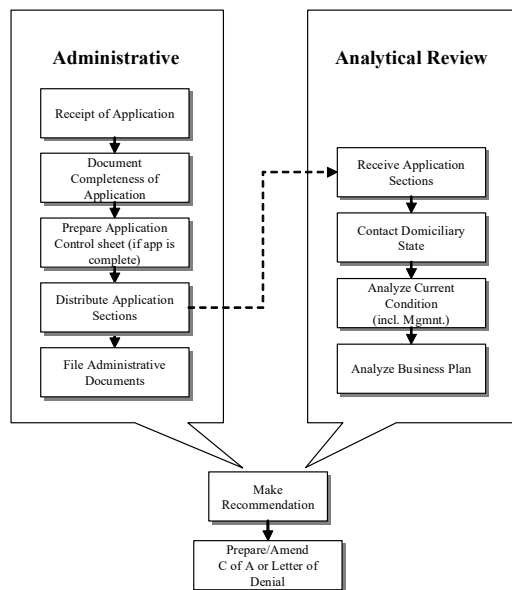
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CHAPTER OVERVIEW

This chapter will discuss a framework for the process flows that occur within the Company Licensing Function. The significant procedures within those process flows are discussed in detail, although guidance on the review of specific UCAA forms is contained in the “Best Practices: Application Review” chapter.

COMPONENTS OF THE COMPANY LICENSING FUNCTION

Depending on the type of application, the processing of a company license application can be broken down into one or more of the following components as shown in the graphic below.



Administrative

Coordination: This component begins with the receipt ([accepting as complete](#)) and recording of an application ([task assignment](#)) and its supporting documentation. The application should be reviewed to determine that a response exists for all inquiries ([via the application notes section](#)). Supporting documents should then be reviewed to determine that they are, in fact, responsive to the UCAA requirement. The degree of ~~the~~ completeness and/or responsiveness of the application must be assessed to determine if processing of the application can proceed without further input from the Applicant Company. It is recommended that the state [acknowledge and accept the application as complete](#) and document notes in the appropriate sections of the application for future

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~~reference by the application reviewer. issue a letter to the Applicant Company acknowledging receipt of the application.~~

Timeliness: If processing can commence, ~~the facilitator (an “application coordinator”) should create a task or upload a state specific checklist, employ a spreadsheet, database, TeamMate file, or other mechanism (if the application was not received via the NAIC electronic UCAA utility) to~~ record the assignment of application review responsibilities and the progress of the review against the Department or UCAA timelines:

- The Department should have a policy that establishes timing requirements for the review of applications for primary licensure of new companies and redomestications and Form A filings. If not, then the following guidelines are acceptable.
- Fourteen days to review an application for completeness.
- The goal is to notify the Applicant Company of supplemental information required from the Applicant Company within 30 days of applications. However, there may be situations where supplemental information provided requires clarification or a second review of the application requires requesting additional information.
- It should be noted, if additional information is needed to complete the review of an application, the review may also take longer to complete. Once a request for additional information has been made, the 60-day or 90-day goal is suspended until the requested information is received.
- Ninety days to process a primary application. Effective January 1, 2012, company licensing will be part of the accreditation program, Part D of the NAIC Policy Statement on Financial Regulation Standards, which provides that if a state does not have timing requirements in statute or regulation, the state will be expected to meet the 90-day goal for accreditation purposes.
- Sixty days to process all other types of applications.

It is recommended that the state send the company regular correspondence ([Request for Information- RFI](#)) regarding the progress of the application.

Administrative Filing: This component consists of the review and filing of administrative documentation, which, while critical to the establishment of the Applicant Company as an operating business organization, is generally not subject to substantial qualitative analysis. This includes receipt of filing fees, articles of incorporation and bylaws, statutory deposits, membership in mandatory associations, consent to service of process, as well as other state-specific requirements. (See discussion of specific forms in “Best Practices: Application Review” chapter.)

Analytical Review

Analysis of Current Condition: The financial condition and management practices of the Applicant Company must be ascertained to determine they are of sufficient quality to permit the applicant to sell insurance products to the citizens of the state.

Except for a primary application, the analysis of the Applicant Company’s current condition should begin with contact to the domiciliary (and key) state as described in the “Interstate

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Communications” chapter. Company licensing analysts should confer with financial analysts in the domiciliary (and key) state to determine the overall operating condition of the Applicant Company based on a prioritization system and plan the scope of review activities accordingly. [The reviewer can communicate via the state-to-state communication link within the application.](#)

Prioritization Framework

The utilization of a prioritization framework is the key to the efficient analysis of an Applicant Company’s current condition. *The Financial Analysis Handbook* suggests that domestic insurers be “prioritized” or ranked according to each insurer’s “relative stability.”

The *Financial Analysis Handbook* provides general guidance regarding the framework, but leaves the determination of specific prioritization metrics up to the domiciliary state. Tools currently available for use in reviewing the financial condition include: Insurance Regulatory Information System (IRIS) ratios, ~~Analyst Team System results~~ and Financial Analysis Solvency Tools (FAST). In addition to the financial review, any market conduct information available from the market analysis chief or collaborative action designee in the state’s market analysis department should be considered along with data available in the following market analysis tools and systems that are available on I-SITE: Complaints Database System (CDS), Examination Tracking System (ETS), Market Analysis Profile (MAP), Market Analysis Review System (MARS), Market Initiative Tracking System (MITS), Regulatory Information Retrieval System (RIRS), Market Conduct Annual Statement (MCAS) , Producer Database (PDB), and 1033 State Decision Repository (SDR)-Data Entry Tool. The analyst should note any unusual items that translate into financial risks or indicate further review or communication is needed with the insurance department’s market analysis staff.

Commented [DD1]: ATS scores are no longer available.

Other initiatives have been undertaken to more specifically define a broad-based system of prioritizing insurers based on operational practices as well as financial condition. During the development of this Handbook, it was noted that several states have developed such holistic models. The use of these models is clearly the best practice for determining the current overall condition of an insurer, and then assigning a prioritization that can be used to determine the appropriate scope of analytical review for a specific application. However, in each case, the specifics of the model are considered confidential.

Therefore, for the purpose of this Handbook, a prioritization framework will be discussed, and the general characteristics of each prioritization category will be described.

Use of Prioritization Framework in Application Review

The use of prioritization in the application review process carries the same risks and benefits inherent in any prioritization evaluation system. The goal of all such systems are to eschew the costly practice of reducing risk to zero, and instead to define a level of acceptable risk. The use of prioritization means that, in some instances, all the documents included with an application will not be reviewed in detail. However, the risk of not reviewing those documents in detail is mitigated by a company’s low risk of financial failure and by providing additional time to review the company’s business plan.

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During the development of this Handbook, almost all company licensing personnel interviewed indicated that they were able to quickly, even if only informally, identify companies whose applications were likely to be approved. States that utilized prioritization systems were able to more formally document those applicants. Through the use of a formal prioritization system, company licensing analysts can reduce the scope of their review of strong applicants, thus conserving effort better served in the review of marginal applicants. The following guidance provides a recommended scope of review for each prioritization category.

Priority 1

Insurers included in Priority 1 are considered troubled and subject to comprehensive annual and quarterly analysis procedures, detailed considerations outlined with the *Troubled Insurance Company Handbook*, and a significantly elevated level of ongoing regulatory monitoring and oversight. Upon designating an insurer as a Priority 1, the domestic state should follow required procedures for troubled companies in communicating with other state insurance regulators. Insurers prioritized at this level would also be considered priority insurers for accreditation timeliness purposes and should generally be analyzed ahead of Priority 2, Priority 3, and Priority 4 insurers.

Insurers in this group generally are not capable of withstanding even moderate business fluctuations. There may be significant noncompliance with laws and regulations. Risk-management practices are generally unacceptable relative to the insurer's size, complexity and risk profile. Corporate and group structures or framework may be of a nature that is not conducive to effective regulation. Close regulatory attention is required, which means formal action is necessary in most cases to address the problems. Insurers in this group pose a risk to the state guaranty fund. Failure of the insurer is probable if the problems and weaknesses are not satisfactorily addressed and resolved. Priority 1 companies should not be considered for expansion.

Priority 2

Insurers in Priority 2 are – high-priority insurers that are not yet considered troubled but may become so if recent trends or unfavorable metrics are not addressed. High-priority insurers may also include those subject to heightened monitoring for reasons other than financial solvency risks, as determined by the department. Insurers prioritized at this level may be subject to full quarterly analysis procedures and are subject to comprehensive annual analysis and an elevated level of ongoing regulatory monitoring and oversight. Insurers prioritized at this level would also be considered priority insurers for accreditation timeliness purposes and should generally be analyzed ahead of Priority 3 and Priority 4 insurers.

Priority 2 companies are generally not considered good candidates for expansion. However, senior-level department personnel should contact their counterparts in the domiciliary state to determine if there is any reason to perform further analysis in consideration of approval of the application. In certain unique circumstances, based on the line of business offered and the market conditions in the expansion state, it may be appropriate to pursue licensure under heavily monitored criteria.

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These insurers, or their holding company groups, have a combination of moderate to severe weaknesses that may exhibit unsafe and unsound practices or conditions. The insurer is moving toward meeting criteria indicative that it is operating in a manner that is financially hazardous to policyholders and/or the public. They have serious financial or managerial deficiencies that result in unsatisfactory performance and problems are not being satisfactorily addressed or resolved by the board of directors and management.

Priority 3

Insurers in Priority 3 are considered moderate priority insurers that indicate some need for additional monitoring. Insurers prioritized at this level should be subject to comprehensive annual analysis procedures, should generally be analyzed ahead of Priority 4 insurers, and may be subject to an enhanced level of ongoing regulatory monitoring and oversight.

Priority 3 companies present the greatest challenge to the company licensing analyst. They are neither an obvious candidate for approval nor for denial, based on their current overall condition. Insurers in Priority 3 appear fundamentally sound, but may exhibit some degree of regulatory concern in one or more areas. These insurers and their parent and other members of the holding company group are relatively stable, could withstand moderate business fluctuations, and are in substantial compliance with laws and regulations. While the overall, risk-management practices are satisfactory relative to the insurer's size, complexity, and risk profile, these companies exhibit certain notable adverse risk characteristics. There are no current material supervisory concerns and, as a result, the regulatory response is informal and limited. The risk to policyholders and/or guaranty funds is currently viewed as remote, however significant factors exist that may result in financial stress in the longer term.

In this instance the company licensing analyst should re-analyze the financial information provided with the application in order to better understand the exact nature of the Applicant Company's weaknesses. However, it is important that communication between senior-level department personnel in the domiciliary (and key) state remains active. The domiciliary state can provide insight into the resolution of adverse financial or market conduct examination findings and the extent to which the company has remediated the deficiencies. Once the analyst has gained comfort with his/her knowledge of the Applicant Company's current operational condition, the business plan should be diligently reviewed in order to determine whether:

- The Applicant Company has a demonstrated history (e.g., five years) with the lines of business for which it is applying.
 - If the Applicant Company is applying for lines of business for which it has less than five years of history, the analyst should review the business plan to identify, and/or request additional information regarding, key managerial personnel responsible for administering the new lines of business.
- Key personnel have been in place for a sufficient period of time to demonstrate their insurance management expertise.
- The scope of the expanded operations is not imprudent relative to the financial strength of the Applicant Company, its parent and other members of the holding company group. If the expanded operations are in new lines of business, more stringent standards should be applied

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when assessing the potential effect of expanded operations on the condition of the Applicant Company.

- The domiciliary state noted any operational or compliance deficiencies in lines of business similar to those planned for the expanded operations.

Priority 4

Priority 4 are lower priority insurers that do not currently indicate a need for additional monitoring. These insurers should be subject to a basic level of regulatory monitoring and oversight, including annual analysis.

For these companies, the analysts should consider foregoing an in-depth review of information relevant to the Applicant Company's current operating condition (e.g., financial documents included with public records package or the holding company statements). Rather, the company licensing analyst should focus on the quality and assumptions of the business plan to determine whether:

- The Applicant Company has a demonstrated history (e.g., three years) with the lines of business for which it is applying.
 - If the Applicant Company is applying for lines of business for which it has less than three years of history, the analyst should review the business plan to identify, and/or request additional information regarding, key managerial personnel responsible for administering the new lines of business.
- Key personnel have been in place for a sufficient period of time to demonstrate their insurance management expertise.
- The scope of the expanded operations is not imprudent relative to the financial strength of the company and its parent and other members of the holding company group.

Analysis of Business Plan

The Applicant Company's plan for conducting business in new jurisdictions must be evaluated to determine if the plan is consistent with the Applicant Company's demonstrated capabilities and the state's marketplace. Further guidance for the analysis of business plans is included in the "Best Practices: Application Review" chapter.

Intradepartmental Communications

In addition to communications with other jurisdictions, it is important that the company licensing coordinator convey information regarding pending applications to other divisions within the insurance department. The licensing of a new entity or expansion of authority will impact other divisions once the new or amended certificate of authority is issued.

Actuarial: This section should understand the business plan filed with an application in order to adequately monitor any future reserving issues or other actuarial concerns.

Financial Analysis: Once a new or amended certificate of authority has been issued the financial analysis division of the insurance department will assume monitoring responsibilities. The

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financial analysis section should understand the business plan filed with an application in order to monitor future results against that plan.

Market Conduct and/or Analysis (including consumer complaints and enforcement): The Market Conduct/Analysis section should understand the business plan to anticipate any issues and to monitor future results against the plan.

Policy Approval: Although policy forms are not a required component of the company license application, they are one of the most significant indicators of an Applicant Company's actual business intentions. The financial analysis section should coordinate with the policy approval section to monitor policy filings from the newly licensed company to determine that they are consistent with the filed business plan.

Producer Licensing: Similar to policy approval, the appointment of producers must be consistent with the scope of the new company's business plan. The financial analysis section should similarly coordinate with the producer licensing section to monitor producer appointments by the new company.

Timeliness of Review

Perhaps no issue surrounding the company licensing process creates greater interest than that of timeliness. The UCAA website contains suggested guidance for the processing of various types of applications, including interim timelines. Although regulators should not sacrifice an appropriate level of review solely in the pursuit of expediency, it is imperative that every effort be made to adhere to the processing times recommended on the *UCAA website* when reviewing Priority 4 companies:

- Fourteen days to review an application for completeness.
- The goal is to notify the company of supplemental information required from the applicant within 30 days of applications. However, there may be situations where supplemental information provided requires clarification or a second review of the application requires requesting additional information.
- It should be noted, if additional information is needed to complete the review of an application, the review may also take longer to complete. Once a request for additional information has been made, the 60-day or 90-day goal is suspended until the requested information is received.
- Ninety days to process a primary application.
- Sixty days to process all other types of applications.
- Complexities involved with the review of Priority 2 and Priority 3 companies may adversely affect a state's ability to meet these timelines recommendations. Notwithstanding these complexities, the regulator should make all reasonable efforts to maintain timely communication with the applicant companies.

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Introduction

In this chapter, recommendations for the review of each type of application are presented. The recommendations are based on the concepts of prioritization framework and interstate communications presented in the previous sections of this Handbook.

