

VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) Procedures

Review of the Group Capital Calculation

Consideration of the Insurance Holding Company System Structure

As the lead state begins to review the annual Group Capital Calculation filing for a particular group, ~~it is it's~~ important for the lead state to do so with consideration of the existing knowledge of both the organizational structure of the group, including changes in the structure from year to year, but more importantly the overall activities of each of the entities in the group which otherwise have the potential to transmit material risk to the insurers within the group. While the GCC will provide additional quantitative information on the entities in the group; the actual activities of the entities are also important in determining the scope of application of the GCC. ~~Specific to that point, t~~The lead state is responsible for determining if any of the entities in the holding company structure should be excluded from the calculation, and therefore a smaller "scope of application" for the entities included in the GCC ratio. The filing includes a column for the group to propose what should be excluded as well as an additional column for the final determination made by the lead state. In general, the determination of scope of the application is suggested by the group but made in consultation and agreement with the lead state. This exercise should be undertaken in a manner that yields a clearly documented rationale for excluding entities or subgroups of the larger group. The *Group Capital Calculation Instructions* describes the basis for making this determination and the calculation itself is structured to facilitate this determination, with the inclusion in Schedule 1 of the calculation ~~of~~ financial data ~~for~~ all entities within the holding company. Similar to exclusion from the calculation itself is review of data for cases in which subgroups ~~of the larger group~~ are completely excluded from the larger group, particularly with regard to Schedule 1; the rationale for the exclusion(s) should be provided in the GPS. The concept is that this Schedule 1 data should be utilized by the lead state in conjunction with ~~their~~its existing knowledge of the group and its activities (obtained from the Schedule Y, ORSA, Forms B/C, Form F, the ~~non-insurance~~non-insurance grid, etc.), and therefore likely material risks, to make this determination. To the extent the entities included in Schedule 1 differ from the analyst's knowledge of the Group, further discussion and follow-up should be held with the group.

In the initial year(s) of a GCC filing, to help the analyst get comfortable with the Inventory and Schedule 1 process, consider the following:

- Gather appropriate background information for your group(s) (e.g., Group Profile Summary, ORSA, RBC Reports, Schedule Y)
- Determine that all Schedule Y entities are listed in schedule 1 or in the schedule BA list in the other information tab or that an entity's omission is understood / explained
- Evaluate requests for exclusion of non-insurance/ non- financial entities w/o material risk to determine if you agree with exclusion.
- Confirm that all insurers and financial entities are de-stacked in the inventory tab.
- Determine if grouping has been properly applied.
- Evaluate level of risk assigned by filer to financial entities w/o regulatory capital requirements.
- Test check that the numbers reported in Schedule 1 and Inventory Tab look reasonable, especially for the insurers. A sample check should be sufficient.

The holding company structure and activities should also be utilized by the lead state in determining how to evaluateunderstand the GCC ratio. More specifically, information on structure can impact the flow of capital used by the group to make decisions on~~and~~ how to utilize resources among entities within the holding company structure. Therefore, understanding the following can assist in evaluating the flow of resources:

- Domestic insurance operations
- International insurance operations
- Banking or other financial services operations subject to regulatory capital requirements

VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) Procedures

- Financial and non-financial operations not subject to regulatory capital requirements*

*The GCC instructions provide examples of financial versus non-financial entities in this category. All financial entities should be included in the scope of application of the GCC. However, there can be a broad array of entities that could be considered financial. The lead-state should document the rationale for cases in which it concludes that an “financial” entity that may be financial in nature can nonetheless be classified in the group’s GCC filing as “non-financial” and thus should be excluded from the scope of the group of the GCC.

While the GCC is intended to be used as an input into the GPS, where the expectation is that the GCC summary section is used will help to document a high-level summary of the analyst’s take away of the GCC, as well as the Strategic branded risk, since that is the area where capital measurement is reported. The manner in which the analyst determines what else should be documented beyond the GCC Summary and the Strategic branded risk should be based upon the following steps, since these steps contemplate the previously mentioned concept that the existing evaluation of the financial condition should be used in evaluating the depth of review of the GCC.

In as much as the GCC is a new analytical tool for use by regulators and that it will take a number of years before there is both (1) sufficient data for any given group to provide the trend identification ultimately anticipated for the GCC; and (2) experience by regulators with its use. Analysts should be mindful that any stated threshold in the following procedures is for analysis purposes only and DOES NOT constitute a trigger for regulatory action. Rather, the stated threshold should be used as an opportunity for an analyst to understand issues and concerns that may be emerging and address them with the group, if needed. Nonetheless, the following procedure steps provide analysts with a framework to consider the GCC results in conjunction with other data and tools at their disposal, and to begin to gain and benefit from experience in utilizing the GCC as a new analytical tool. From a high-level, the following steps suggest in

