

Considerations When Exempting Groups

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

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

Special Consideration for RRGs when Exempting Groups

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

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

- RRG is affiliated with a commercial carrier and the RRG is not the controlling entity in the holding company:
 - The lead state of the commercial carrier will determine whether GCC is required.
 - Commercial carrier will prepare GCC, which will include RRG results.

- Closely held RRG:
 - Obtain and review sponsoring organization's audited financial statements to assess the ability to infuse capital if needed and consider any other impacts to the RRG.
 - Check sponsoring organization website and/or perform internet research for news headlines as to any current changes to the sponsor structure such as mergers, acquisitions or any other significant occurrences that could impact the RRG. This would be done periodically/quarterly to anticipate changes requiring a Form D filing.
 - Review the RRG's balance sheet for the asset receivable from parent, subsidiaries, and affiliates, as well as the liability payable to parent, subsidiaries, and affiliates to determine whether there are concerns with the level of affiliated receivables/payables.

- RRG with affiliated offshore reinsurer:
 - Obtain and review most recent audited financials for the affiliated reinsurer.
 - Ensure compliance with credit for reinsurance requirements.

- RRG itself is the ultimate controlling entity, has one or more non-insurance subsidiaries, and no one policyholder owns or controls 10% or more of the RRG:
 - Through review of RRG policies and procedures, corporate documents, subscription agreements, and policy provisions, determine the RRG's access to capital in the event a capital infusion would be needed. Consider the need to obtain financial information of policyholders, however, where no one policyholder owns or controls 10% or more of the RRG, it is not contemplated that the state would routinely collect financial information of the RRG's individual policyholders.
 - Obtain and review most recent financials for the subsidiaries.

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