Within each application type, the review recommendations are presented in the following format:

- Application Type:
 - Chart Illustrating the UCAA sections of the application.
 - Recommendations for reviewing the “Administrative Filings” sections of an application.
 - Recommendations for reviewing the “Analysis of Current Condition” sections of an application.
 - Depending on the type of application, there may be subsections based on the risk profile of the Applicant Company.
 - Recommendations for reviewing the “Analysis of Business Plan” sections of an application.
 - Depending on the type of application, there may be subsections based on the risk profile of the Applicant Company.

Confidentiality and Safeguarding of Biographical Affidavit Information

The insurance department shall implement a written information security program that includes administrative, technical, and physical safeguards to protect the security and confidentiality of the biographical affidavit, fingerprint card (where applicable), independent third-party background report, and all associated notes, emails or work papers (collectively referred to hereafter as “documents or records”).

Given: (i) the size and complexity of the insurance department and the nature and scope of its activities; (ii) the variations in state laws; and (iii) the sensitive and personal information it maintains, the insurance department is referred to the NAIC *Standards for Safeguarding Customer Information Model Regulation* (#673) for further guidance with respect to an information security program. In addition, the insurance department should be aware that there may be other state-specific and federal laws and regulations regarding record retention and confidentiality, including the federal Fair Credit Reporting Act and the Federal Trade Commission regulations.

The following actions and procedures are recommended to the insurance department in implementing a written information security program.

Administrative Safeguards

- Identify reasonably foreseeable internal or external threats, assess the risk of harm from these threats, and develop and implement written procedures and policies that will safeguard the information and minimize the threats.
 - Annually assess the sufficiency of current practices and adjust the written program as necessary to adapt to new threats and technologies.
 - Train employees on the policies and procedures developed to safeguard documents or records
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and personal information contained therein. Periodically review the training process and refresh employees on old and new processes. Provide training and training materials relevant to the safeguards to employees outside the company licensing division that may handle a public records request for the documents or records. Educate employees on any state enforcement rules and/or polices regarding their failure to abide by the training they receive.

- Develop procedures to search for Social Security numbers imbedded in licensure or registration numbers provided. Licenses or registrations from prior years may have included Social Security numbers within the number.
- Develop procedures and policies specific to the security of laptops and other portable devices that may contain personal information from the documents or records.
- Prohibit the sale of personal information, including names and addresses of any affiant for any purpose.
- Exercise appropriate due diligence in selecting service providers, and require thorough appropriate confidentiality agreements, that they implement measures to meet the relevant objectives of the security program.

Technical Safeguards

- Maintain personal information in a secure manner that is appropriate to the size and complexity of the insurance department and the nature and scope of its activities.
- Transmit documents or records and personal information between the third-party vendor and insurance department in a secure manner.

Physical Safeguards

- Develop policies and procedures to address retention and destruction of paper and electronic documents or records.
 - Place access controls to the documents or records, whether in paper or electronic form, only to those individuals that need to know the information contained therein to complete a company's review for licensure or to investigate a response to an open records or Freedom of Information Act (FOIA) request.
 - Keep the documents or records out of public view and secure when not being utilized.
 - Maintain and secure all electronic and paper documents or records in accordance with state laws or record retention policies. The insurance department must comply with its written information security program when responding to the public records request for biographical information that is outdated or for which the authorization has been revoked by the affiant. In addition, the Department should include a statement with the documents that notifies the individual requesting disclosure through a public records request that the information contained therein may be outdated. (According to the UCAA Instructions, a biographical affidavit is only good
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for 6 months after executed, and an affiant may revoke authorization at any time.)

- Destroy documents or records in a manner that renders the information unreadable and undecipherable; document and maintain those procedures for secure disposal of Nonpublic information.
- Develop standards for notifying the affiant and affiant's employer in the event of a security breach.
- Store the electronic and hardcopies of these documents or records in a secure manner. (Examples include storage in a cabinet or room accessible only by individuals that need the information for permitted purposes.)

For the states that have enacted the *NAIC Insurance Data Security Model Law* (#668) refer to the guidance provided in the *Financial Examiners Handbook*.

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Primary Application

A Primary Application is to be used for domestic insurers. See Appendix A for the Primary Application Review Checklist.

The classification of the application instruction items is illustrated in the following chart:

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Application Form and Attachments	☒		
2. Filing Fee	☒		
3. Minimum Capital and Surplus Requirements		☒	
4. Statutory Deposit Requirements	☒		
5. Name Approval	☒		
6. Plan of Operation			☒
7. Holding Company Act Filings		☒	
8. Statutory Memberships	☒		
9. SEC Filings or Consolidated GAAP Financial Statement		☒	
10. Debt-to-Equity Ratio Statement		☒	
11. Custody Agreements			☒
12. Public Records Package	☒		
13. NAIC Biographical Affidavits		☒	

Administrative Filing

Application Instruction Items

Item 1. Application Form and Attachments

- Form 1P “Checklist” – The coordinator should review the checklist for completeness and that all described documents are included in the application.
- Form 2P “Primary Application” – The coordinator should review the form for completeness.
- Form 3 “Lines of Insurance” – Only the applied for lines will be required for a newly formed company. The entire Form 3 will be required for a redomestication.

Item 2. Filing Fee

- Review check submitted in payment of fees for correct amount. In some instances, the check may be held by another section of the insurance department. In that case, review the description of the check received.
- Forward check for deposit or provide information for proper processing of check.
- Filing fees range from \$0 to in excess of \$5,000 and are generally retaliatory.

Item 4. Statutory Deposit Requirements

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- Form 7 “Certificate of Deposit” – The coordinator should review the form and compare the amount of the deposit to the state’s requirement.
- These funds are deposited with the commissioner, generally through a safekeeping or trust receipt, to be held for the benefit and protection of, and as security for, all policyholders and, in some instances, creditors of the insurer making the deposit. Additional deposits are generally required of those insurers applying to write lines of business not covered under state insurance guaranty funds (e.g., guaranty, fidelity, surety, and bond business) or otherwise (e.g., workers’ compensation). The ultimate purpose of these funds is to ensure that liquid assets are unencumbered and available for use by the commissioner, or his/her designee, for the administration of the insurer’s estate should it become insolvent.

Item 5. Name Approval

- The coordinator should determine that a name approval request consistent with the state’s requirements has been filed. If state requirements dictate, the request should be forwarded to the appropriate area for processing.
- Typically, state insurance departments incorporate insurers, but some states require the involvement of the secretary of state or the attorney general. Names are submitted for preapproval because the public has the right to know with whom it is dealing and, therefore, someone must determine that the name is not so similar to another as to be likely to deceive or mislead. The name should be such as to show that the company is engaged in the insurance business and preferably to show the type of business. Some states provide for publication and subsequent hearing to ensure that any objections are addressed.

Item 8. Statutory Memberships

- The coordinator should compare the application to the state requirements for statutory memberships and determine that appropriate documentation supporting the membership application is included.
- Some states require a positive application and confirmation regarding membership in state-mandated risk pools or other organizations. In other words, an insurer may not automatically be a member by virtue of its certificate of authority, but may be required to join outside the jurisdiction of the insurance department.

Item 12. Public Records Package

- The coordinator should compare the contents of the public records package with state requirements. Financial documents should be forwarded to the areas expected to utilize the documents. Operational documents (other than the application form) should be filed as required.

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Analysis of Current Condition

Note: Generally, the scope of the analysis of current condition would depend on the prioritization of the Applicant Company. With a primary application (not a redomestication):

- i. If it is a stand-alone company, there is no information upon which to establish a prioritization and the use of that technique is inapplicable.*
- ii. However, if the Applicant Company is part of a holding company structure, the reviewer may want to consider the strengths, structure, ratings, etc. of the holding company.*

Application Instruction Items

Item 3. Minimum Capital and Surplus Requirements

- This document should make it clear that the Applicant Company understands state law with respect to the amount of capital and surplus that must be maintained at a minimum. In some states, the minimum capital and surplus requirements are determined by the classes of insurance that the applicant is requesting authority to transact and the classes of insurance the applicant is authorized to transact in all other jurisdictions. The analyst should determine the level of surplus required after considering the Applicant Company's plan of operation. Compliance with the statutorily prescribed minimum surplus requirement may not be sufficient for all applicants.

Item 7. Holding Company Act Filings

If the Applicant Company is a member of a holding company system, the application must include either the most recent Holding Company Act (HCA) filings, including the annual Form B registration statement and related Form F, or a statement substantially similar to the *Insurance Holding Company System Regulatory Act* (#440). Holding Company Act filing information should be considered to determine the role of the Applicant Company within the holding company structure, enterprise risk, the financial capacity of the parent to support an insurance operation and the existence of relevant insurance operations experience in the proposed parent or affiliates. Affiliates are identified along with a description of any transactions between the insurer and an affiliate currently outstanding or during the last calendar year. Copies of all advisory, management and service agreements and other attachments need be reviewed for fair and equitable terms. Refer to the Form A Review Best Practices located under Appendix D.

- The applicant state should bear in mind that Holding Company Act filings, including the Holding Company Form F, are highly confidential, but that state laws providing confidentiality protections may vary from those of the applicant state. A state that has not enacted language specified under HCA Item 8 in its entirety will not have the same confidentiality protections afforded in a state where the language has been enacted. State confidentiality statutes applicable to HCA filings should be reviewed by Regulators of each state before any information is exchanged and where an apparent inconsistency is noted, the state's legal division should be contacted. Regulators should treat all such materials with the highest level of protections afforded by any relevant state, in order to preserve the confidentiality of such materials and to encourage candor and openness in company discussions and disclosures.

Item 9. SEC Filings or Consolidated GAAP Financial Statement

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- If the Applicant Company, its parent or its ultimate holding company has made a filing or registration with the U.S. Securities and Exchange Commission (SEC) in connection with a public offering within the past three years, or filed an 8K, 10K or 10Q within the past 12 months, the filing, including any supplements or amendments, is available electronically from the SEC. If the applicant, its parent or its ultimate holding company is not publicly traded, the application must include a copy of the Applicant Company's most recent consolidated generally accepted accounting principles (GAAP) financial statement.
- Similar to the Holding Company Act filings, these filings will provide insight into the financial capacity of the parent to support an insurance operation and the existence of relevant insurance operations experience in the proposed parent or affiliates, as well as information regarding control, enterprise risk, and corporate governance.

Item 10. Debt-to-Equity Ratio Statement

- The debt-to-equity ratio statement should be reviewed to determine the debt service burden that is likely to be placed upon the Applicant Company. Debt service should only be provided through earnings not needed by the insurer to service its own operations.

Item 13. NAIC Biographical Affidavits

- These documents are used to perform a background check (if required by the state) to evaluate the suitability, competency, character and integrity of those persons ultimately responsible for the operations of the insurer. Persons to be reviewed are the controlling owners, officers, directors and key managerial personnel with the ultimate authority over the financial and operational decisions of the insurer, such as the chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), secretary, chief marketing officer and treasurer.
- Independent third-party background reports are used to identify discrepancies in the biographical affidavit and evaluate the suitability of the controlling owners, officers, directors or key managerial personnel of the Applicant Company and competency to perform the responsibilities of the position held with the company. Issues regarding competency, character and integrity may be self-evident from the information provided in the affidavit or may be determined from the related background review or criminal background check.
 - Regulators will review the biographical affidavit for completeness – each question should have a response. The affiant must use the most current form available and posted on the UCAA website. Insufficient affidavits or affidavits where signature dates are more than six months from the application submit date should not be accepted.
 - Regulators will review the comparison of information provided on the biographical affidavit and the results of the independent third-party background reports.
 - Regulators will note any discrepancies found in the independent third-party background reports and follow up with the Applicant Company.
 - Any key concerns will be addressed with the Applicant Company.

Fingerprint data, if available, can be used to validate the identity of personnel and check for criminal background. Information in the biographical affidavit can then be utilized to verify employment and educational background.

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Analysis of Business Plan

Note: Generally, the scope of the analysis of current condition would depend on the prioritization of the Applicant Company. With a primary application (not a redomestication):

- i. If it is a stand-alone company, there is no information upon which to establish a prioritization and the use of that technique is inapplicable.*
- ii. However, if the Applicant Company is part of a holding company structure, the reviewer may want to consider the strengths, structure, ratings, etc. of the holding company.*

Application Instruction Items

Item 6. Plan of Operation

- Business plans are written descriptions of expected market conditions, company operations, and related forecasted financial results. The plan of operation section of the UCAA refers to three components: a brief narrative, proforma financial statements/projections and a completed questionnaire (Form 8).
- Overly rapid growth in premium volume, inappropriate pricing, inappropriate underwriting, and product mix are important areas of concern when reviewing a business plan.
- The pricing of insurance products is a difficult task. The premium is established based on estimates of a number of unknown future events. The effects of a failure to accurately estimate the cost of those events or to provide a sufficient margin for adverse deviation from the estimate may not be apparent for a long time. The types of business written by an insurer affect the ability of the insurer to estimate future costs. Certain lines of business are, by their nature, more volatile than others in claim cost experience. Also, the long-tail nature of some lines of business increases the level of uncertainty in estimating future costs. Setting premium rates solely on the basis of rates charged by competitors, without consideration for possible differences in the quality of the business that the insurer and its competitors are writing, should be a concern. The description of pricing should indicate the coordination between the Applicant Company's actuarial and underwriting and marketing departments.
- The proforma financials should be reviewed for consistency with the stated business plan and reasonableness with respect to assumptions. Projections should be based upon well-described and defensible assumptions that are attainable under the circumstances described in the business plan. The department should consider a review of the business plan and proforma financials by department actuaries and/or other experts.
- The insurance department should consider obtaining a pledge from the Applicant Company to notify the insurance department if any deviations from the filed plan of operation are initiated by the Applicant Company within three years of admission.

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Best Practices – Review of Plan of Operations (Proforma Financial Statements, Narrative/ Business Plan and Questionnaire)

The depth of the review will depend on the complexity and financial strength as well as known risks of the insurer(s). Therefore, the analyst may consider a tailored set of procedures that addresses the specific risks of the insurer(s). The following best practices are presented as a guide for regulatory review and analysis of the plan of operations and financial projections related to UCAA primary and expansion applications, recognizing that this is not an all-inclusive list and not all items on this list will apply to each and every application. This list is intended to be a regulatory tool only. The analyst may find it useful to utilize the *Financial Analysis Handbook* in conjunction to this checklist during their financial review.

1. Background Analysis

- Request the Applicant Company's Insurer Profile Summary (IPS) from the lead state. Upon receipt and review of the IPS, document your findings related to the following:
 - State's Priority Designation
 - Scoring System Result
 - IRIS Ratio Result
 - Analyst Team System Validation Level
 - RBC Ratio
 - Trend Test
- Review any material issues or concerns of prospective risks noted in the IPS
- Review the Applicant Company's most recent Annual Financial Statement, General Interrogatories, Part 1:
 - #5.1 and #5.2 in order to ascertain if the insurer has been a party to a merger or consolidation; and #6.1 and #6.2 in order to ascertain if the insurer had any certificate of authority, licenses or registrations suspended or revoked by any governmental entity during the reporting period
- Review the most recent report from a credit rating provider in order to ascertain the current financial strength and credit rating of the insurer
- Document assessment.

2. Management Assessment

- Review the entity's biographical affidavits and third-party verifications
- Note any areas of concern that would indicate further review is necessary. In conducting such review, also consider whether officers, directors and trustees are suitable (e.g. does the individual have the appropriate background and experience to perform the duties expected) for the positions within the insurer. The analyst could also reference the Best Practices for Background Investigations, Background Guidelines and Red Flags on the Company Licensing Collab webpage.
- Review of the Applicant Company's Corporate Governance
- Review the NAIC Form A and Market Action Tracking System (MATS) databases for related information about the primary applicant and other key persons

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- Document assessment.