- Procedure Step 1 suggests that a review of the components of the GCC is appropriate when either the GCC ratio is trending downward or the GCC ratio is below a predefined suggested threshold of 150% (equivalent to an RBC of 300% since that is the same threshold used in the sensitivity analysis in the GCC Template.
- When Procedure Step 1 identifies the need to look further, Procedure Step 2 suggests from a high level determining the drivers of any decreases in the total available capital in the GCC. While there are numerous benefits of the GCC over consolidated approaches, the ability to drill down on the drivers is one of the more significant and is consistent with the states approach to not just looking at capital, but to the drivers of capital issues.
- When Procedure Step 1 identifies the need to look further, Procedure Step 3 suggests from a high level determining the driver of any increases in operating leverage, which is typically what drives insurance capital requirements up, be it asset risk/leverage or writings leverage. Similar to drivers of capital decreases, the GCC has detailed information on financial figures and ratios that can be used to isolate the issues.
- When either Procedure Step 2 or Step 3 identify the need to understand better, Procedure Step 4 is similar in that it too utilizes detailed information on capital allocation patterns used by the group over time that are necessary for the analyst to understand if there are any future negative trends in the GCC since these can become important if there are any issues that might require further distribution of capital across the entities.
- When Procedure Steps 2, 3 and 4 identify the need to understand better, Procedure Steps 5: Depending upon the analysis performed in previous Steps 1-4, is similar to legal entity analysis, where there is likely a need to determine what steps the group/company is already taking or plans to take in order to address the issues they feel are appropriate seen in the analysis of the GCC. The guidance provided in these procedures is not intended to be exhaustive, but rather should give the analyst a starting point in better understanding evaluating the various issues.
- If the analyst determines after completing any of the above procedures (steps), that no further work is deemed necessary to fully document their understanding of the material risks of the group observable from

VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) Procedures

the GCC (as well as the required information to be included in all GPS from the GCC), this should be documented by the analyst in any workpapers deemed appropriate by the state and include the general ~~reason~~reason, therefore. In making this determination, it should be reiterated these procedures are not intended to be used in a checklist manner and judgement based upon and existing understanding of the group ~~and~~ existing information on the group obtained from the Form F, ORSA, or any other source is certainly part of that ~~judgement~~ decision.

Procedure Step 1-~~Evaluate~~Understand the Adequacy of Group Capital

1. Determine if the group capital position presents a risk to the group and its insurance subsidiaries based upon its recent trends and/or current measures in the GCC ratio.

	<i>Branded Risk</i>	<i>Benchmark</i>
a. Is the GCC <150%? If “yes”, determine the most significant risk factors causing the result.	ST	<150%
a. Has there been a decrease in the GCC ratio over last two <u>or more</u> years? If “yes”, determine the cause(s) of the decline.	ST	a. <-10% <u>(this is not a point change)</u>
b. Has there been a decrease in the GCC Total Available Capital from prior year? If “yes”, determine the cause(s) of the decline.	ST	<-10%
c. If the GCC <150%, has there been a change from prior year? If so, determine the cause(s) of the change. If the GCC was <150% in the prior years also, consider more carefully the causes.	ST	>10 pts or <-10 pts
d. Has there been a negative trend in the GCC ratio over the past five years suggesting an overall pattern of declining capital?	ST	N/A

If the answer to any of the above questions is “yes”, but it is obvious that either the negative trend is caused by something such as the allowable debt, or a change in a corporate tax rate, or some other non-indicator of negative trends, note as such but do not proceed to step 2. In addition, if it is obvious that the negative trend is clearly driven from one entity in the group, understand the cause and document as such but do not proceed to step 2. However, in all other cases if the answer to any of the above questions is “yes”, the analyst should proceed with procedure step 2, understanding ~~evaluating~~ decreases in total available capital and/or procedure step ~~€3~~, understanding~~evaluating~~ increases in leverage to determine the cause(s) of the negative trends.

VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) Procedures

Procedures Step 2-~~Understand~~ Evaluate Decreases in Total Available Capital

2. Determine the source(s) of decreases in the GCC ratio or the GCC Total Available Capital

Recognizing that not all declines in capital ratios are necessarily “negative”, i.e., they may be the result of sound capital management and ERM to more efficiently utilize capital, approved changes in the scope of application, or changes in underlying authority requirements, the intent of step 2 (and step 3) is Unlike step 1, the intent of the step 2 (and 3) is to determine the actual source of the negative issues. In most cases, this equates to pinpointing the legal entity(ies) driving any negative trends. However, unless obvious from the information obtained in step 2, the analyst should proceed to step 5, using an understanding of items in Procedure Step 4, to understand more fully the actions the group, or the legal entity(ies) driving the negative trends already being taken or planned to be taken by the group to address the issues identified in step 2 that the group believes is needed. However, the analyst may already have a deep understanding of any such plans, and as a result, it is it’s possible that no further follow-up with the group will be necessary and that the lead state should simply update the GPS to be certain the main understanding of the issues are is known to all of the regulators utilizing the GPS.

