

To: Financial Stability (EX) Task Force  
From: Receivership and Insolvency (E) Task Force  
Re: Report on Macroprudential Initiative (MPI) Referral  
Date: November 19, 2020

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The following report summarizes the conclusions of the Receivership and Insolvency (E) Task Force (RITF) in response to the Macroprudential Initiative (MPI) referral on recovery and resolution. While the RITF has completed its recommendations, the RITF will conduct further work on the issues as described below.

**1. Evaluate recovery and resolution laws, guidance, and tools, and determine whether they incorporate best practices with respect to financial stability**

The Receiver's powers under laws based on the *Insurer Receivership Model Act* Model #555 (IRMA) and its predecessor, the *Insurer Rehabilitation and Liquidation Model Act* (IRLMA), in conjunction with the authority granted to the Receiver by court orders, generally provide the powers described in:

- International Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 12, *Exit from the Market and Resolution*;
- Common Framework for the supervision of Internationally Active Insurance Groups (ComFrame) material integrated into ICP 12; and
- Financial Stability Board (FSB) *Key Attributes of Effective Resolution Regimes for Financial Institutions* (KAs).

While powers under state laws comport with the ICPs, ComFrame, and the KAs, in some cases the powers are implicit rather than explicit. The RITF reviewed current laws with respect the following issues:

a. Bridge Institutions

State receivership laws do not expressly provide for the establishment of a bridge institution (Bridge), but the Receiver may establish a Bridge under those laws. While a Bridge is typically not needed in a receivership, it could have the benefit of addressing an early termination on qualified financial contracts (QFCs). However, implementing a Bridge for this purpose would require a temporary stay on termination rights. As noted in Item 3 below, the current misalignments with Federal rules on the termination of master netting agreements for QFCs effectively precludes temporary stays on termination of QFCs in a receivership, thereby preventing the use of a Bridge for this purpose.

*Conclusion: The Receivership Law (E) Working Group reviewed guidance in the Receiver's Handbook for Insurance Company Insolvencies (Receivers Handbook) and developed revisions to guidance regarding the use of bridge institutions and administration of QFCs in receivership and pre-receivership planning.*

b. Providing Continuity of Essential Services and Functions

KA 3.2 states that a resolution authority should have the power to ensure the continuity of essential services and functions by requiring companies in the group to continue providing services. Under ComFrame (CF) 12.7a, a resolution authority may take steps to provide continuity of essential services by requiring other entities within the IAIG (including non-regulated entities) to continue services. The following authority and tools were identified:

- The *Insurance Holding Company System Model Act* (#440) requires approval of affiliated transactions, allowing a regulator to identify agreements that could create obstacles in a receivership. The *Insurance Holding Company System Model Regulation* (#450), Section 19, provides that cost sharing and management agreements specify if the insurer is placed in receivership that an affiliate has no automatic right to terminate the agreement.
- The Receiver can take action against a provider that refuses to continue services under a contract, or seek an order requiring it to turn over records. In some circumstances, such as a situation where an affiliate providing services is inextricably intertwined with the insurer, action can be taken to place the affiliate into receivership.

It was noted that some of these remedies might not address the immediate need to continue services in some cases. Therefore, the Task Force delegated further work on this topic to the Receivership Law (E) Working Group.

*Conclusion: The Receivership Law (E) Working Group is developing, among other solutions, revisions to Models 440 and 450 to address remedies to ensure continuity of essential services and functions to an insurer in receivership by other affiliated entities in a holding company group, including non-regulated entities. The Model Law Request to develop revisions to Models 440 and 450 was adopted by Executive (EX) Committee in August 2020. The Working Group expects to finalize its work in this area in 2021.*

### c. Variations in States' Receivership Laws

The RITF recognized that few states have adopted IRMA, and most have laws based on IRLMA or prior models. In 2017, the Financial Condition (E) Committee issued a memorandum to states to consider adoption of certain provisions of IRMA.<sup>1</sup> The RITF further identified eight key areas within receivership and guaranty fund law that it encourages states to adopt. The key areas include: conflicts of law; continuation of coverage; priority of distribution; stays and injunctions; ancillary conservation of foreign insurers; domiciliary receivers in other states; treatment of large deductible workers compensation policies; and the 2017 revisions to the *Life and Health Insurance Guaranty Association Model Act* (#520). The RITF also determined that some states may require an alternative solution to revise their laws for stays, injunctions and “full faith and credit” provisions. Therefore, the RITF recommends redefining “reciprocal state” in states’ receivership law as an optional solution. The RITF concluded the following:

*Conclusion:*

- *The RITF developed a Model Guideline defining “reciprocal state” that was released for exposure at the Nov. 19, 2020, virtual meeting, and which will be considered for adoption in 2021.*
- *The RITF will work towards educating states on key areas of receivership and guaranty fund laws that enhance efficiencies and effectiveness of the receivership process, as identified through this workstream, including related new Model Guidelines adopted by the NAIC, outreach to states’ legal staff and other educational opportunities.*
- *The RITF formed an ad hoc group to discuss Financial Regulation Standards and Accreditation Program Part A standards for receivership and guaranty fund laws and will take any recommendations from the ad hoc group under consideration in the future.*

## **2. Evaluate recovery and resolution planning tools for systemically important cross-border U.S. groups**

The RITF determined that many recovery and resolution planning topics in the KAs and ComFrame are generally covered in the guidance for pre-receivership planning in the Receiver’s Handbook. Additionally, some topics were identified that may be captured elsewhere within the US solvency monitoring frameworks (e.g., ORSA, Supervisory Colleges, Crisis Management Groups, Examinations, etc.). The RITF found that:

- The Dodd Frank Act’s provisions for resolution planning address the requirements of the KAs and ComFrame for an insurer designated as a Systemically Important Financial Institution (SIFI). Other jurisdictions may have similar planning requirements for international groups.
- The requirements in state laws for corrective action plans under risk-based capital (RBC) laws and hazardous financial condition laws may satisfy this requirement for insurers that fall short of the applicable RBC solvency benchmarks, or otherwise trigger a corrective action requirement.

<sup>1</sup> [https://naic-cms.org/sites/default/files/inline-files/cmte\\_e\\_receivership\\_related\\_170717\\_committee\\_recommendation.pdf](https://naic-cms.org/sites/default/files/inline-files/cmte_e_receivership_related_170717_committee_recommendation.pdf)

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- Regarding crisis management groups and crisis management planning, the NAIC *Insurance Holding Company System Model Act* (#440) Section 7 provides the commissioner with the authority to develop crisis management plans as part of supervisory colleges. Further, Model 440 Section 7.1, provides for authority for the commissioner to act as the group-wide supervisor of internationally active insurance groups (IAIG) and engage in group-wide supervision activities as outlined in the model, though not explicit to recovery and resolution plans. Additionally, the NAIC *Financial Analysis Handbook* contains guidance and a template for a crisis management plan. This authority and guidance provide states with the flexibility to discuss the necessity for crisis management plans within supervisory colleges and/or crisis management groups and to make the determination to develop such plans on a case-by-case basis.

*Conclusion:*

- *The RITF agreed that consideration of imposing recovery plan reporting requirements on insurers that are not in financial distress is outside the scope of the RITF and may require consideration by U.S. group-wide supervisors of IAIGs.*
- *The Group Solvency Issues (E) Working Group is undertaking a project to update insurance regulatory guidance as it pertains to supervision of IAIGs under ComFrame, including guidance on crisis management groups. The RITF will provide input at the appropriate time to this work stream. The Working Group's project is expected to be completed in 2021.*
- *The RITF will continue to review and provide input to the IAIS on recovery and resolution topics including the upcoming Application Paper on Resolution Powers and Planning.*

**3. Evaluate whether there are misalignments between federal and state laws that could be an obstacle to effective and orderly recovery and resolutions for U.S. insurance groups**

a. Temporarily Stay Early Termination Rights

The Task Force evaluated the impact of the federal rule recognizing temporary stays on terminating master netting agreements for qualified financial contracts (QFCs), which does not recognize stays in a state receivership proceeding. The regulators held discussions with federal banking authorities regarding the handling of QFCs and bridge institutions in banking resolutions. This information will be used to assess the utility of a stay on QFC terminations in an insurance receivership.

*Conclusion:*

- *In 2019, the NAIC adopted amendments to the Guideline for Stay on Termination of Netting Agreements and Qualified Financial Contracts (#1556) to highlight the conflict with the federal rule to state insurance regulators who may be considering adoption of Guideline #1556.*
- *The Task Force adopted revisions to existing guidance for receiverships involving qualified financial contracts at the Nov. 19, 2020 virtual meeting.*

b. Taxes in Receivership and Federal Releases

The Task Force identified topics where guidance for taxes in receivership and federal releases should be drafted in the Receiver's Handbook.

*Conclusion: The RITF adopted revisions to the Receiver's Handbook for guidance on taxes in receivership and federal releases at the 2020 Summer National Meeting.*