3. Capital and Surplus Assessment

- Review the proposed Financial Projections, request assumptions used if not provided
- For HMO's, determine the minimum capital and surplus requirements based on projections
- Review and verify if the following are at or above the statutory minimum requirement for each of the projected years for:
 - Capital
 - Surplus
- Review and verify if the RBC ratio is adequate for each of the projected years
- Review for indications if any surplus notes will be issued as part of the funding component
- Review and assess the surplus note's impact on overall capitalization
- Review for indications if any capital contributions are contemplated as part of the projections
- Review and assess the capital contributions' impact on overall capitalization
- Review for indications if any dividend distributions are contemplated as part of the projections
- Review and assess the dividend distributions' impact on overall capitalization
- Document assessment.

4. Operations Assessment

- Review the projected Statement of Income
- Assess if the company appears to be overleveraged based on the NPW to C&S or RBC ratios
- Review and assess if the combined ratio exceeds 100% for any of the projected years
- For each year projecting net losses, assess the Applicant Company's ability to absorb and recover from such losses
- For each year projecting negative cash flow from operations, assess the Applicant Company's ability to absorb and recover from such negative cash flows
- Review the Applicant Company's most recent audited financial statement to identify any unusual items or areas that indicate additional review is required
- Document assessment.

5. Ultimate Controlling Party (UCP) Financials

- Review the most recent audited financial statements or SEC reports of the UCP
 - Assess whether or not the UCP is capable of providing adequate financial support and management experience in operating the Applicant Company
 - Calculate the UCP's total debt to equity ratio and assess the impact of this ratio on Applicant Company's overall operations and future solvency
 - Review lead state Group Profile Summary
 - Determine if financial projections are needed for the immediate parent or UCP
-

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- Document assessment.

6. Business Plan

- Review the Business Plan
- Review the Business Plan narrative including the types of products to be sold or lines of business and how they will be distributed
- Review the Applicant Company's geographic service area and the marketing plan
- Review and explain the insurer's processes for claim processing and claim payments
- Assess reasonableness of Officer/Director compensation information
- Identify if Managing General Agents (MGA) and Third-Party Administrator (TPA) are properly licensed or registered in the state
 - Review the items related to MGA's and TPA's as appropriate
 - Contract
 - Oversight
 - Subcontracting provisions
 - Financials
 - Control
 - Delegation
 - Fees
- Review the Applicant Company's investment policy and investment management of the applicant
- Review custodial agreements and compliance with statutory deposit safekeeping requirements in accordance with the Financial Condition Examiners Handbook
- Review any financial guarantees involved with this transaction
- Document assessment.

7. Reinsurance

- Review and assess the Applicant Company's reinsurance program and activities; including the impact of assumed and ceded premiums, retention and limitation levels
- Review the financial condition and AM Best ratings of reinsurers with material reinsurance arrangements
 - Consider separately affiliated and non-affiliated reinsurers, which may require separate financial review
 - Consider financial requirements for licensed, authorized or unauthorized material reinsurance arrangements
- Document assessment.

8. Market Share Report

- Review market share reports
- Assess the impact of the Applicant Company's projected premiums on the state's market share and whether there are any areas of concern regarding market share percentages for any of the proposed lines of business
- Determine if a Form E filing is required

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- Document assessment.

9. Summary

- Develop and document an overall summary of findings based on the analysis and all other factors that are relevant to evaluating the Applicant Company's plan of operation and overall financial condition
- Itemize each issue that warrants a company inquiry or resolution
- Send correspondence to Applicant Company.

10. Follow-up

- Upon receipt of the Applicant Company's response to the inquiry, review and assess the status of each outstanding issue
- Determine if additional company correspondence is required.

Item 11. Custody Agreements

- Custody agreements should be reviewed to determine that the proposed insurer will actually possess its proposed start-up funding. Also, because invested assets make up a significant portion of the asset side of the balance sheet, control of those assets are of utmost importance. The *Financial Condition Examiners Handbook* provides excellent guidance in reviewing this item.

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Primary Application – Redomestication

The redomestication of an insurer presents unique challenges. It is the only licensing-related transaction in which a foreign insurer becomes a domestic insurer of the applicant state. As such, the applicant state will assume primary regulatory oversight of the applicant. Therefore, it is important that the applicant state obtain a level of understanding of the insurer's condition and operations equivalent to that of its other domestic companies.

The department should effectively communicate with the domestic state to gain an understanding of the reason for redomestication and any concerns of the domestic state. Any concerns raised should be assessed and documented with rationale to support the conclusion.

It is recommended that both the current and proposed domiciliary states have a thorough understanding of the underlying reasons for redomestication. To that end, a meeting with company representatives should be held prior to the filing of an application. See Appendix A for the Primary Application Review Checklist.

The classification of the of the application instruction items is illustrated in the following chart.

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
15. Annual Statements with Attachments		☑	
16. Quarterly Financial Statements		☑	
17. Risk-Based Capital Report		☑	
18. Independent CPA Audit Report		☑	
19. Reports of Examination		☑	
7. Holding Company Act Filings (See Item 7)		☑	
20. Certificate of Compliance		☑	

Application Instruction Items

The information provided in the application instruction items noted in the primary application should be viewed in conjunction with the items above. The department should assess the redomestication application and accompanying information to effectively reach the appropriate conclusions regarding whether the application is approved or denied. The department should document each assessment for the items listed above.

Item 15. Annual Statements with Attachments

- The review as outlined in the *Financial Analysis Handbook* should be performed.
- Management's Discussion and Analysis
 - The narrative should be reviewed for explanations of fluctuations in areas such as losses and premium income. Significant events such as expansion into a new line of business or territory will be explained along with other changes that will have been noticed in the review of the annual statement. The information provided in this document should be consistent with the plan of operations.

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- Actuarial Opinion
 - The actuarial opinion is reviewed for any qualifications or unusual comments along with any explanation of material risk factors.

Item 16. Quarterly Statements

- The quarterly statements are reviewed for any unexplained inconsistencies or fluctuations from the annual statement.

Item 17. Risk-Based Capital (RBC) Report

- The RBC report should be reviewed for significant risk components such as reserves, premium, reinsurance recoverables and investments. The support for those significant risk components should be reviewed for appropriateness. In addition to comparing the action and control levels to the total adjusted capital, the business plan and other information should be reviewed to ensure all risks are adequately addressed.

Item 18. Independent CPA Audit Report

- The statutory audited financial statement should be reviewed for any differences with the annual statement. The opinion should be non-qualified. The notes should be read for a better understanding of the Applicant Company along with any comments or concerns.

Item 19. Reports of Examination

- The financial examination report provides an understanding of the insurer, addresses the accuracy of the filed financial statements and identifies any issues noted with respect to corporate governance. Review of this document should concentrate on compliance issues, comments and recommendations. The Applicant Company should provide follow-up documentation regarding any concerns noted by the domestic state.
- The applicant state should consider contacting the domiciliary state if concerns exist regarding the insurer's complaint levels, response times, etc.

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The department should meet with the domestic regulator to obtain, discuss and conclude on, at a minimum, the items listed below. The meeting should be held via conference call; an email exchange is not considered sufficient.

- Most recent Insurer Profile Summary (IPS) and supervisory plan, including supporting analysis detail for significant risks
- Reason for redomestication
- Concerns identified with the insurer/group
- History of communication with the insurer/group
- History of regulatory actions
- Results of recent examinations (financial and market conduct), including findings and resolutions
- Status of and responsibilities for annual financial analysis and group analysis, if applicable
- Status of and responsibilities for financial examinations

The department should notify the lead state of the insurance holding company group on receipt of a redomestication application and obtain a copy of the most recent Group Profile Summary (GPS), if applicable.

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Expansion Application

The classification of the application instruction items is illustrated in the following chart.

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Expansion Application Form	☒		
2. Filing Fee	☒		
3. Minimum Capital and Surplus Requirements		☒	
4. Statutory Deposit Requirements	☒		
5. Name Approval	☒		
6. Plan of Operation			☒
7. Holding Company Act Filings		☒	
8. Certificate of Compliance		☒	
9. Reports of Examination		☒	
10. Statutory Memberships	☒		
11. Public Records Package	☒		
12. NAIC Biographical Affidavits		☒	
13. Consent to Service of Process	☒		

Administrative Filing

Overall Responsibilities

One person in the insurance department should be assigned as the key administrative coordinator for company licensing applications. This person will be responsible for maintaining a record of applications received, correspondence regarding the application, information received relative to an application, distribution of application materials and the monitoring of time frames regarding the processing of the application. It is recommended that the coordinator utilize a method for tracking the progress of the application; whether it is through the use of the electronic UCAA filing status updates, a database, a word processing document, a spreadsheet or even a TeamMate file.

The completeness of an application is expected prior to the official initiation of the review process and the corresponding start of the “clock.” However, the absence of certain items should not preclude the initial contact with the state of domicile and the start of the review of the significant aspects of the application. For example, the absence of corporate documents such as the current articles of incorporation or an incomplete response on a form should not preclude the contact with the domestic state and a preliminary review of the plan of operations and the biographical affidavits and background reports (if applicable).

Application Instruction Items

The prioritization of the Applicant Company has no effect on the administrative filings processes.

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Item 1. Expansion Application Form

- Form 1E “Checklist” – The coordinator should review the checklist for completeness and that all described documents are included in the application.
- Form 2E “Expansion Application” – The coordinator should review the form for completeness.
- Form 3 “Lines of Insurance” – The coordinator should utilize the [Lines of Business Matrix](#) to compare the lines of business authorized in the Applicant Company’s domiciliary state (per the certificate of compliance) with the applied for lines of business.

Item 2. Filing Fee

- Review check submitted in payment of fees for correct amount. In some instances, the check may be held by another section of the insurance department. In that case, review the description of the check received.
- Forward check for deposit or provide information for proper processing of check.

Item 4. Statutory Deposit Requirements

- Form 7 “Certificate of Deposit” – The coordinator should review the form and compare the amount of the deposit to the state’s requirement.
- These funds are deposited with the commissioner, generally through a safekeeping or trust receipt, to be held for the benefit and protection of, and as security for, all policyholders and, in some instances, creditors of the insurer making the deposit. Additional deposits are generally required of those insurers applying to write lines of business not covered under state insurance guaranty funds (e.g., guaranty, fidelity, surety, and bond business) or otherwise (e.g., workers’ compensation). The ultimate purpose of these funds is to ensure that liquid assets are unencumbered and available for use by the commissioner, or his/her designee, for the administration of the insurer’s estate should it become insolvent.

Item 5. Name Approval

- The coordinator should determine that a name approval request consistent with the state’s requirements has been filed. If state requirements dictate, the request should be forwarded to the appropriate area for processing.
- Typically, state insurance departments incorporate insurers, but some states require the involvement of the secretary of state or the attorney general. Names are submitted for preapproval because the public has the right to know with whom it is dealing and therefore, someone must determine that the name is not so similar to another as to be likely to deceive or mislead. The name should be such as to show that the company is engaged in the insurance business and preferably to show the type of business. Some states provide for publication and subsequent hearing to ensure that any objections are addressed.

Item 10. Statutory Memberships

- The coordinator should compare the application to the state requirements for statutory memberships and determine that appropriate documentation supporting the membership application is included.
- Some states require a positive application and confirmation regarding membership in state-mandated risk pools or other organizations. In other words, an insurer may not

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automatically be a member by virtue of its certificate of authority, but may be required to join outside the jurisdiction of the insurance department.

Item 11. Public Records Package

- The coordinator should compare the contents of the public records package with state requirements. Financial documents should be forwarded to the areas expected to utilize the documents. Operational documents (other than the application form) should be filed as required.

Item 13. Consent to Service of Process

- Form 12 “Consent to Service of Process” – The coordinator should review the form for completeness and file as appropriate.
- This document designates the commissioner or a resident of the state to receive consent to service of process on behalf of the company. Persons or entities to receive forwarded consent to service of process from the commissioner are also provided.

Analysis of Current Condition

Priority 4

The expansion state should determine the prioritization category of the Applicant Company based upon its analysis. For applicants prioritized as Priority 4, the applicant state should contact the domiciliary state if there are any questions or concerns.

Priority 3

If, after discussion with the domiciliary state it is determined the Applicant Company is a Priority 3 company, the expansion state should perform sufficient analysis to fully understand the financial condition and operating practices of the insurer in order to assess the effect of the proposed business plan.

Item 3. Minimum Capital and Surplus Requirements

- This document should make it clear that the Applicant Company understands the expansion state law with respect to the amount of capital and surplus that must be maintained at a minimum. The expansion state processor or analyst can easily determine the Applicant Company’s capital and surplus position by looking at the filed financial statement. The requirement for this document should make it clear that the insurer has read and understands the underlying surplus requirements. The amount required varies from stated capital and free surplus of specific dollar amounts based on lines of authority to a percentage of RBC.

Item 7. Holding Company Act Filings

- The current registration statement will provide the insurer’s capital structure, general financial condition, ownership and management, along with that of any person controlling the insurer. Affiliates are identified along with a description of any transactions between the Applicant Company and an affiliate that is currently outstanding or was incurred during

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the last calendar year. A review of this document by an expansion state provides insight into the operations of the insurer and its relationships with its affiliates. Attachments and agreements should only be requested for transactions or items material to the business plan for that state. For additional guidance refer to the Form A Review Best Practices located in Appendix D.

Item 9. Reports of Examination

- As the record of periodic on-site examinations of the Applicant Company's compliance and accuracy of its financial statements, review of this document should concentrate on compliance issues, comments and recommendations. The Applicant Company should provide follow-up documentation regarding any concerns noted by the domestic state.
- The applicant state may consider contacting the domiciliary state if concerns exist regarding the insurer's complaint levels, response times, etc.

Item 11. Public Records Package

- The items included in the Public Records Package are familiar to all financial analysts and can be utilized to complete the reviews described in the *Financial Analysis Handbook*. Unusual results should be discussed with the domiciliary state.

Item 12. NAIC Biographical Affidavits

- These documents are used to perform a background check (if required by the state) to evaluate the suitability, competency, character and integrity of those persons ultimately responsible for the operations of the insurer. Persons to be reviewed are the controlling owners, officers, directors and key managerial personnel with the ultimate authority over the financial and operational decisions of the insurer, such as the chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), secretary, chief marketing officer and treasurer.
- Independent third-party background reports are used to identify discrepancies in the biographical affidavit and evaluate the suitability of the controlling owners, officers, directors or key managerial personnel of the Applicant Company and competency to perform the responsibilities of the position held with the company. Issues regarding competency, character and integrity may be self-evident from the information provided in the affidavit or may be determined from the related background review or criminal background check.
 - Regulators will review the biographical affidavit for completeness – each question should have a response. The affiant must use the most current form available and posted on the UCAA website. Insufficient affidavits or affidavits where signature dates are more than six months from application submit date should not be accepted.
 - Regulators will review the comparison of information provided on the biographical affidavit and the results of the independent third-party background reports.
 - Regulators will note any discrepancies found in the independent third-party background reports and follow up with the Applicant Company or domestic regulator for further clarification.
 - Any key concerns will be addressed with the Applicant Company or domestic regulator for further clarification.