	<i>Branded Risk</i>	<i>Benchmark</i>
a. Review the GCC ratio <u>of available capital to calculated capital</u> from each of the reported entities and compare to the same ratio from the prior year. Determine which entities may have led to the negative trends.		<-10%
b. If the change in the GCC is not driven from a legal entity, and instead the change in allowable debt, note as such.	ST	N/A
c. Review the levels of profitability for each of the reported entities in the GCC in the current and prior years (as reported in the GCC) to determine if there are particular entities showing signs of decreasing profitability which may <u>eventually</u> lead to <u>losses and</u> future decreases in the GCC ratio or total available capital.	OP, PR/UW	<-10%
d. For each of the reported entities showing either, 1) a meaningful decrease in the GCC due to a decrease in the total available capital, or 2) negative profitability trends, request information that identifies the issues by inquiring from <u>of</u> the legal entity regulator first or the group itself (e.g., non-insurance company), if applicable.	OP, PR/UW, ST	N/A
e. If due to pricing or underwriting issues, understand if the issues are the result of known pricing policies that are currently being modified or if the business is in runoff, recently identified products where metrics can quantify the issues whether new product lines, or geographic or other concentrations, volume/growth business strain, or other issues. When considering pricing that is being modified, include those products that <u>for which</u> the price is adjusted through crediting rates.	PR/UW	N/A
f. If due to reserve issues, understand the reserve development trends, whether reserve and pricing adjustments have been	RV, ST	N/A

VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) Procedures

made as well as changes in business strategy apart from those products.		
g. If due to market risk issues—i.e., capital losses—understand not only why the losses occurred <u>occurred</u> , but the likely near-term <u>future</u> impact given current and likely prospective economic conditions. Market issues include not only changes in equity prices, but also impact/exposure to interest rates and other rates such as foreign currency exchange rates or rates on various hedging products used by the group.	MK, CR	N/A
h. If due to strategic issues such as planned growth, planned decline in writings or changes in the investment strategy, utilize the business plan from the Form F to better understand the anticipated changes and how the actual changes compare. Understanding the variance from the business plan is important in assessing the ongoing risk either in projected future profitability or in some cases the investments.	ST, PR/UW, OP	N/A
i. If due to negative reputational issues, <u>for example, have adversely impacted new business or retention of existing business</u> , understand the issues more closely, whether potential ongoing changes in stock prices or financial strength ratings that may further impact market perception, or what the group is doing to address the potential future impact be it sales projections or access to the capital markets.	RP	N/A
j. If due to credit losses, understand the current and future concentration in credit risks, be it investments, reinsurancereinsurance , or other source of credit losses.	CR, MK	N/A
k. If due to operational issues, such as extremely large catastrophe events, IT or cybersecurity events or relationships, understand the current and prospective impact.	OP, ST	N/A
l. If due to legal losses, understand the underlying issues and degree of potential future legal losses.	LG	N/A
m. If due to non-insurance reported entities in the group, understand the relationship of the non-insurance operations to the insurance entities and the potential impact to the insurance operations (<u>i.e.i.e.</u> , intercompany agreements, services, capital needs, etc.).	ST, OP	N/A

Procedure Step 3-UnderstandEvaluate Increases in Operating Leverage

3. Determine the source(s) of any decreases in the GCC ratio due to increases in leverage

Like step 2, the intent of ~~the~~ step 3 is to determine the actual source of the negative issues. The difference between step 3 and step 2 is simply the types of issues. Step 2 is focused on issues that have resulted in negative capital trends. Step 3; however, is focused on the issues that impact the risk being measured in the GCC. In most cases

VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) Procedures

that risk is from the insurers and either from the asset side or from the liability side where in both cases there has been an increase in such risk that has not been offset by a corresponding or equal increase in capital. In general, this is referred to as operating leverage, where this risk can manifest itself either through increased insurance writings or exposure (e.g., the ratio of premiums to capital or liabilities to capital), or through increased assets that also carry risk. The expectation is that other regulated entities also have capital requirements that increase as these different types of risks increase, similar to how the NAIC RBC considers different types of products and assets that carry more risk. However, it is possible to have increased leverage outside of the insurance companies through for example increased exposure, which can manifest itself through increased liabilities or through increased assets. However, similar to other items noted in this document, such increases do not necessary represent negative trends, rather simply things the analyst may need to further understand the drivers of such. In most cases, this equates to pinpointing the legal entity(ies) driving any negative trends. Similar to step 2, using an understanding of items in Procedure Step 4, to understand more fully the actions the group, or the legal entity(ies) driving the negative trends already being taken or planned to be taken by the group to address the issues identified in step 2 that the group believes is needed.

	<i>Branded Risk</i>	<i>Benchmark</i>
a. Review the <u>ratio of available capital to calculated capital GCC ratio</u> from each of the reported entities and compare to the same ratio from the prior year. Determine which entities may have led to the negative trends based upon corresponding increases in leverage <u>(e.g., writings/capital ratios or liability to capital ratios)</u> .	MK, CR, RV, ST, OP, RP	<-10%
b. Review the levels of operating leverage for each of the reported entities in the GCC as well as the same for the prior years as reported in the GCC to determine if there are particular entities showing signs of increasing operating leverage which may lead to future decreases in the GCC ratio or total available capital.	MK, CR, RV, ST, OP, RP	<-10%
c. For each of the reported entities showing a meaningful decrease in the GCC due to an increase in operating leverage, request information that identifies the issues by inquiring first from the legal entity regulator or the group itself (e.g., non-insurance company), if applicable.	MK, CR, RV, ST, OP, RP	N/A
d. If operating leverage has increased, consider if growth may have resulted from underpriced products or a change in underwriting. Specifically inquire to determine if pricing was reduced to increase sales, or whether the growth is in new product lines or new geographic focus where the group may not have expertise. When considering pricing being modified, include those products that the price is adjusted through crediting rates.	PR/UW, OP, ST	N/A
e. If operating leverage has increased, consider if reserving risk has also increased, through potential underpricing that ultimately manifests itself into reserve adjustments. To do so, obtain current profitability information on the products leading to the increased leverage.	RV	N/A
f. If operating leverage has increased, obtain current information on the asset mix to be certain that there is a corresponding	CR, MK	N/A

VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) Procedures

decrease in riskier assets to mitigate the otherwise likely increase in market and credit risk.		
---	--	--

Unless obvious from the information obtained in step 3, the analyst should proceed to step 5, using understanding of items in Procedure 4, to understand more fully the actions being taken by the group, or the legal entity(ies) or planned to be taken by the ~~to address the issues identified in step 3~~ or planned to be taken by the group to address the issues that the group believes is needed. However, in some cases, it is ~~it's~~ possible that no further follow up with the group will be necessary, and that the lead state should simply update the GPS to be certain ~~the main understanding of the~~ issues are known to all of the regulators utilizing the GPS.

Procedure Step 4-~~Evaluate~~Understand the Capital Allocation Patterns

4. **Determine the capital allocation patterns to determine if some entities may put pressure on other legal entities.**

Steps 2 and 3 are critical in understanding the issues faced by the group and in identifying the source of negative trends; and while additional follow up with the group is expected, before proceeding to Step 5, the lead state should understand the historical capital allocation patterns taken by the group or the likely future needed capital allocation patterns that may be needed by the group if negative trends continue. The GCC includes data on historical capital allocation patterns (e.g., contributed capital received/paid or dividends received/paid), which help to illustrate which entities have historically need ~~ed~~ more capital and which entities have capital that they have provided other entities in the group in the past ~~can be provided~~. While these patterns do not necessarily repeat themselves from one period to the next, there is often consistency in terms of entities that need capital or have excess capital, which may or may not be driven by losses, or but rather by a change in strategy (e.g., increased writings at one company over another) by the group. These trends can also assist in discussions with the group ~~on~~ about where capital may come from as a result of a future unexpected material event. Where similar information is also disclosed in Form F, the detail in the GCC may confirm what is already known by the analyst in this area and in some cases may provide greater detail.

	<i>Branded Risk</i>	<i>Benchmark</i>
a. Review the <u>underlying</u> data from the GCC <u>Analytics tab</u> to determine the historical capital allocation patterns within the group and summarize the result of this analysis.	ST	N/A
b. Using this data, as well as any recent information on net losses, or likely expected funding, determine if <u>there may be an impact on the capital available to the insurance entities (either through the likelihood of higher dividends or through less capital being available for infusions</u> it's possible any of the insurance companies will be required and to fund future possible losses from other entities in the group and potentially become troubled themselves, regardless of the current capital in excess of RBC requirements.	OP, ST	N/A

Procedure Step 5-Consider the Need for Company Discussions for Reductions in Risk

5. Determine the group's plans for addressing source(s) of any meaningful decreases in the GCC ratio or total available capital. Please note, in some cases, the plan may be as simple as actions designed by the group to reverse a single negative trend.

Steps 5 is designed to assist in understanding a review of the group's insurance company's plans for addressing any meaningful decreases in the GCC ratio or total available capital that are not otherwise already planned by the group (i.e., that are not the results of capital management so as to efficiently utilize capital while still maintaining sufficient levels for Enterprise Risk Management needs). The specific plans of the group may or may not fully address all the issues but to the extent the group believes they have addressed what is needed, ultimately what is most important is that such information and the regulators plan for evaluating and monitoring the situation is known to the other regulators. There is a multitude of ~~possibilities~~possibilities, and this guidance is not intended to address all of those. This includes the multitude of possibilities by the group and its legal entities and the ultimate results. This also includes the multitude of possibilities to be taken by the legal entity regulators of the legal entities, including the fact that in some cases some regulators may choose to put their legal entity into some type of supervision, ~~conservation~~conservation, or some other form of receivership (which, by necessity and intent, would presumably be done based upon existing legal entity authority and not the group's GCC). Similar to other areas, where similar information is also disclosed in Form F, further information may already be known in this area.

VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) Procedures

	<i>Branded Risk</i>	<i>Benchmark</i>
a. Obtain a copy of the group’s most recent business plan and compare it to the prior year plan for variances. –(seeSee Additional Procedures below for additional follow-up analysis)	ST	N/A
b. Request information from the group on how it intends to address the issues or <u>negative</u> trends <u>(those that are not planned or due to approved changes to the GCC scope of application or the result of changes in underlying legal entity capital requirements)</u> identified in Steps 1-3. More specifically, determine how the group intends to decrease risk, and by what means.	ST	N/A
c. Based on information received in 5.b., determine the group’s capacity to reduce risks or raise additional capital.	ST	N/A
d. Where the remaining capital is adequate, document the findings in the GPS (or another document) and make available to the supervisory college and or domestic states with the presumption no further action is deemed necessary.	ST	N/A
e. Consider whether the collective information suggests - that any of the U.S. legal entity regulators should - deem the legal entity to be in a “Hazardous Financial Condition” and take s appropriate action to address based upon the facts and circumstances and the provisions of the state’s law (similar to NAIC Model 385).	N/A	N/A
f. Where appropriate, consider holding a meeting of the supervisory college or of all the domestic states to fully understand the group’s plans. Where appropriate, require the group to present its plans to the supervisory college or all the domestic states.	N/A	N/A
g. Where appropriate, determine if the plans proposed by the group are <u>considered</u> inadequate by any of the legal entity regulators, and more specifically if any are considering taking action over their applicable legal entity. If this is the case, hold a meeting of the supervisory college or of all the domestic states to provide this information.	N/A	N/A
h. Where appropriate, consider holding a broader meeting of all impacted jurisdictions in which the group is selling insurance. Where appropriate, require the group to present its plans to all such regulators and for the regulators to announce their plans.	N/A	N/A

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

Purpose of the Group Capital Calculation (GCC) in Holding Company Analysis

The following information is intended to provide background and context ~~concerning of~~ the issues/considerations for analysts when utilizing the NAIC Group Capital Calculation (GCC) for an insurance holding company group (hereafter referred to as “group”) completing the GCC where required. The GCC is a “tool” to quantitatively understand the group’s capital and the mathematically calculated risks within. The GCC framework is built on the RBC model; however, while the RBC has triggers with states’ laws to make formal actions as a capital requirement, the GCC is not designed with that purpose and is instead designed as an analytical tool.

Background Information

~~Beginning in~~ 2008, the NAIC Solvency Modernization Initiative (SMI) began to consider whether there were any lessons learned from the financial crisis that would cause the solvency framework to be modified. The NAIC determined that changes should be made ~~to the group supervision framework~~ in the area of group supervision, starting with the new annual requirement for the Lead State of each group operating in the U.S. to complete a written holding company analysis. Since that time, other changes to state laws have been made to further enhance group supervision (~~e.g.e.g.~~, Form F, ORSA, and Corporate Governance reporting). All of these new tools are inputs into the previously mentioned holding company analysis, which is now summarized into a consistent tool used by all states ~~that in what~~ is known as the Group Profile Summary (GPS).

Benefits of the GCC & Methods ~~to Achieve Them~~ ~~for Achieving~~

The Group Capital Calculation Instructions describes the background, intent, and calculation for the GCC in detail. As stated in the Group Capital Calculation Instructions, the GCC and related reporting provides more transparency ~~about a of an insurance~~ group’s structure and related risks to insurance regulators and makes those risks more identifiable and more easily quantified. In this regard, ~~this~~ tool is intended to assist regulators in ~~holistically better~~ understanding the ~~financial condition risks that the of~~ non-insurance entities ~~may pose to the group~~, how capital is distributed across an entire group, and whether and to what degree insurance companies’ capital may be put at risk from the operations of non-insurance entities, potentially undermining the insurance company’s financial condition and/or placing upward pressure on ~~the insurers in the group. premiums to the detriment of insurance policyholders.~~ An analyst is not expected to understand non-insurance industries represented within the group but is expected to understand through this calculation if a non-regulated entity could place pressure on or provide relief to a regulated entity.

The manner in which the GCC achieves some of these benefits ~~or points~~ varies. For example, with regard to understanding how capital is distributed across an entire group, ~~this~~ can be seen in two ways. ~~One, is, both~~ by viewing the Tab titled “Input 4-Analytics” ~~in as follows: 1)~~ the display of the “Ratio of Actual to Required Capital”. ~~Two is by viewing the same Tab and in the; 2)~~ display of “Required Capital” in a separate column. The degree of subsidization can also be seen in the “Input 4-Analytics” tab, with the display of the columns as follows: 1) Capital Contributions Received/(Paid); 2) Net Income. While ~~certainly~~ one year of information can show this exists, most ~~of this benefit~~ will not be seen until after further years of the GCC are reported within the template. Once ~~at least~~ five years of data are displayed in this “Input 4-Analytics” tab, it will allow the analyst to better understand the financial condition of the group as a whole as well as the ~~risks posed by~~ non-insurance entities ~~in the group~~. Of course, such conclusions can only be made once the analyst ~~can both see such~~ ~~sees the~~ data ~~as well as~~ ~~and~~ understands ~~s~~ from the group what is occurring that is leading to such figures.