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Fingerprint data, if available, can be used to validate the identity of personnel and check for criminal background. Information in the biographical affidavit can then be utilized to verify employment and educational background, if necessary.

Priority 1 and Priority 2

Priority 1 and 2 companies are generally not considered good candidates for expansion. There is little to be gained from the processing of the administrative filing sections of the application that is destined to be rejected once the analytical review is conducted. If, after discussion with the domiciliary state, it is determined the applicant is a Priority 1 or 2, the expansion state should determine if there is a reason to further analyze the financial condition of the company.

Based on the business plan there may be a reason to further analyze the financial condition of the company (see *Analysis of Business Plan: Priority 2*, below). The expansion state should communicate with the domiciliary state to understand the circumstances under which expansion may be advisable. In such situations, the expansion state must perform sufficient analysis (at least those required of a Priority 2 company) of the Applicant Company's financial condition and operating practices to determine that the risks associated with the proposed business plan are within the Applicant Company's expertise and financial capacity to assume.

Analysis of Business Plan

Priority 4

Item 6. Plan of Operation

- The plan of operation should be reviewed to ensure that the proposed business plan is consistent with the Applicant Company's demonstrated experience. [See Priority 3 Best Practices— Review of Plan of Operations \(Proforma Financial Statements, Narrative/Business Plan and Questionnaire\).](#)

Priority 3

Item 6. Plan of Operation

- Business plans are written descriptions of expected market conditions, company operations, and related forecasted financial results. The plan of operation section of the UCAA refers to three components: a brief narrative, pro-forma financial statements/projections and a completed questionnaire (Form 8).
- By virtue of the filing of the UCAA, the applicant is notifying the state insurance department of recent or planned changes in the insurer's operations. One recurring factor that appears in many troubled insurance company situations is a recent change in operations, management or ownership. Therefore, overly rapid growth in premium volume, expansion into new geographic areas or new lines of business, inappropriate pricing, inappropriate underwriting, and product mix are important areas of concern when reviewing a business plan.

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- Geographic growth can lead to less control by the insurer over new producers, underwriting operations, and claims administration. The insurance laws and regulations in the expansion state and the nature of the various operational risks may differ from those of jurisdictions to which the business was previously limited. Similarly, rapid expansion into new lines of business can lead to difficulties if the insurer's management and personnel lack an adequate knowledge and understanding of the characteristics and risks of the business proposed to be written. Extremely rapid geographic or product line expansion may cause the insurer's training of new producers, underwriters, and claims personnel to trail growth of the business. A change to specialized lines of business should be accompanied by concurrently obtaining the additional specialized expertise or qualified personnel required to understand and administer that specialized business. Additionally, a rapidly growing insurer may fail to add enough experienced personnel to keep up with its expanding operations. Existing personnel may not have sufficient skills to manage the additional growth.
- The pricing of insurance products is a difficult task. The premium is established based on estimates of a number of unknown future events. The effects of a failure to accurately estimate the cost of those events or to provide a sufficient margin for adverse deviation from the estimate may not be apparent for a long time. The types of business written by an insurer affect the ability of the insurer to estimate future costs. Certain lines of business are, by their nature, more volatile than others in claim cost experience. Also, the long-tail nature of some lines of business increases the level of uncertainty in estimating future costs. Setting premium rates solely on the basis of rates charged by competitors, without consideration for possible differences in the quality of the business that the insurer and its competitors are writing, should be a concern. The description of pricing should indicate coordination between the Applicant Company's actuarial and underwriting and marketing departments.
- Concern should be noted when management of the insurer has focused excessively on the agency or marketing aspects of the business. Management may have a tendency to measure success by the volume of business written and ignore the underwriting aspects. Also, while most insurers may establish production or profit goals, these goals may be deemed so important by certain management groups that producers and underwriters may be allowed to relax underwriting standards to permit the acceptance of additional business so as to meet the insurer's production goals.
- The proforma financials should be reviewed for consistency with the stated business plan and reasonableness with respect to assumptions. Projections should be based upon well described and defensible assumptions that are attainable under the circumstances described in the business plan. The insurance department should consider a review of the business plan and proforma financials by department actuaries and/or other experts.
- The insurance department should consider obtaining a pledge from the Applicant Company to notify the insurance department if any deviations from the filed plan of operation are initiated by the entity within three years of admission.

Best Practices – Review of Plan of Operations (Proforma Financial Statements, Narrative/ Business Plan and Questionnaire)

The depth of the review will depend on the complexity and financial strength as well as known risks of the insurer(s). Therefore, the analyst may consider a tailored set of procedures that

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addresses the specific risks of the insurer(s). The following best practices are presented as a guide for regulatory review and analysis of the plan of operations and financial projections related to UCAA primary and expansion applications, recognizing that this is not an all-inclusive list and not all items on this list will apply to each and every application. This list is intended to be a regulatory tool only. The analyst may find it useful to utilize the *Financial Analysis Handbook* in conjunction to this checklist during their financial review.

1. Background Analysis

- Request the applicant's Insurer Profile Summary (IPS) from the lead state. Upon receipt and review of the IPS, document your findings related to the following:
 - State's Priority Designation
 - Scoring System Result
 - IRIS Ratio Result
 - Analyst Team System Validation Level
 - RBC Ratio
 - Trend Test
- Review any material issues or concerns of prospective risks noted in the IPS
- Review the applicant's most recent Annual Financial Statement, General Interrogatories, Part 1:
 - #5.1 and #5.2 in order to ascertain if the insurer has been a party to a merger or consolidation; and #6.1 and #6.2 in order to ascertain if the insurer had any certificate of authority, licenses or registrations suspended or revoked by any governmental entity during the reporting period
- Review the most recent report from a credit rating provider in order to ascertain the current financial strength and credit rating of the insurer.

2. Management Assessment

- Review the entity's biographical affidavits and third-party verifications
- Note any areas of concern that would indicate further review is necessary. In conducting such review, also consider whether officers, directors and trustees are suitable (e.g. does the individual have the appropriate background and experience to perform the duties expected) for the positions within the insurer. The analyst could also reference the Best Practices for Background Investigations, Background Guidelines and Red Flags on the Company Licensing Collab webpage.
- Review of the Applicant Company's Corporate Governance.

3. Capital and Surplus Assessment

- Review the proposed Financial Projections, request assumptions used if not provided
- For HMO's, determine the minimum capital and surplus requirements based on projections
- Review and verify if the following are at or above the statutory minimum requirement for each of the projected years for:
 - Capital

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- Surplus
 - Review and verify if the RBC ratio is adequate for each of the projected years
 - Review for indications if any surplus notes will be issued as part of the funding component
 - Review and assess the surplus note's impact on overall capitalization
 - Review for indications if any capital contributions are contemplated as part of the projections
 - Review and assess the capital contributions' impact on overall capitalization
 - Review for indications if any dividend distributions are contemplated as part of the projections
 - Review and assess the dividend distributions' impact on overall capitalization.
 - 4. Operations Assessment
 - Review the projected Statement of Income
 - Assess if the company appears to be overleveraged based on the NPW to C&S or RBC ratios
 - Review and assess if the combined ratio exceeds 100% for any of the projected years
 - For each year projecting net losses, assess the Applicant Company's ability to absorb and recover from such losses
 - For each year projecting negative cash flow from operations, assess the company's ability to absorb and recover from such negative cash flows
 - Review the company's most recent audited financial statement to identify any unusual items or areas that indicate additional review is required.
 - 5. Ultimate Controlling Party (UCP) Financials
 - Review the most recent audited financial statements or SEC reports of the UCP
 - Assess whether or not the UCP is capable of providing adequate financial support and management experience in operating the Applicant Company
 - Calculate the UCP's total debt to equity ratio and assess the impact of this ratio on Applicant Company's overall operations and future solvency
 - Review lead state Group Profile Summary
 - Determine if financial projections are needed for the immediate parent or UCP.
 - 6. Business Plan
 - Review the Business Plan
 - Review the Business Plan narrative including the types of products to be sold or lines of business and how they will be distributed
 - Review the applicant's geographic service area and the marketing plan
 - Review and explain the insurer's processes for claim processing and claim payments
 - Assess reasonableness of Officer/Director compensation information
 - Identify if Managing General Agents (MGA) and Third-Party Administrator (TPA) are properly licensed or registered in the state
 - Review the items related to MGA's and TPA's as appropriate
-

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- Contract
 - Oversight
 - Subcontracting provisions
 - Financials
 - Control
 - Delegation
 - Fees
- Review the Applicant Company's investment policy and investment management of the applicant
 - Review custodial agreements and compliance with statutory deposit safekeeping requirements in accordance with the Financial Condition Examiners Handbook
 - Review any financial guarantees involved with this transaction.
7. Reinsurance
- Review and assess the Applicant Company's reinsurance program and activities; including the impact of assumed and ceded premiums, retention and limitation levels
 - Review the financial condition and AM Best ratings of reinsurers with material reinsurance arrangements
 - Consider separately affiliated and non-affiliated reinsurers, which may require separate financial review
 - Consider financial requirements for licensed, authorized or unauthorized material reinsurance arrangements.
8. Market Share Report
- Review market share reports
 - Assess the impact of the applicant projected premiums on the state's market share and whether there are any areas of concern regarding market share percentages for any of the proposed lines of business
 - Determine if a Form E filing is required.
9. Summary
- Develop and document an overall summary of findings based on the analysis and all other factors that are relevant to evaluating the Applicant Company's plan of operation and overall financial condition
 - Itemize each issue that warrants a company inquiry or resolution
 - Send correspondence to Applicant Company.
10. Follow-up
- Upon receipt of the Applicant Company's response to the inquiry, review and assess the status of each outstanding issue
 - Determine if additional company correspondence is required.

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Form 8 – Interrogatories from Form 8 that provide insight into the Applicant Company’s business plan are discussed below.

Interrogatory 2: Encumbered assets must be explored for propriety; Pledged capital stock is a sign of borrowing and repayment terms and conditions must be investigated; Merger or consolidation might explain significant fluctuations in a historical financial analysis.

Interrogatory 4: Historical information in order to do further research, if necessary. An explanation is adequate. The initial request of copies of documentation is unnecessary unless questions arise concerning the veracity of the Applicant Company’s response to this and other questions.

Interrogatory 5: A change in management or control may have a significant impact on operations.

Interrogatory 6: The most recent Holding Company Filings should suffice to explain the holding company structure and intercompany relationships. If no holding corporation, then an explanation should suffice initially.

Interrogatory 8: Revocation of a certificate of authority or denial of licensure should be discussed with the domiciliary state to determine if the proximate causes for such actions are still in existence.

Interrogatory 9: Positive responses to this interrogatory should be discussed with the domiciliary state. All responses should be compared to the results of criminal background checks.

Interrogatory 10: Such dispute may affect the financial condition and may be an indication of inappropriate business practices.

Interrogatory 11: Such legal action may affect the financial condition and may be an indication of inappropriate business practices.

Interrogatory 12: Conflicts of interest can detrimentally affect the operations of an insurer.

Interrogatory 13: Positive responses to this interrogatory may affect the manner in which the company’s products are marketed. Additionally, the Applicant Company’s parent or affiliates will be subject to regulatory restrictions.

Interrogatory 14: Conflicts of interest can detrimentally affect the operations of an insurer.

Interrogatory 15: The organizational flow chart should depict the day-to-day management and internal controls within the company. The map or narrative depicting the location(s) of the office(s) should also contain the approximate number of employees for each location. Copies of agreements should be attached.

Interrogatories 16 and 17: The marketing plan is the core of the applicant’s business plan narrative. The use, oversight, and compensation of producers are important aspects of product delivery. Since each state or region inherently may have unique market conditions related to products, distribution systems, or competition, serious thought must be put into these areas. Copies of agreements should initially be required with the primary application.

Interrogatory 18: The applicant should be able to provide benefits to the citizens that do not already exist.

Interrogatory 19: One of the state’s responsibilities is to prevent unfair trade practices. Deceptive advertising and sales are prohibited.

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Interrogatories 20 and 21: Product administration should be included in the narrative of the business plan. Knowledge, experience and capacity are necessary ingredients. Service agreements and personnel oversight need only be initially provided in the primary application.

Interrogatory 22: Affiliated agreements for tax allocation, services and facilities are necessary to be reviewed with the primary application to ensure fairness and equity. Rates should be on an actual cost basis, but should be no less than market rates.

Interrogatory 24: Conflicts of interest can detrimentally affect the operations of an insurer.

Interrogatory 25: The expense of the options can affect the financial condition. The exercising of those options can affect control of the insurer. The existence of those options can affect the insurer's ability to raise other capital.

Interrogatories 26-29: Review the responses to these interrogatories if specific state laws address these issues.

Interrogatory 30: Conflicts of interest can detrimentally affect the operations of an insurer.

The following questions apply only if the Applicant Company is filing a primary redomestication application.

Interrogatories 31 and 32c: It is important to understand the effect of prescribed or permitted practices on the reported financial condition of the company.

Interrogatories 32 and 33: It is important for both the applicant and the state of redomestication to know and address any regulatory differences.

Interrogatory 34: Interest and principal payment restrictions need to be clearly understood and agreed upon.

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Priority 2

Priority 2 companies are generally not considered good candidates for expansion. There is little to be gained from the processing of the administrative filing sections of the application that is destined to be rejected once the analytical review is conducted.

However, in certain unique circumstances, based on the line of business offered and the market conditions in the expansion state, it may be appropriate to pursue licensure under heavily monitored criteria. For example, a small, specialty insurer (such as a captive insurer) may not demonstrate the qualities of a Priority 4 or Priority 3 company. Such a company may have a commercial policyholder with operations located in a state where it is not licensed. In order to continue to provide coverage to the policyholder, the insurer must seek licensure in the additional state. In this circumstance, the expansion state may grant a certificate of authority with additional restrictions that only identified risks be written.

In such situations, the expansion and domiciliary state must perform sufficient analysis (at least those required of a Priority 2 company) of the company's financial condition and business plan to determine that such risks are within the company's expertise and financial capacity to assume. The reasons why the proposed expansion would be tolerable should then be delineated.

Priority 1

Insurers included in Priority 1 are considered troubled and subject to comprehensive annual and quarterly analysis procedures, detailed considerations outlined with the *Troubled Insurance Company Handbook*, and a significantly elevated level of ongoing regulatory monitoring and oversight.

Insurers in this group generally are not capable of withstanding even moderate business fluctuations. There may be significant noncompliance with laws and regulations. Risk-management practices are generally unacceptable relative to the insurer's size, complexity and risk profile. Corporate and group structures or framework may be of a nature that is not conducive to effective regulation. Close regulatory attention is required, which means formal action is necessary in most cases to address the problems. Insurers in this group pose a risk to the state guaranty fund. Priority 1 companies should not be considered for expansion.

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Corporate Amendment Application – Adding and Deleting Lines of Business

The classification of the application instruction items is illustrated in the following chart.