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

Recognizing that legal entity supervision and related tools (e.g., RBC) is the primary means to address inadequate capital, the GCC may provide ~~This calculation provides~~ an additional early warning signal to regulators regarding risks or activities of non-insurers within the group that may pose material risk to the insurance operations. so they can begin working with a company to resolve any concerns in a manner that will ensure that policyholders will be protected. This early warning signal can be seen with the trending of the financial information in the “Input 4-Analytics” tab as well as through the application of sensitivity analysis in the Input 5 Tab and inclusion of other relevant information in the Input 6 Tab. However, the analyst should also understand that other “qualitative tools”, such as the Form F, are capable of also providing early warning signals if properly reported by the group. In addition, since most holding company systems may have a larger percentage of their operations in the insurance businesses, the insurance trends for the U.S. insurers in the group should already be known and made available to the lead-state by the legal entity regulator of the insurer(s). However, in the context of added policyholder protection, this may largely come into play with respect to the added quantitative data ~~on non-~~ from non-insurers.

The GCC is an additional reporting requirement but with important confidentiality protections built into the legal authority to require such reporting. State insurance regulators already have broad authority to take action when an insurer is financially distressed, and the GCC is designed to provide regulators with further insights to allow them to make informed decisions on both the need for action, and the type of action to take. That said, 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. Regulators will use other existing tools and authorities to take action, primarily at the legal entity level.

While the new information from the GCC may offer new insights, it is its equally important to understand that it will be up to the analyst to work with the insurance group to actually understand what is leading to the figures reported in the GCC, and from that perspective, especially in the early years of the GCC, it will require learning by both the analyst and the group to really be able to utilize the GCC in a manner as suggested in these introductory paragraphs.

Other Considerations When Considering Such Benefits

Unforeseen Recent events and economic conditions (e.g., i.e., pandemic, recession, etc.) may also can create stresses on a group, reinforcing the value of the quantitative data included in the GCC. Some stresses are similar to those experienced during the financial crisis and others are more unique. However, because the GCC is based upon a methodology that gets its inputs from individual legal entities, the capital calculated for each legal entity certainly can only capture the allowed capital resources of the legal entities in the group. While such an aggregation-based methodology is an appropriate group-level capital measure, until experience is gained with the GCC, it is not known as to how the GCC will behave in response to business cycles and various risk events, given in part because it only recognizes limited diversification benefits among entities in the group except for the diversification embedded in existing entity specific regulatory capital requirements. And while the GCC is not meant to be used in a way that compares groups to each other, it is it’s also true that it itsis unknown how it will behave across groups, peers and even sectors. This is true ~~both~~ because of its limited diversification benefit, the differences between group types (mutual v. stock holding company), grouping of entities, and scope of entities included in the calculation. It is But also true because application of jurisdictional accounting principles and use of scalars could have an impact on this as well via the foreign insurer profile of the group. The quantitative data

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

collected in the GCC will evolve as state insurance regulators and insurance groups increase their understanding of the impact on available capital and calculated capital.

The following guidance on the GCC is intended to be utilized in a manner that allows the GCC to enhance group-wide financial analysis and to be used as an additional input into the GPS. The GCC provides the quantification of risk within the group and when combined with the information from the ORSA on the amount of capital needed to run the company's current business model, puts the regulator in a much better position to understand the available capital and calculated capital within a group, as well as the financial condition of the group. Both are complimentary tools to each other. ~~The, with the~~ ORSA provides management's internal approach to capital management, and ~~beneficial in an~~ understanding of the economics of the group. ~~The, the~~ GCC provides a standard model that can better enable the analyst to understand where the entire group stands with respect to existing legal entity requirements as well as broad measures of risk for non-insurers. Analysts should be mindful of the differences between the ORSA and the GCC. For example, in the case of a group with predominantly U.S. operations, the GCC will largely be based on the standard model/RBC of the U.S. subsidiaries. However, the ORSA is not constrained by a standard model and will reflect management's internal approach to capital management and may utilize or benefit from an economic capital model, other internal models, stress testing and other means. As a result, while the GCC is an additional input into the GPS, it may provide data and signals that don't align with the risk measures within the ORSA.

Overall Theme of Remaining Guidance

The previous information describes the purpose for considering the GCC within the context of the states holding company analysis and corresponding GPS. In general, the remainder of this guidance provides more depth to the specific information included in the GPS; provides the analyst with a basic understanding of the GCC including why the entities included within the GCC may be a subset of those entities that are within the holding company structure; whether the trends within the GCC suggests questions should be raised with the group's management to understand; whether the underlying data suggests trends exist that should likewise suggests questions should be raised with the group or with the respective legal entity's supervisor; whether the information in the GCC filing is generally aligned with other information available to the analyst, and if not, why not, and whether that evidences other questions or concerns that should be addressed, or how they may already have been resolved. Notably, the purpose of the GCC is NOT to trigger regulatory action. Thus, even though the GCC is intended as a group-wide measure and provides insights as to capital adequacy and risks across the group, any regulatory action would have to result from other information made available to the regulator and based on legislative authority.

Utilization of the Group Capital Calculation in the Lead State's Responsibilities

The lead state is responsible for completing the holding company analysis and documenting a summary of that analysis in the GPS. The depth and frequency of the holding company analysis will depend on the characteristics (i.e., sophistication, complexity, financial strength) of the insurance holding company (group) system (or parts thereof), and the existing or potential issues and problems found during review of the insurance holding company filings.