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Application Form and Attachments			
2. Filing Fee	☒		
3. Articles of Incorporation	☒		
4. Bylaws	☒		
5. Minimum Capital and Surplus Requirements		☒	
6. Statutory Deposit Requirements	☒		
7. Plan of Operation			☒
8. Statutory Memberships	☒		
9. Certificate of Compliance		☒	
11. Deleting Lines of Business			☒

Administrative Items

Item 1. Application Form and Attachments

- Form 1C “Corporate Amendments Application Checklist” – The coordinator should review the checklist for completeness and that all described documents are included in the application. As stated on the checklist form, this document is simply a guide. It is a reminder of what should initially be included in the application package in order for it to be considered complete. This form is all-inclusive but should be completed with due consideration to the specific amendment(s) requested. Items required are dependent upon the request of the applicant.
- Form 2C “Corporate Amendments Application” – The coordinator should review the form for completeness. This form contains minimum required information.
- Form 3 “Lines of Insurance” – The coordinator should utilize the [Lines of Business Matrix](#) to compare the lines of business authorized in the company’s domiciliary state (per the certificate of compliance) with the applied for lines of business.

Item 2. Filing Fee

- Review check submitted in payment of fees for correct amount. In some instances, the check may be held by another section of the insurance department. In that case, review the description of the check received.
- Forward check for deposit or provide information for proper processing of check.
- Filing fees range from \$0 to in excess of \$500 and are generally retaliatory.

Item 3. Articles of Incorporation

- In some instances, the articles of incorporation contain specific references to the lines of business the entity is authorized to engage. Such language should be consistent with the proposed changes to the certificate of authority.

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Item 4. Bylaws

- The bylaws generally should not have to be reviewed in connection with the addition or deletion of a line of business.

Item 6. Statutory Deposit Requirements

- These funds are deposited with the commissioner, generally through a safekeeping or trust receipt, to be held for the benefit and protection of, and as security for, all policyholders and, in some instances, creditors of the insurer making the deposit. Additional deposits are generally required of those insurers applying to write lines of business not covered under state insurance guaranty funds (e.g., guaranty, fidelity, surety, and bond business) or otherwise (e.g., workers' compensation). The ultimate purpose of these funds is to ensure that liquid assets are unencumbered and available for use by the commissioner, or his/her designee, for the administration of the insurer's estate should it become insolvent. Unless a line of business is being applied for that is not protected by a guaranty fund, the domestic state should hold the deposit in an aggregate amount of no less than the minimum required capital.

Item 8. Statutory Memberships

- May be required, dependent upon line of business requested.
- Some states require a positive application and confirmation regarding membership in state-mandated risk pools or other organizations. In other words, an insurer may not automatically be a member by virtue of its certificate of authority, but may be required to join outside the jurisdiction of the insurance department.

Analysis of Current Condition

Priority 4

If the company is prioritized as 4, then typically only the certificate of compliance need be reviewed by the applicant state. However, some circumstances may exist that would warrant additional analysis by the applicant state. For example, differing capital and surplus requirements in the states may require some consideration by a particular applicant state. In addition, permitted practices granted to an applicant insurer by its domiciliary state may account for a significant amount of the insurer's surplus, in which case the applicant state may need to perform a bit more analysis than just reviewing the comment.

Priority 3

If the company is prioritized as 3, then the following review of application documents is suggested:

Item 5. Minimum Capital and Surplus Requirements

- This document should make it clear that the Applicant Company understands the state law with respect to the amount of capital and surplus that must be maintained at a minimum with respect to the line of business to be added. The analyst can easily determine the Applicant Company's capital and surplus position by looking at the filed financial

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statement. The requirement for this document should make it clear that the insurer has read and understands the underlying surplus requirements. The amount required varies from stated capital and of specific dollar amounts based on lines of authority to a percentage of risk-based capital.

Priority 2

If the company is prioritized as Priority 2, then the Applicant Company state should discuss with the domiciliary state whether there exists any extraordinary circumstance that might outweigh the Applicant Company's operating condition.

Analysis of Business Plan

Priority 4

If the Applicant Company is prioritized as Priority 4, then Item 7, Plan of Operation, should be reviewed to determine that the company has experience with the requested new line of business. Regardless of risk category, a line of business should not be deleted unless all liabilities in that line are extinguished. [See Corporate Amendment – Adding and Deleting Lines of Business, Priority 3. Plan of Operation for Best Practices – Review of Plan of Operations \(Proforma Financial Statements, Narrative/Business Plan and Questionnaire\).](#)

Priority 3

If the Applicant Company is prioritized as 3, then the following review of application documents is suggested.

Item 7. Plan of Operation

- The narrative business plan including the rationale for adding lines of business and the sales and administration of that business along with the accompanying pro-forma financial statements/projections should provide the information initially required in this section. Dependent upon the prioritization of the Applicant Company and the specific line of business requested, along with the experience in that line of the insurer, Form 8C may be required.

Best Practices – Review of Plan of Operations (Proforma Financial Statements, Narrative/Business Plan and Questionnaire)

The depth of the review will depend on the complexity and financial strength as well as known risks of the insurer(s). Therefore, the analyst may consider a tailored set of procedures that addresses the specific risks of the insurer(s). The following best practices are presented as a guide for regulatory review and analysis of the plan of operations and financial projections related to UCAA primary and expansion applications, recognizing that this is not an all-inclusive list and not all items on this list will apply to each and every application. This list is intended to be a regulatory tool only. The analyst may find it useful to utilize the *Financial Analysis Handbook* in conjunction to this checklist during their financial review.

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1. Background Analysis

- Request the applicant's Insurer Profile Summary (IPS) from the lead state. Upon receipt and review of the IPS, document your findings related to the following:
- State's Priority Designation
- Scoring System Result
- IRIS Ratio Result
- Analyst Team System Validation Level
- RBC Ratio
- Trend Test
- Review any material issues or concerns of prospective risks noted in the IPS
- Review the applicant's most recent Annual Financial Statement, General Interrogatories, Part 1:
 - #5.1 and #5.2 in order to ascertain if the insurer has been a party to a merger or consolidation; and #6.1 and #6.2 in order to ascertain if the insurer had any certificate of authority, licenses or registrations suspended or revoked by any governmental entity during the reporting period
- Review the most recent report from a credit rating provider in order to ascertain the current financial strength and credit rating of the insurer.

2. Management Assessment

- Review the entity's biographical affidavits and third-party verifications
- Note any areas of concern that would indicate further review is necessary. In conducting such review, also consider whether officers, directors and trustees are suitable (e.g. does the individual have the appropriate background and experience to perform the duties expected) for the positions within the insurer. The analyst could also reference the Best Practices for Background Investigations, Background Guidelines and Red Flags on the Company Licensing Collab webpage.
- Review of the Applicant Company's Corporate Governance.

3. Capital and Surplus Assessment

- Review the proposed Financial Projections, request assumptions used if not provided
- For HMO's, determine the minimum capital and surplus requirements based on projections
- Review and verify if the following are at or above the statutory minimum requirement for each of the projected years for:
 - Capital
 - Surplus
- Review and verify if the RBC ratio is adequate for each of the projected years
- Review for indications if any surplus notes will be issued as part of the funding component
- Review and assess the surplus note's impact on overall capitalization
- Review for indications if any capital contributions are contemplated as part of the projections

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- Review and assess the capital contributions' impact on overall capitalization
- Review for indications if any dividend distributions are contemplated as part of the projections
- Review and assess the dividend distributions' impact on overall capitalization.

4. Operations Assessment

- Review the projected Statement of Income
- Assess if the Applicant Company appears to be overleveraged based on the NPW to C&S or RBC ratios
- Review and assess if the combined ratio exceeds 100% for any of the projected years
- For each year projecting net losses, assess the Applicant Company's ability to absorb and recover from such losses
- For each year projecting negative cash flow from operations, assess the company's ability to absorb and recover from such negative cash flows
- Review the Applicant Company's most recent audited financial statement to identify any unusual items or areas that indicate additional review is required.

5. Ultimate Controlling Party (UCP) Financials

- Review the most recent audited financial statements or SEC reports of the UCP
- Assess whether or not the UCP is capable of providing adequate financial support and management experience in operating the Applicant Company
- Calculate the UCP's total debt to equity ratio and assess the impact of this ratio on Applicant Company's overall operations and future solvency
- Review lead state Group Profile Summary
- Determine if financial projections are needed for the immediate parent or UCP.

6. Business Plan

- Review the Business Plan
- Review the Business Plan narrative including the types of products to be sold or lines of business and how they will be distributed
- Review the insurer's geographic service area and the marketing plan
- Review and explain the insurer's processes for claim processing and claim payments
- Assess reasonableness of Officer/Director compensation information
- Identify if Managing General Agents (MGA) and Third-Party Administrator (TPA) are properly licensed or registered in the state
 - Review the items related to MGA's and TPA's as appropriate
 - Contract
 - Oversight
 - Subcontracting provisions
 - Financials
 - Control
 - Delegation
 - Fees

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- Review the Applicant Company's investment policy and investment management of the insurer
- Review custodial agreements and compliance with statutory deposit safekeeping requirements in accordance with the Financial Condition Examiners Handbook
- Review any financial guarantees involved with this transaction.

7. Reinsurance

- Review and assess the Applicant Company's reinsurance program and activities; including the impact of assumed and ceded premiums, retention and limitation levels
- Review the financial condition and AM Best ratings of reinsurers with material reinsurance arrangements
 - Consider separately affiliated and non-affiliated reinsurers, which may require separate financial review
 - Consider financial requirements for licensed, authorized or unauthorized material reinsurance arrangements.

8. Market Share Report

- Review market share reports
- Assess the impact of the Applicant Company's projected premiums on the state's market share and whether there are any areas of concern regarding market share percentages for any of the proposed lines of business
- Determine if a Form E filing is required.

9. Summary

- Develop and document an overall summary of findings based on the analysis and all other factors that are relevant to evaluating the Applicant Company's plan of operation and overall financial condition
- Itemize each issue that warrants a company inquiry or resolution
- Send correspondence to Applicant Company.

10. Follow-up

- Upon receipt of the Applicant Company's response to the inquiry, review and assess the status of each outstanding issue
- Determine if additional company correspondence is required.

Item 11. Deleting Lines of Business

- Deletion of a line of business requires notification and adequate establishment or extinguishment of liabilities. A line of business should not be deleted unless all liabilities in that line are extinguished.

Priority 2

If the company is prioritized as 2, then the applicant state should discuss with the domiciliary state whether there exists any extraordinary circumstance that might outweigh the Applicant Company's

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operating condition. In certain instances the proposed plan of operation might provide for a limited expansion of authority in order to maintain its current policyholder base. Should approval be granted, the business plan should be carefully reviewed and closely monitored. [See Corporate Amendment – Adding and Deleting Lines of Business, Priority 2, Plan of Operation for Best Practices – Review of Plan of Operations \(Proforma Financial Statements, Narrative/Business Plan and Questionnaire\).](#)

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Corporate Amendment Application – Name Change – For Filing with Non-Domiciliary States

Corporate amendment applications involving a change of name or location of the insurer are often accompanied by related policy form approval filings reflecting the change in name or location. In some instances, the company license application process is held in abeyance until a complete review of policy forms has been completed. It is recommended that in such instances a policy form endorsement be approved for only the change in name or location, in lieu of a complete policy form review.

The classification of the application instruction items is illustrated in the following chart.

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Application Form and Attachments	E		
2. Filing Fee	E		
3. Articles of Incorporation	E		
4. Bylaws	E		
5. Consent to Service of Process	E		
6. State of Domicile Approval	E		
8. Name Approval	E		

Administrative Filing

Application Instruction Items

Item 1. Application Form and Attachments

- Form 1C “Checklist” – The coordinator should review the checklist for completeness and that all described documents are included in the application.
- Form 2C “Corporate Amendment Application” – The coordinator should review the form for completeness.

Item 2. Filing Fee

- Review check submitted in payment of fees for correct amount. In some instances the check may be held by another section of the insurance department. In that case, review the description of the check received.
- Forward check for deposit or provide information for proper processing of check.
- Filing fees range from \$0 to in excess of \$200 and are generally retaliatory.

Item 3. Articles of Incorporation

- The amended articles of incorporation should be reviewed to determine that the new name is reflected.

Item 4. Bylaws

- The amended bylaws should be reviewed to determine that the new name is reflected.

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Item 5. Consent to Service of Process

- The amended consent to service of process should be reviewed to determine that the new name is reflected.

Item 6. State of Domicile Approval

- The domiciliary state should have already approved the name change.

Item 8. Name Approval

- Typically state insurance departments incorporate insurers, but some states require the involvement of the secretary of state or the attorney general. Names are submitted for preapproval because the public has the right to know with whom it is dealing and therefore, someone must determine that the name is not so similar to another as to be likely to deceive or mislead. The name should be such as to show that the company is engaged in the insurance business and preferably to show the type of business. Some states provide for publication and subsequent hearing to ensure that any objections are addressed.
- The coordinator should determine that a name approval request consistent with the state's requirements has been filed. If state requirements dictate, the request should be forwarded to the appropriate area for processing.

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Corporate Amendment Application – Redomestication of a Foreign Insurer

The classification of the application instruction items is illustrated in the following chart.

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Application Form and Attachments	☒		
2. Filing Fee	☒		
3. Articles of Incorporation	☒		
4. Bylaws	☒		
5. Statutory Deposit Requirements	☒		
6. Consent to Service of Process	☒		
7. State of Domicile Approval	☒		

Administrative Filing

Application Instruction Items

Item 1. Application Form and Attachments

- Form 1P “Checklist” – The coordinator should review the checklist for completeness and that all described documents are included in the application.
- Form 2C “Corporate Amendment Application” – The coordinator should review the form for completeness.
- The coordinator should utilize the [Lines of Business Matrix](#) to compare the lines of business in the Applicant Company’s new domicile state with the authorized lines of business in the applicant state.

Item 2. Filing Fee

- Review check submitted in payment of fees for correct amount. In some instances the check may be held by another section of the insurance department. In that case, review the description of the check received.
- Forward check for deposit or provide information for proper processing of check.
- Filing fees range from \$0 to in excess of \$200 and are generally retaliatory.

Item 3. Articles of Incorporation

- The amended articles of incorporation should be reviewed to determine that the new state of domicile is reflected.

Item 4. Bylaws

- The amended bylaws should be reviewed to determine that the new state of domicile is reflected.

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Item 5. Statutory Deposit Requirements

- Form 7 – The Certificate of Deposit should be reviewed to determine that the new state of domicile is reflected and compare the amount of the deposit of the new state of domicile to the state’s requirement.

Item 6. Consent to Service of Process

- The amended consent to service of process should be reviewed to determine that the new state of domicile is reflected.

Item 7. State of Domicile Approval

- The domiciliary state should have already approved the redomestication.

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Corporate Amendment Application – Change of Statutory Home Office Address

The classification of the application instruction items is illustrated in the following chart.

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Application Form and Attachments	☒		
2. Filing Fee	☒		
3. Articles of Incorporation	☒		
4. Bylaws	☒		
5. Consent to Service of Process	☒		
6. State of Domicile Approval	☒		

Administrative Filing

Application Instruction Items

Item 1. Application Form and Attachments

- Form 1C “Checklist” – The coordinator should review the checklist for completeness and that all described documents are included in the application.
- Form 2C “Corporate Amendment Application” – The coordinator should review the form for completeness.
- Old Certificate of Authority – The Applicant Company should have surrendered the old certificate of authority or filed an affidavit of a lost certificate of authority.

Item 2. Filing Fee

- Review check submitted in payment of fees for correct amount. In some instances the check may be held by another section of the insurance Department. In that case, review the description of the check received.
- Forward check for deposit or provide information for proper processing of check.
- Filing fees range from \$0 to in excess of \$200 and are generally retaliatory.