~~It can be summarized that Similarly, in t~~he analysis of the GCC, ~~will be used in a similar fashion under this guidance since it provides~~ the depth of the review in the "five-step process" and specific inquiries will vary based on each ~~by~~ group's unique and situations. ~~where F~~or example, in some groups, very little if any work (inquiries

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

of the group) will be done after the first step due to ~~a generally strong GCC figure and~~ generally positive trends of the ratio over time. ~~While, while~~ in other groups, the analyst may need to proceed through each of the five steps. Exactly how the analyst proceeds through the guidance will be dictated by a multitude of factors and requires judgement and as a result, the steps and sub procedures should not be used as checklist, but rather as a guide in how to utilize the GCC to increase the analysts understanding of the group. 7

GCC Construction That Also Impact its Utilization and Review

Some decision points may be addressed prior to the submission of a GCC template. These include: the scope of application (~~e.g.e.g.~~, whether segments of the holding company system (group) should be excluded for financial conglomerates); whether a limited filing will be allowed (as permitted in Model Law #440 and Model Regulation #450); and whether subgroup reporting (as defined in the GCC instructions) of a foreign insurance group will be required. In general, the analytics provided by the GCC will be similar for all entities included in the template. ~~(See the end of this section (Primer on the Group Capital Calculation Formula)~~ at the end of this section to better understand these points.

These factors are also a consideration in determining the depth of the analysis of the GCC and subsequent correspondence with the group. Refer to chapter VI.B. Roles and Responsibilities of Group-wide Supervisor/Lead State for details on responsibilities for completing the GPS.

The utilization of the GCC can be summarized as an additional input into the GPS. More specifically, once the analyst completes their review of the GCC, ~~and the overall ratio, the~~ trend of the ratio, a summary should be incorporated into the GPS to help support the assessment of strategic risk.

Documentation of Review of the GCC in the Group Profile Summary (GPS)

The purpose of these procedures is to document the GCC into the GPS. The following provides an example of a GCC Summary that represents the minimum expected input of the GCC into the GPS, with ~~new additional~~ information ~~also~~ reported within the Strategic branded risk classification. The other purpose of this section is to determine if more follow-up with the group should be performed and, if so, to assess the information obtained from results of that additional review. The following is intended to assist in documenting the analysts' understanding ~~summary documentation~~ of the group's GCC ~~to be included~~ in the GPS.

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

Group Capital Calculation (GCC) Summary

Summarize your assessment of the GCC both quantitatively and qualitatively, including any such items as may not be applicable to a branded risk category. For example, it may be appropriate to indicate “The review of the group’s GCC indicated the scope of the application is consistent with the lead state’s determination” and if possible, to summarize succinctly, the general scope of the GCC. For example, “the GCC includes all U.S. and Bermuda operations, but excludes ABC non-insurance operations in South American countries”. It may also be appropriate to identify key drivers of risks for the group within the GCC that are discussed later in the branded risk categories, as those risks may be related, and supplement existing risk assessments derived from holding company analysis or they may be new risks that warrant further review. “The group’s GCC of 201% in the current year was impacted by a decline in Total Available Capital of \$X which is related to group’s non-insurance operations in Bermuda and as well as the negative impact of market risks in the U.S. insurance legal entity ratio components, which based on further analysis has resulted from the recent financial market volatility”.

Branded Risk Assessment

Strategic: The group’s Group Capital Calculation is assessed as low and ~~stable, and~~ stable and is a positive consideration in the overall assessment of strategic risk. The GCC has generally been ~~strong-reasonable~~ and consistent over the past five years as illustrated in the following table. Additionally, refer to the GCC Summary for further details.

	<u>CY</u>	<u>PY</u>	<u>PY1</u>	<u>PY2</u>	<u>PY3</u>
GCC Ratio	201%	207%	163%	202%	197%

GCC Summary and Strategic Branded Risk Documentation:

The above information documented in a summary section of the GPS and into the ~~S~~ strategic branded risk classification is expected to be the primary type of information that is always documented into the GPS. ~~since~~ The GCC does provides a capital measurement of the group and, consistent with the branded risk categories, should be reported in the strategic risk section. Similar to how RBC for an individual insurance company entity is helpful in allowing the analyst to better ~~evaluate~~ understand other potential issues given capital represents a relative measure of cushion for adverse risks, the GCC and inclusion herein helps regulators to understand the same, relative to a group. While the GCC is not a capital requirement, with specified ladders of intervention, each of the insurance legal entity figures are relative to individual company requirements, and therefore the GCC can provide a relative measure of ~~strength~~ risks against such minimum capital levels of the insurers.