Item 3. Articles of Incorporation

- The amended articles of incorporation or other documentation required or permitted by the domiciliary state should be reviewed to determine that the new location is reflected.

Item 4. Bylaws

- The amended bylaws should be reviewed to determine that if a location for the insurer is stated, the bylaws have been updated to reflect the new location.

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Item 5. Consent to Service of Process

- The amended consent to service of process should be reviewed to determine that the new location is reflected.

Item 6. State of Domicile Approval

- The domiciliary state (if the applicant is a foreign company) should have already approved the location change.

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Corporate Amendment Application – Merger of Two or More Foreign Insurers – For Filing with Non-Domiciliary States

Prior to a corporate amendment filing, the Form A should be approved. Refer to Appendix D for detailed information regarding the review of a Form A filing.

The classification of the application instruction items is illustrated in the following chart.

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Application Form and Attachments	☒		
2. Filing Fee	☒		
3. Articles of Incorporation/Articles of Merger	☒		
4. Bylaws	☒		
5. Minimum Capital and Surplus Requirements	☒	☒	
6. Statutory Deposit Requirements	☒		
7. Plan of Operation			☒
8. Statutory Memberships	☒		
9. NAIC Biographical Affidavits		☒	
10. Consent to Service of Process	☒		
11. State of Domicile Approval	☒		

Administrative Items

A merger requires notification to all states in which the Applicant Company is licensed. Corporate documents must be amended to incorporate the new address along with other requirements that may be state-specific.

Item 1. Application Form and Attachments

- Form 1C “Corporate Amendments Application Checklist” – The coordinator should review the checklist for completeness and that all described documents are included in the application. As stated on the checklist form, this document is simply a guide. It is a reminder of what should initially be included in the application package in order for it to be considered complete. This form is all-inclusive, but should be completed with due consideration to the specific amendment(s) requested. Items required are dependent upon the request of the applicant.
- Form 2C “Corporate Amendments Application” – The coordinator should review the form for completeness. This form contains minimum required information.
- Form 3 “Lines of Insurance” – The coordinator should verify if the Applicant Company is authorized to write all lines of business, including variable products in the state. If the Applicant Company is not authorized to write all lines of business in the state, then the Applicant Company should also complete Section I (Adding and Deleting Lines of Business) in the UCAA Corporate Amendment Application.

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Item 2. Filing Fee

- Review check submitted in payment of fees for correct amount. In some instances the check may be held by another section of the insurance department. In that case, review the description of the check received.
- Forward check for deposit or provide information for proper processing of check.
- Filing fees range from \$0 to in excess of \$200 and are generally retaliatory.

Item 3. Articles of Incorporation/Articles of Merger

- The certificate of merger from the domestic state of the surviving entity serves as the “marriage license” and denotes the approval of that state. The articles of merger serve as the “marriage contract” and specify the terms of the merger. These documents should be retained as permanent corporate records as part of the articles of incorporation.

Item 4. Bylaws

- The bylaws need only be reviewed if they have been amended.

Item 6. Statutory Deposit Requirements

- Form 7 “Certificate of Deposit” – The coordinator should review the form and compare the amount of the deposit to the state’s requirement.
- These funds are deposited with the commissioner, generally through a safekeeping or trust receipt, to be held for the benefit and protection of, and as security for, all policyholders and, in some instances, creditors of the insurer making the deposit. Additional deposits are generally required of those insurers applying to write lines of business not covered under state insurance guaranty funds (such as guaranty, fidelity, surety, and bond business) or otherwise (e.g., workers’ compensation). The ultimate purpose of these funds is to ensure that liquid assets are unencumbered and available for use by the commissioner, or his/her designee, for the administration of the insurer’s estate should it become insolvent.

Item 8. Statutory Memberships

- This item may be applicable depending on any new lines of business added.
- Some states require a positive application and confirmation regarding membership in state-mandated risk pools or other organizations. In other words, an insurer may not automatically be a member by virtue of its certificate of authority, but may be required to join outside the jurisdiction of the insurance department.

Item 10. Consent to Service of Process

- This document designates the commissioner or a resident of the state to receive consent to service of process on behalf of the entity. Persons or entities to receive forwarded consent to service of process from the commissioner are also provided.

Item 11. State of Domicile Approval

- The certificate of merger is the approval of the domestic state of the surviving entity. It should be accompanied by a certificate of compliance from the other state involved, if applicable.

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Analysis of Current Condition

Item 5. Minimum Capital and Surplus Requirements

- This item may be applicable depending on any new lines of business added.

Item 9. NAIC Biographical Affidavits

- A review of biographical affidavits is only necessary if there is a change in officers, directors or ownership.
- These documents are used to perform a background check (if required by the state) to evaluate the suitability, competency, character and integrity of those persons ultimately responsible for the operations of the insurer. Persons to be reviewed are the controlling owners, officers, directors and key managerial personnel with the ultimate authority over the financial and operational decisions of the insurer, such as the chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), secretary, chief marketing officer and treasurer.
- Independent third-party background reports are used to identify discrepancies in the biographical affidavit and evaluate the suitability of the controlling owners, officers, directors or key managerial personnel of the applicant and competency to perform the responsibilities of the position held with the company. Issues regarding competency, character and integrity may be self-evident from the information provided in the affidavit or may be determined from the related background review or criminal background check.
 - Regulators will review the biographical affidavit for completeness- each question should have a response. The affiant must use the most current form available and posted on the UCAA website. Insufficient affidavits or affidavits where signature dates are more than six months from application submit date should not be accepted.
 - Regulators will review the comparison of information provided on the biographical affidavit and the results of the independent third-party background reports.
 - Regulators will note any discrepancies found in the independent third-party background reports and follow up with the Applicant Company or domestic regulator for further clarification.
 - Any key concerns will be addressed with the Applicant Company or domestic regulator for further clarification.

Analysis of Business Plan

Item 7. Plan of Operation

- The articles of merger and/or the accompanying business plan of the surviving entity should be reviewed for informational purposes. [See Corporate Amendment – Adding and Deleting Lines of Business. Plan of Operation for Best Practices – Review of Plan of Operations \(Proforma Financial Statements, Narrative/Business Plan and Questionnaire\).](#)

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Corporate Amendment Application – Proposed/Completed Change of Control of Foreign Insurers

The classification of the of the application instruction items is illustrated in the following chart.

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Application Form and Attachments	☒		
2. Filing Fee	☒		
3. Articles of Incorporation	☒		
4. Bylaws	☒		
5. Plan of Operation			☒
6. NAIC Biographical Affidavits	☒		
7. Consent to Service of Process	☒		
8. State of Domicile Approval	☒		
9. State-Specific Information		☒	

Administrative Items

Proposed change of control transaction information (proposed transaction) and a second filing of actual information after the change of control are complete (completed transaction). This application is not applicable for filing in a state if the insurer is a domestic insurer in that state.

Item 1. Application Form and Attachments

- Form 1C “Corporate Amendments Application Checklist” – The coordinator should review the checklist for completeness and that all described documents are included in the application. As stated on the checklist form, this document is simply a guide. It is a reminder of what should initially be included in the application package in order for it to be considered complete. This form is all-inclusive, but should be completed with due consideration to the specific amendment(s) requested. Items required are dependent upon the request of the Applicant Company.
- Form 2C “Corporate Amendments Application” – The coordinator should review the form for completeness. This form contains minimum required information.

Item 2. Filing Fee

- Review check submitted in payment of fees for correct amount. In some instances the check may be held by another section of the insurance department. In that case, review the description of the check received.
- Forward check for deposit or provide information for proper processing of check.
- Filing fees range from \$0 to in excess of \$200 and are generally retaliatory.

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Item 3. Articles of Incorporation

- If the Articles of Incorporation have changed as a result of the change of control, file the amended Articles. If the most recently filed (in the state for which you are applying) Articles of Incorporation have not changed, do not file the Articles of Incorporation. Simply state that the current articles are already on file with the state to which this application relates. If it is expected that revised Articles of Incorporation will be submitted in the completed transaction filing, indicate that in the proposed transaction filing.

Item 4. Bylaws

- The bylaws need only be submitted if they have been amended. If it is expected that revised bylaws will be submitted in the completed transaction filing, indicate that in the proposed transaction filing.

Item 7. Consent to Service of Process

- This document designates the commissioner or a resident of the state to receive consent to service of process on behalf of the company. Persons or entities to receive forwarded consent to service of process from the commissioner are also provided.

Item 8. State of Domicile Approval

- Verify that the domiciliary state approved the change of control.
- Refer to Appendix D, Form A Review Best Practices for additional guidance.

Item 9. State-Specific Information

- Some jurisdictions may have additional requirements that must be met before a proposed change of control can be completed. For example, some states require the filing of a Form E (Pre-Acquisition Notification Form Regarding the Potential Competitive Impact of a Proposed Merger or Acquisition by a Non-Domiciliary Insurer Doing Business in this State or by a Domestic Insurer) at least 30 days before the completion of a change of control transaction. In addition, some states may require a Form B amended statement, in accordance with the *Insurance Holding Company System Regulatory Act* (#440), after completion of the change of control transaction. Before completing a UCAA Corporate Amendments Application the applicant should review a listing of requirements for the state to which you are applying. State-specific information is listed on the state-specific chart.

Analysis of Current Condition

Item 6. NAIC Biographical Affidavits

- A review of biographical affidavits is only necessary if there is a change in officers, directors or ownership.
- These documents are used to perform a background check (if required by the state) to evaluate the suitability, competency, character and integrity of those persons ultimately responsible for the operations of the insurer. Persons to be reviewed are the controlling owners, officers, directors and key managerial personnel with the ultimate authority over the financial and operational decisions of the insurer, such as the chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), secretary, chief marketing officer and treasurer.

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- Independent third-party background reports are used to identify discrepancies in the biographical affidavit and evaluate the suitability of the controlling owners, officers, directors or key managerial personnel of the Applicant Company and competency to perform the responsibilities of the position held with the entity. Issues regarding competency, character and integrity may be self-evident from the information provided in the affidavit or may be determined from the related background review or criminal background check.
 - Regulators will review the biographical affidavit for completeness- each question should have a response. The affiant must use the most current form available and posted on the UCAA website. Insufficient affidavits or affidavits where signature dates are more than six months from application submit date should not be accepted.
 - Regulators will review the comparison of information provided on the biographical affidavit and the results of the independent third-party background reports.
 - Regulators will note any discrepancies found in the independent third-party background reports and follow up with the Applicant Company or domestic regulator for further clarification.
 - Any key concerns will be addressed with the Applicant Company or domestic regulator for further clarification.

Analysis of Business Plan

Item 5. Plan of Operation

- If the business plan of the insurer will change as a result of the change of control transaction, a plan of operation must be submitted; otherwise, a statement that the business plan will not change will suffice and should be submitted. The plan of operation is made up of two components: a brief narrative and proforma financial statements/projections (Form 13). The narrative should include significant information in support of the application. Projections must support all aspects of the proposed plan of operation, including reinsurance arrangements and any delegated function agreements. Include the assumptions used to arrive at these projections. [See Corporate Amendment – Adding and Deleting Lines of Business. Plan of Operation for Best Practices – Review of Plan of Operations \(Proforma Financial Statements, Narrative/Business Plan and Questionnaire\).](#)

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Corporate Amendment Application – Amended Articles of Incorporation

The classification of the of the application instruction items is illustrated in the following chart.

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Application Form and Attachments	☒		
2. Filing Fee	☒		
3. Articles of Incorporation	☒		
4. Bylaws	☒		
5. State of Domicile Approval	☒		
6. State-Specific Information	☒		

Administrative Items

Amended articles of incorporation require notification to all states in which the Applicant Company is licensed. This application is not applicable for filing in a state if the insurer is a domestic insurer in that state.

Item 1. Application Form and Attachments

- Form 1C “Corporate Amendments Application Checklist” – The coordinator should review the Checklist for completeness and that all described documents are included in the application. As stated on the checklist form, this document is simply a guide. It is a reminder of what should initially be included in the application package in order for it to be considered complete. This form is all-inclusive, but should be completed with due consideration to the specific amendment(s) requested. Items required are dependent upon the request of the applicant.
- Form 2C “Corporate Amendments Application” – The coordinator should review the form for completeness. This form contains minimum required information.

Item 2. Filing Fee

- Review check submitted in payment of fees for correct amount. In some instances the check may be held by another section of the insurance department. In that case, review the description of the check received.
- Forward check for deposit or provide information for proper processing of check.
- Filing fees range from \$0 to in excess of \$200 and are generally retaliatory.

Item 3. Articles of Incorporation

- Indicate the location of the language within the articles of incorporation that reflects the change. (Page number, section number, etc., of the articles of incorporation).

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Item 4. Bylaws

- The bylaws need only be submitted if they have been amended.

Item 5. State of Domicile Approval

- Provide a copy of the amended articles of incorporation approval from the Applicant Company's state of domicile.

Item 6. State-Specific Information

- Some jurisdictions may have additional requirements that must be met before articles of incorporation can be amended. Before completing a UCAA Corporate Amendments Application the Applicant Company should review a listing of requirements for the state to which you are applying.

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Corporate Amendment Application – Amended Bylaws

The classification of the of the application instruction items is illustrated in the following chart.

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Application Form and Attachments	☒		
2. Filing Fee	☒		
3. Bylaws	☒		
4. State of Domicile Approval	☒		
5. State-Specific Information	☒		

Administrative Items

Amended bylaws that are not a result of changes addressed in other areas of the corporate amendment application require notification to all states in which the Applicant Company is licensed. This application is not applicable for filing in a state if the insurer is a domestic insurer in that state.

Item 1. Application Form and Attachments

- Form 1C “Corporate Amendments Application Checklist” – The coordinator should review the checklist for completeness and that all described documents are included in the application. As stated on the checklist form, this document is simply a guide. It is a reminder of what should initially be included in the application package in order for it to be considered complete. This form is all-inclusive, but should be completed with due consideration to the specific amendment(s) requested. Items required are dependent upon the request of the Applicant Company.
- Form 2C “Corporate Amendments Application” – The coordinator should review the form for completeness. This form contains minimum required information.

Item 2. Filing Fee

- Review check submitted in payment of fees for correct amount. In some instances the check may be held by another section of the insurance department. In that case, review the description of the check received.
- Forward check for deposit or provide information for proper processing of check.
- Filing fees range from \$0 to in excess of \$200 and are generally retaliatory.

Item 3. Bylaws

- Indicate the location of the language within the bylaws that reflects the change (page number, section number, etc., of the bylaws).

Item 4. State of Domicile Approval

- Provide a copy of the amended bylaws approval from the Applicant Company’s state of domicile.

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Item 5. State-Specific Information

- Some jurisdictions may have additional requirements that must be met before the bylaws can be amended. Before completing a UCAA Corporate Amendments Application, the applicant should review a listing of requirements for the state to which you are applying.

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Corporate Amendment Application – Change of Mailing Address/Contact Notification

The classification of the application instruction items is illustrated in the following chart.

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Application Form and Attachments	☒		

Administrative Items

Item 1. Application Form and Attachments

- Change of mailing address that do not involve corporate record amendments, such as moving from one building to another or contact person changes, are filed on Form14 – Change of Mailing Address/Contact Notification Form.

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Corporate Amendment Application – Consent to Service of Process

The classification of the application instruction items is illustrated in the following chart.

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Consent to Service of Process Application	☒		
2. Filing Fee	☒		

Administrative Items

Item 1. Consent to Service of Process

- The amended consent to service of process should be reviewed to determine that the resident agent or forwarding address is reflected.
- If the application was submitted electronically, the state may utilize the UCAA email system to contact or notify the company if there are questions regarding the resident agent or forwarding address. [Refer to the Corporate Amendment User Guide for additional instructions.](#)

Item 2. Filing Fee

- Review check submitted in payment of fees for correct amount. In some instances the check may be held by another section of the insurance department. In that case, review the description of the check received.
- Forward check for deposit or provide information for proper processing of check.
- Filing fees vary from state to state. Refer to the [State Retaliatory Information](#) link on the UCAA website for additional state information.
- If the application was submitted electronically, the state may utilize the UCAA email system to contact or notify the Applicant Company of filing fee requirements. Refer to the [Corporate Amendment User Guide for additional instructions.](#)

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Corporate Amendment Application - Statement of Withdrawal, Complete Surrender of Certificate of Authority

Application Instruction Items	Administrative Filing	Analysis of Current Condition	Analysis of Business Plan
1. Application Form and Attachments	☒		
2. Filing Fee	☒		
3. Statement of Withdrawal and Attachments		☒	
4. State-Specific Information	☒		

Item 1. Application Form and Attachments

- Form IC “Corporate Amendments Application Checklist” – The coordinator should review the checklist for completeness and that all described documents are included in the application. As stated on the checklist form, this document is simply a guide. It is a reminder of what should initially be included in the application package in order for it to be considered complete. This form is all-inclusive, but should be completed with due consideration to the specific amendment(s) requested. Items required are dependent upon the request of the applicant. If the Applicant Company cannot return its original certificate of authority, they must complete and attach an Affidavit of Lost Certificate of Authority (Form 15).

Item 2. Filing Fee

- Review check submitted in payment of fees for correct amount. In some instances the check may be held by another section of the insurance department. In that case, review the description of the check received.
- Forward check for deposit or provide information for proper processing of check.

Item 3. Statement of Withdrawal and Attachments

- The statement for withdrawal must include a thorough explanation for the surrender of its certificate of authority.
- The Applicant Company must provide sufficient explanations for outstanding claims, contingent liabilities, or laws suits currently existing.
- The Applicant Company must also state whether any business will be transferred to another insurer and attach any reinsurance agreements.

Item 4. State-Specific Information

- Some jurisdictions may have additional requirements that the Applicant Company must meet before the state can cancel a Certificate of Authority. Before completing a UCAA Corporate Amendment Application, the Applicant Company should review the listing of State-Specific Requirements for the application state.

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Appendix A – The Uniform Certificate of Authority Application (UCAA)

The Uniform Certificate of Authority Application (UCAA)

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Appendix A – The Uniform Certificate of Authority Application (UCAA)

THE UCAA

In conjunction with the NAIC, the various states have worked toward the goal of streamlining and achieving uniformity in the insurer licensing process. The insurer licensing process encompasses the initial licensing of an insurer, as well as licensing in additional states and filings that modify or expand an existing certificate of authority. It was the intent of the former Accelerated Licensing Evaluation Review Technique (ALERT) Subgroup that each of the adopted application packages contains a complete listing of the requirements for licensing in a state. The Uniform Certificate of Authority Application (UCAA) website that provides a consistent frame of reference for all participants in the licensing process. There are three types of applications: primary, expansion and corporate amendments. Those application types and their component items are described below.

Primary Application

The UCAA primary application is for use in the formation of a new insurer, or for an existing insurer to use in making application to redomesticate to another state. It contains the following items:

1. Application Form and Attachments
2. Filing Fee
3. Minimum Capital and Surplus Requirements
4. Statutory Deposit Requirements
5. Name Approval
6. Plan of Operation
7. Holding Company Act Filings
8. Statutory Membership(s)
9. SEC Filings or Consolidated GAAP Financial Statement
10. Debt-to-Equity Ratio Statement
11. Custody Agreements
12. Public Records Package
13. NAIC Biographical Affidavits
14. State-Specific Information

Primary Application – Redomestications Only

The requirements of this section are only for those insurers seeking to redomesticate from one state to another and are in addition to the requirements of Section I, Item #1 through Item #14 of the primary checklist. A redomestication is the process where any insurer organized under the laws of any state may become a domestic insurer that transfers its domicile to another state by merger or consolidation or any other lawful method.

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Appendix A – The Uniform Certificate of Authority Application (UCAA)

The Applicant Company files the primary application with the insurer's new state of domicile when used for a redomestication. In addition to the items included with the primary application, the redomestication application will include the following items:

15. Annual Statements with Attachments
16. Quarterly Financial Statements
17. Risk-Based Capital Report
18. Independent CPA Audit Report
19. Reports of Examination
20. Certificate of Compliance

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**Uniform Certificate of Authority Application (UCAA)
 Primary Application Review Checklist
 (Regulator Use Only)**

1. Company and Structure

- | | | | | | | | | | | | | | |
|---|---|--|--|--|--|--|--|--|--|--|--|--|--|
| <ul style="list-style-type: none"> a. Identify if the Applicant Company is a stock, mutual, etc. <ul style="list-style-type: none"> i. Identify the type of business the Applicant Company will be providing (life, property & casualty, title, etc.). b. Articles (for compliance and/or approval in accordance with state law). <ul style="list-style-type: none"> i. Committee Structure ii. Par Value iii. Capitalization iv. Audit Committee – Were independence requirements met? c. Bylaws (for compliance and/or approval in accordance with state law) (if applicable). <ul style="list-style-type: none"> i. Committee Structure. ii. Audit Committee – Were independence requirements met? d. Board of Directors and Designated Committees. <ul style="list-style-type: none"> i. Minimum/maximum number of directors. ii. Number of directors. iii. Residency requirements. iv. Independence requirements. | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> </table> | | | | | | | | | | | | |
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2. Review Quality and Expertise, including Biographical Affidavits

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|---|---|--|--|--|--|--|--|--|--|--|--|
| <ul style="list-style-type: none"> a. Review the biographical affidavits for fitness and propriety (the biographical affidavit should be completed on the most current revision date of the form and no more than six months (6 months)). b. Review third party verifications and fingerprint (where required). c. Review Form A database for other transactions and outcomes. d. Review SAD database for regulatory actions against the officer or director e. Review biographical sketches (Form B). f. Review the quality and expertise of the ultimate controlling person, officers and directors and actuary. g. Review appointment letters for appointed actuary and appointed CPA. h. Verify Licenses. | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> <tr><td style="height: 20px;"></td></tr> </table> | | | | | | | | | | |
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3. Holding Company (if applicable)

- a. Organizational Chart.
- b. Affiliated Organizations (affiliated agreements will be reviewed for licensing purposes, however, affiliated agreements are not being approved, a Form D filing is required for approval).
 - i. Identify the type’s organizations (affiliated and unaffiliated).
 - ii. List of services provided by affiliates.
 - iii. Reimbursement terms fair & reasonable to the Applicant Company.
 - iv. Financial condition.
- c. Review Holding Company Registration Statement (Form B), including amendments (if applicable); and Holding Company Filings.
- d. Review Ultimate Controlling Party (UCP) Financials - Verify if UCP is capable of providing support and experience level in operating the type of company proposed.
- e. Review Debt-to-Equity statement.
- f. Review lead state holding company system analysis and reports.
- g. Review Applicant Company contemplated and/or existing agreements with affiliates.
- h. Review and identify any concerns:
 - i. five years of audited financial statements;
 - ii. current financial statements (as of date within 90 days of filing); and
 - iii. SEC reports, if applicable.
- i. Determine if financial projections are needed for the immediate parent or UCP. If obtained, are the financial projections for the Applicant Company and/or UCP consistent with business plan.

4. Business Plan and Operations

- a. Review the Applicant Company’s business plan.
- b. Review the Applicant Company’s business narrative including the types of products to be sold and how they will be distributed.
- c. Review Form 8 Questionnaire for the Applicant Company.
- d. Consider Officers/Directors compensation information as reported in annual statement.
- e. Identify if any Managing General Agents (MGA) and Third Party Administrator (TPA) will be used. If so, are they properly licensed or registered in the state?
- f. Determine if the Applicant Company will use any Professional Employer Organizations (PEO). If so, are they properly licensed or registered?

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| g. Determine if the Applicant Company will use any Managing General Underwriters (MGU). If so, what services are they providing? Do they meet the definition of a TPA or MGA? If so, are they properly licensed or registered? | |
| h. Review material reinsurance transactions (for P/C companies will the retention be below the statutory requirements of policyholder surplus and reinsurance ceded/assumed programs. | |
| i. Review the Applicant Company’s investment policy and any other policies provided with the application. | |
| j. Review custodial agreements & compliance with the statutory deposit safekeeping requirements per the Examiner’s Handbook. | |
| k. Review the Investment Management Arrangements/Agreement of the Applicant Company. | |
| i. Identify if the arrangement/agreement is with an affiliate or third-party. | |
| ii. Verify that arrangement/agreement is in compliance with state investment policy and any state investment limitations. | |
| iii. Review Investment Management arrangement/agreement language; if unusual language, consider having the NAIC’s Capital Markets Bureau review the arrangement/agreement. | |
| l. Review the Applicant Company’s geographical service area. | |
| m. Review and compare the lines of business that the Applicant Company is applying for with the business plan. | |
| n. Review the marketing plan of the Applicant Company. | |
| o. Review the capital adequacy and financial guarantees of the Applicant Company. | |
| i. Identify the nature, source and amount of capital and surplus. | |
| p. Review rating agency reports. | |

5. Reasonableness of Projections

- | | |
|--|--|
| a. Identify if the projections appear to be reasonable, in relation to the business plan as provided. | |
| b. What assumptions did the Applicant Company use in their projections, include feasibility study of projections if available. | |
| c. Review the financial statement and exhibits and consider reasonableness of projections provided. | |
| d. Does the Applicant Company appear to be aggressive or realistic in their growth projections? | |
| e. Determine if the GWP and NWP ratios are within industry standards. | |
| f. Review the projected RBC. Is it within the norms and does it make sense based on projections. | |
| g. Review the capitalization of the Applicant Company. | |
| i. Where is it coming from? | |

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- ii. Will there be any Parental Guarantees, etc.?
- iii. Are there any short or long-term financing arrangements contemplated?
- iv. Consider quality of capitalization.
- h. Did the Applicant Company project any growth? If so:
 - i. What will be the source and type (cash, surplus notes) of any such contributions?
 - ii. Are there any capital contributions that are being contemplated?
- i. For HMO's, determine the minimum capital, surplus and deposit requirements based on the Applicant Company's projections.

6. Company Financials (if redomesticating)

- a. Complete review of Financial Analysis Handbook for redomesticating companies.
- b. Request and review a copy of the Applicant Company's Insurer Profile Summary from the domestic state.
- c. Request and review a copy of the latest holding company system analysis from the lead state.
- d. Review the Applicant Company's FAST and Financial Profile
- e. Review AM Best and other rating agency ratings.
- f. Identify if the company was redomesticating, was the company formed by the Secretary of State or under the business laws or insurance laws of the state.
- g. Verify the date the last financial examination was completed and determine if it met all state requirements.

7. Other

- a. Determine if Network Adequacy requirements are met, if HMO.
- b. Determine if a pre-licensing examination needs to occur.
- c. Designation of Registered Agent.
- d. Review applications filed in other states in the prior 12 months.
- e. Review the terms of any agreements with a broker-dealer.
- f. Review the market share impact.

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Expansion Application

The UCAA expansion application is for use by an insurer that wishes to expand into one or more states. An insurer may file expansion applications simultaneously in as many states as desired. The expansion application is an abbreviated version of the UCAA designed to allow solidly performing companies that are in good standing in all admitted states to gain admission into new states quickly and easily. It is the goal to complete the review of expansion applications within 60 calendar days of receipt. The 60-day review process includes two weeks to determine if the application is complete and acceptable. During the remaining 45–60 day time span, the application will receive a financial and operational review. Based on the circumstances of a particular application, it may be necessary for the reviewing state to request additional information.

The UCAA expansion application has the following items:

1. Expansion Application Form
2. Filing Fee
3. Minimum Capital and Surplus Requirements
4. Statutory Deposit Requirements
5. Name Approval
6. Plan of Operation
7. Holding Company Act Filings
8. Certificate of Compliance
9. Report of Examination
10. Statutory Memberships
11. Public Records Package
12. NAIC Biographical Affidavits
13. Consent to Service of Process
14. State-Specific Information

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Corporate Amendments Application

An existing insurer uses the UCAA corporate amendments application for requesting amendments to its certificate of authority. The Applicant Company can use the corporate amendments application to file more than one change in the same submission. The Applicant Company should mark all changes it files on the application form and submit all items required for those changes. This UCAA corporate amendments application has the following items:

1. Application Form and Attachments
2. Filing Fee
3. Articles of Incorporation
4. Bylaws
5. Minimum Capital and Surplus Requirements
6. Statutory Deposit Requirements
7. Plan of Operation
8. Statutory Membership(s)
9. Certificate of Compliance
10. State-Specific Information
11. Deleting Lines of Business

There are slightly different filing requirements for corporate amendments applications involving name changes, redomestication of foreign insurers, change of city within the state of domicile, change of mailing address/contact information and mergers of two or more foreign insurers.

UCAA Forms

In order to facilitate the uniform submission of information pertinent to each of the items of the various applications, a variety of forms were promulgated by the ALERT Subgroup. There is a matrix of the forms and the items to which they apply on the UCAA website.

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REVIEW OF THE UCAA

The “Best Practices: Application Review” chapter of the Best Practices Handbook describes the recommended best practices for the review of the items and forms associated with the various types of UCAA applications.

Review of UCAA State Charts

In order to maintain accurate and current state requirements, the UCAA state charts should be reviewed by the insurance department at least on an annual basis. In addition, whenever the state is aware of a change, notify the company licensing coordinator as soon as practicable. Each chart listed should be reviewed for:

- State requirements
- Statutory references
- Department website links
- Contact information, including email, telephone number and extension.

All updates should be sent to the company licensing coordinator listed on the NAIC [website](#).

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Appendix B – Use of Electronic Documents

Use of Electronic Documents

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Appendix B – Use of Electronic Documents

Many of the documents filed in the UCAA process are currently housed in electronic format at the NAIC or lend themselves easily to electronic storage and viewing.

The items included in the public records package that are already stored in either data tables or PDF file format, or both, at the NAIC are:

- Annual Financial Statements (in data tables and PDF files) with Attachments, Including the Actuarial Opinion and Management’s Discussion and Analysis (in PDF file format)
- Quarterly Financial Statements (in data tables and PDF files)
- Risk-Based Capital Reports (in data tables and PDF files)
- CPA Audit Reports (in PDF files)
- Examination Reports (in PDF files and in I-SITE in the Financial Exam Electronic Tracking System on a voluntary basis)
- SEC Filings (can be found at www.sec.gov/edgar.shtml)

The following documents are not currently stored in an explicit location in an NAIC database, but should at least be stored and made available in electronic format:

- Form B Registration Statement
- Consolidated GAAP Financial Statements
- Articles of Incorporation
- Bylaws

A concerted effort should be made to reduce the amount of paperwork created and stored with respect to the review of UCAA applications.

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Appendix C – Review of Electronic Application Coordination and Processing
(REACAP)

**Review of Electronic Application Coordination
and Processing (REACAP)**

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Appendix C – Review of Electronic Application Coordination and Processing (REACAP)

Companies may file an NAIC Uniform Certificate of Authority Application (UCAA) under the REACAP program upon application to and acceptance by the National Treatment and Coordination (E) Working Group (Working Group). Applications that are accepted into the REACAP program will have the timing, technology and substantive processing monitored, issues encountered will be reported to the Working Group and the applicant will provide feedback to the Working Group about the process. UCAA electronic applications are encouraged, and acceptance into the REACAP program is an option, not a requirement, when submitting an electronic application.

To apply for REACAP, companies should send to the co-chairs of the Working Group and the NAIC coordinator (www.naic.org/industry_ucaa.htm) an explanatory letter setting forth the basis for their application that meets the criteria for acceptance into the REACAP program. Companies should be aware that other factors, such as regulatory workload, may impact acceptance into the REACAP program.

For an expansion application, the explanatory letter must include all of the following for consideration for acceptance into the REACAP program:

1. A commitment to file application electronically and to work with the Working Group.
2. A commitment letter (attached) from the domestic regulator indicating their willingness to work with the Working Group should the REACAP application be accepted.
3. Whether the application will serve a national or regional market need and quantification of that need.
4. The number and name of states to which the expansion application will be submitted.
5. A description of the current affiliations with insurers licensed in one or more states.
6. The basic financial condition of the applicant (e.g., capital, surplus, RBC) and the “as-of” date of the most recent financial exam.
7. Whether the company is a start-up company.
8. The nature and extent of any parental guarantees.
9. Experience of the management team with the lines of business being applied for.
10. A brief description of all regulatory compliance enforcement actions by state for the past five years.

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Appendix C – Review of Electronic Application Coordination and Processing (REACAP)

For a corporate amendment application, the explanatory letter must include all of the following for consideration for acceptance into the REACAP program:

1. A commitment to file application electronically and to work with the Working Group.
2. A commitment letter (attached) from the domestic regulator indicating their willingness to work with the Working Group should the REACAP application be accepted.
3. The number and name of states to which the corporate amendment application will be submitted.
4. If adding line(s) of business or merger:
 - a. Whether the application will serve a national or regional market need and quantification of that need.
 - b. A description of the current affiliations with insurers licensed in one or more states.
 - c. The basic financial condition of the applicant (e.g., capital, surplus, RBC) and the “as-of” date of the most recent financial exam.
 - d. Experience of the management team with the lines of business being applied for.
 - e. Indicate if the transaction is date-specific.
5. If a name change, merger, redomestication, etc.:
 - a. Indicate national or regional impact, including marketing and quantification of that impact.
 - b. Provide a description of the affiliations with already licensed insurers involved in the transaction.
 - c. Indicate if the transaction is date-specific.
6. Provide a brief description of all regulatory compliance enforcement actions by state for the past five years.

REACAP Expedited Review Guidelines

Some companies may request expedited review of a REACAP application. If so, the Applicant Company will need to clearly state, in writing, that request and the basis for it. The National Treatment and Coordination (E) Working Group will consider the request for expedited review with the request for acceptance into the REACAP program, including substantiation of market need, urgent circumstances, as well as the regulators’ other workload. Requests for expedited treatment may result in a REACAP request being denied. Further, applicants should be aware that state regulators cannot be compelled by the Working Group to complete an expedited review.

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Appendix C – Review of Electronic Application Coordination and Processing (REACAP)

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NAIC Company Licensing Best Practices Handbook
Appendix D – Form A Review Best Practices

Form A Review Best Practices

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 Appendix D – Form A Review Best Practices

Every Form A review should be tailored to the risks associated with the proposed acquisition, including the target company, acquiring entity, and the complexity of the transaction. The following best practices are presented as a guide for regulatory review and analysis of Form A acquisitions, recognizing that this list may not be comprehensive and not all items will apply to every acquisition. This list is intended to be a regulatory tool. **The NAIC Form A database should be updated as applicable throughout the Form A review process.**

1. Initial Review

- a) Determine if the filing is complete, note the missing items and promptly send a deficiency letter to the Applicant
- b) Identify attorneys, party contacts, and the other insurance regulator reviewing the Form A, including the lead regulator.
- c) The lead regulator should obtain key contact information from each state reviewing the Form A and consider organizing a regulator to regulator call to discuss concerns with the filing
- d) Assign appropriate analyst, legal and other professional staff to conduct regulatory review
- e) Carefully consider whether regulatory review can be completed by Applicant's target close date, including any interim deadlines and obtain deemer extension or waiver if appropriate, and
- f) Schedule and notice hearing/consolidated hearing, if applicable, within statutory timeframes

2. Background, Identity and Risk Profile of Acquiring Persons

- a) Identify and review all relevant parties to the proposed acquisition
- b) Assess the feasibility of the acquiring persons holding company structure including location and control (direct/indirect) of the target company post acquisition
- c) Review the lead state's assessment of the acquiring persons most recent ORSA Summary Report and Form F ERM, if applicable, to better understand the related risks
- d) Determine Ultimate Controlling Person and/or Parent (UCP), cross check with source of funds and consider debt funding sources
- e) Review NAIC and other external sources to gain a better understanding of the acquiring persons, its affiliates, and the UCP
- f) Carefully scrutinize and understand complex organization and ownership structures by requesting and reviewing all organizational documents such as Articles of Incorporation, Articles of Association, Partnership Agreements, and Operating Agreements for entities from the proposed immediate parent up to the proposed ultimate controlling person(s) (UCP). Review and consider who has the voting rights under these organizational documents. Verify who should be considered the UCP based upon the reviewed information and document why the determination was made
- g) Review Audited Financial Statements (or CPA reviewed financial statements for individuals) of the acquiring persons, its holding company, and the UCP, 10K and 10Qs, and other current financial information for enterprise condition, potential debt service by the UCP and its ability to service such debt. Understand the level of reliance on cash

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Appendix D – Form A Review Best Practices

flow/dividends from the target company to service debt and other obligations of the holding company and UCP.

- h) Based upon nature of acquiring party, review detailed audited financial statement of all individuals who are source of funds.
 - a. If not available, consider acceptability of unaudited financial statements, compiled personal financial or net worth statements and/or tax returns.
- i) Consider suitability of UCP through background review and regulatory review of the prospective new owners, using UCAA biographical affidavits and third-party background reviews by NAIC listed independent third-party reviewing companies or fingerprinting criminal checks if applicable, and
- j) Consider acceptability of SEC disclosures by board members of publicly traded UCPs in suitability review.

3. Communication and Record Maintenance

- a) Communicate response to any confidentiality requests in writing as soon as possible
- b) Create a contact list of relevant persons and representatives
- c) Separate confidential and public documents, information, and communications and maintain as appropriate
- d) Contact and collaborate with other reviewing regulators involved in the review process, as appropriate, including the lead state regulator regarding ORSA and ERM reviews
- e) As applicable, contact other regulators of noninsurance entities of the acquiring party or target
- f) Respond as appropriate to questions from third parties and interested regulators
- g) Keep the acquiring party representatives informed as to status of review
- h) Receive and consider any information provided by external sources, including possible financial or other incentives or motivation of those commenting on a particular transaction
- i) Summarize review, findings, conclusions and action taken on Form A review in final action document, including stipulations, and conditions subsequent, and
- j) File and maintain documents under state procedures.

4. Transaction Review

- a) Determine how acquisition will be achieved by carefully reviewing transactional documents, e.g. merger, stock purchase, stock exchange
- b) Consider disposition of all classes of target shares, including addressment of any beneficial owners
- c) Ascertain propriety of disposition of minority interests and concerns, if applicable
- d) Consider any affiliate or employee benefit as appropriate
- e) Determine how any ancillary regulatory reviews or other interim procedural steps will be completed, including Form E-Pre-Acquisition Notification Form, for other licensed states
- f) Obtain copies of shareholder communications or sole shareholder consent
- g) Consider obtaining copies of fairness and other contractually required opinions if available

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- h) Review relevant portions of board resolutions, power points and related board minutes pertinent to the Form A transaction, use care to keep documents confidential, and
- i) Determine whether additional professional transaction review is warranted.

5. Purchase Consideration

- a) Determine fairness (equivalency) of total amount to be paid to total value to be received, including derivation of price and value of target under standard valuation methodologies or to book value
- b) Consider quality of consideration, giving careful scrutiny to payments other than cash or cash equivalents which are disfavored particularly when any funds are being transferred to the target.
- c) Consider fairness opinions and actuarial appraisals, if provided
- d) Consider source, type and valuation basis of funds to be used for consideration
 - i. If funds are from a regulated entity, confirm the existence and valuation of such assets with that entity's regulator
- e) If applicable, consider implications of any debt financing including
 - i. The mechanics of any debt financing to be used to fund the transaction, whether funds are being borrowed in the ordinary course of business or on terms that are less favorable than generally commercial loans.
 - ii. The percentage of debt versus non-debt funds to be used
 - iii. The source of funds or stream of income to be used by parent for repayment and the ability of the acquiring party to repay the debt from sources other than the target
 - iv. Identity of the creditor(s) and creditors' financial condition.
 - v. How will debt be secured; consider prohibiting securing of debt on shares of target or target's assets if not already prohibited by state statute,
 - vi. Compare time period of loan commitment with parent's income stream over the same time period, including the ability of the acquiring party to repay the debt from sources other than the target until loan is repaid/retired, and
 - vii. Consider the long term impact of parent's debt service on operations of the target company and group.
 - viii. Follow-up on Parent's financial commitment to underlying insurer.

6. Target License Qualification /Insurer Operations

- a) Determine whether target insurer meets license qualifications upon change of control
- b) Consider operational changes post-acquisition, including business plans and projections
- c) Review required statutory deposits and authorized lines of business
- d) Consider changes to target management and key employees
- e) Consider suitability of changes to target management and key employees through background review and regulatory review of new owners, using UCAA biographical affidavits and third-party background reviews or fingerprinting criminal checks, if applicable

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- f) Consider plans for technological interfacing with new affiliates and any potential adverse impact on operations including claims
 - g) Consider suitability of any new affiliated and non-affiliated material agreements, including managing general agents, third party administrators, any professional organizations and reinsurance arrangements
 - h) Review any ERM analysis of the transaction performed by the acquiring entity, including impacts on risk assessment, risk appetite and tolerances, and prospective solvency (capital and liquidity)
 - i) Require Form D filings for any affiliated material transactions, post-acquisition; consider including language in the approval order
 - j) Determine target's estimated financial condition and stability, post-acquisition, and
 - k) Consider with disfavor any plans to liquidate the target or sell its assets, consolidate or merge, that may be unfair, unreasonable, or hazardous to policyholders
 - l) Consider impact of U.S. insurer merging into an international insurer and/or alerting the legal entity structure and regulatory oversight performed by domestic state(s).
- 7. Market Impact**
- a) Consider anticompetitive impact of acquisition on lines or products, including whether transaction will create a monopoly or lessen competition in insurance in the state; Disapprove transaction if completion will create a monopoly
 - b) Consider Form E information and market concentration for combined lines and other appropriate information to assess market impact if warranted by nature of transaction, including coordination with other states where the target is admitted, and
 - c) Consider imposing tailored conditions subsequent or undertakings as necessary to address competitive market concerns
- 8. Post-Approval Considerations, if applicable**
- a) Receive notification of changes to effective closing date
 - b) Confirm compliance with conditions precedent
 - c) Receive waivers for market conduct or financial examination, and
 - d) Receive notification if transaction does not close and consider withdrawal of approval.
- 9. Post-Acquisition Considerations**
- a) Receive confirmation of the transaction following the closing, per your state's statutory requirement timeframe
 - b) Request written details of the final purchase price after all adjustments are complete on the transaction
 - c) Request confirmation of any capital contribution contemplated in the transaction.
 - d) Request the names and titles of those individuals whom will be responsible for the filing of the amended Insurance Holding Company System Annual Registration Statement
 - e) Request an amended Insurance Holding Company System Registration statement per your state's statutory timeframe within each applicable state's statutory required timeframe after the close of the proposed transaction.
-

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- f) Consider requesting for a period of two years, commencing six months from closing, a semiannual report under oath of its business operations in your state, including but not limited to, integration process; any changes to the business of the Domestic Insurers; changes to employment levels; changes in offices of the Domestic Insurers; any changes in location of its operations in your state; and notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the acquiring parties or the Domestic Insurers
- g) Consider prior approval of all dividends for a two-year period from the close date
- h) Consider undergoing a target financial and/or market conduct examination following the closing or
- i) In lieu of an examination a meeting, conference call or receipt of certain information can be requested
- j) Confirm compliance or satisfaction with any other conditions subsequent or undertakings, and
- k) Monitor target's market performance to projections two years after transaction close date
- l) Consider proactive communication with state(s) where the insurer conducts business if changes to the insurer's corporate structure occurs post-acquisition.

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Appendix E – Speed to Market

Appendix E – Speed to Market

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Appendix E – Speed to Market

Speed to Market – Insurance company working in conjunction with state of domicile (lead state), where seeking expansion (target) states and facilitated by the National Treatment and Coordination (E) Working Group (NTCWG) to expand operations into multiple States.

- (1) Applicant Company must work in concert with lead state to ensure baseline compliance:
 - Applicant Company is in good standing with its lead State. It is not presently under or pending any regulatory actions, unless regulators have agreed upon a strategic plan to address such regulatory actions and a speed to market approach is needed.
 - Applicant company meets the minimum cap, surplus or net worth requirements of the target States.
 - Applicant Company meets or has approval to waive seasoning requirements of the target States.
 - Applicant Company has the appropriate or like kind licensing authority in its state of domicile as to what it is seeking in the target States.
 - Applicant Company has identified all state specific issues related to the target states and is willing to meet them.
- (2) Applicant Company and Lead State will request from NTCWG the speed to market process:
 - Applicant Company must have ownership commitment, managerial competence and financial wherewithal to ensure it can successfully operate in all target states.
 - Applicant Company will ensure compliance and management commitment to the UCAA electronic expansion application process.
 - Lead State will assist target states by sharing of information (IPS, etc.) and regulatory thought processes (addressing any RBC, funding, reinsurance issues and how the Applicant company addressed the issues raised by lead state)
 - Outline timelines and expectations.
 - Establish both universal points of contact for the Applicant Company, lead state, and target states.
 - Note any regulatory issues that might arise.

If NTCWG approves and 2 weeks after the Applicant Company has filed an expansion application:

- NTCWG will initiate a “kick off meeting” with Applicant Company, lead state, target states, NTCWG co-chairs and NAIC staff noting the following:
 - General background of the Applicant Company.
 - Address timelines/expectations.
 - Note any potential regulatory concerns.

Lead State will work in concert with NTCWG (via staff support) to set up Regulator to Regulator only call (Lead State, target States, NTCWG co-chairs):

- Discuss lead state IPS.
- Get initial consideration as to status of application and proposed timeline for licensing:
 - target states still have deficiencies and concerns.
 - What target states are ready to recommend approval.
 - If needed, schedule call to include Applicant Company.

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Appendix E – Speed to Market

- Schedule date and time for next conference call to continue discussion.

As needed, all stakeholders follow up calls to address deficiencies and status of application.