Other Branded Risk Documentation:

To the extent the ratio ~~is~~ was trending negatively, or available capital was decreasing, the analyst may choose to include more information in the strategic branded risk section of the GPS that summarizes any key drivers of such findings if they did not fall into one of the branded risk categories. Those drivers of the change would likely be documented in other specific branded risk categories, for example Pricing/Underwriting if driven by group-wide weak insurance underwriting, or ~~Reserving~~ reserving if the group-wide drivers were reserve deficiencies, etc. References to other branded risk categories may also be appropriate. However, ~~practically speaking,~~ this may not always occur or be possible for the analyst to pinpoint given the multitude of risks within any insurer’s

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

regulatory capital requirement formulas. This guidance is simply meant to suggest that if the GCC does in fact appear to show particular trends that are noteworthy on specific risks ~~such as the underwriting branded risk~~, further documentation into that (applicable) branded risk may be appropriate.

A determination for when documentation of risks from the GCC into other branded risk categories may be appropriate is driven by both the question of whether any of the thresholds in Procedures ~~1a-1e~~ were met, and the ~~information obtained from the~~ rest of the GCC information as described in Procedures 2-4. The GCC Summary is intended to be high-level, therefore other more detailed observations from reviewing the GCC should generally not be documented into the GPS unless they are specifically insightful, add to a high-level understanding of the group's financial condition, ~~as shown in the example above~~, or are specific to a branded risk category as stated.

Other Considerations:

In addition to the broad guidance provided herein on the documentation of the GCC into the GPS, the analyst should also understand the following more general points that could impact the GCC result for a particular group. ~~J~~ Judgment is required when considering these points:

- If the group has a significant amount of business in legal entities that are domiciled in jurisdictions whose capital regime is based on market-based valuations, the GCC will inherently be more volatile (as compared to a pure U.S.-based group for which RBC and statutory valuations are the norm).
- Similarly, a group may have legal entities that are solely based in jurisdictions that utilize a standard model for capital requirements or have entities in jurisdictions where the use of internal models has been approved. All else being equal, the manner in which capital measures quantify requirements and behave over time will differ to some extent between the two. Also, a change from a standard method to one based on internal models for a key subsidiary will likely produce a noticeable change in the GCC that is not reflective of changes in the entity's underlying business.
- The GCC provides a means for analysts to identify non-insurance operations outside of the insurance group and to determine the extent of risk they may pose to the insures within the group. However, in doing so, analysts should understand that findings from review of Forms B, D and F might be equally valuable in these situations.
- When ~~evaluating~~understanding capital requirements for non-insurer financial entities that are not subject to regulatory capital requirements, consideration should be given to the appropriateness of the GCC's capital charge for a specific entity's financial operations (e.g., an entity conducting large volume or size of complex transactions but with little net revenue or equity).
- When ~~understanding~~evaluating capital requirements for non-insurer / non-financial entities, consideration should be given to the appropriateness of the level of risk assigned to specific entities.

Detailed Observation Documentation:

More detailed observations shall be documented separately from the GPS and in a form not dictated by ~~this handbook~~the NAIC. As in all holding company analysis, the level of documentation is determined by the lead state insurance department and is dependent on the characteristics and complexity of the group and its risks. These detailed observations generally need to only note ~~observations~~those that are indicative of drivers of trends and/or actions being taken by the group to mitigate risks. In some cases, these points can be easily summarized into the GPS. ~~J~~ In other cases they are too detailed and should be documented instead within at the

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

separate document not dictated in form by ~~this handbook~~~~the NAIC~~. The analysts are not expected, nor should they spend time documenting subtle changes within either the GCC or individual company movements that either do not create a trend at the group level or identify a growing weakness in the group. However, judgment is required to make this determination. For example, a 10% ~~(not point change)~~ decrease in an RBC ratio of one of the smaller insurers within the group generally would not be documented. ~~By contrast, although~~ a 10% decrease ~~(not point change)~~ in an RBC ratio in one of the larger insurers in the group that causes, ~~either alone~~ or jointly with other insurers, ~~causes~~ a 10% decrease in the GCC should be noted. However, it should be understood also that this 10% threshold is not intended to be used as a “bright-line.” ~~and it~~ In fact ~~it is~~ it’s possible the 10% is not necessarily indicative of any negative trends at all. This could be the case when for example there was a change in the regulatory capital requirement. Therefore, again, judgement is required in making these determinations and this, as well as other thresholds used in this guidance are not meant to be ~~bright lines~~~~bright lines~~. As the GCC is used more, both by the individual analyst, ~~as well as all of~~ ~~and by the~~ ~~various~~ ~~the~~ states, using judgement around these thresholds ~~s~~ are expected to become easier ~~as the judgement~~ ~~is informed with experience~~.

Specific Procedures for Completing ~~Analysis-Review and Understanding~~ of the GCC

~~It should be understood that~~ ~~The following procedures should be used by the analyst in their review and documentation of results of the GCC. However,~~ if the analyst determines after completing any of the above procedures (steps), that no further work is deemed necessary to fully document the material risks of the group observable from the GCC (as well as the required information to be included in ~~all~~~~the~~ GPS from the GCC), this should be documented by the analyst in any workpapers deemed appropriate by the state and the general reasons ~~therefore~~~~supporting that conclusion~~. In making this determination, it should be reiterated these procedures are not intended to be used in a checklist manner and judgement based upon existing information on the group obtained from the Form F, ORSA, or any other source is certainly part of that ~~judgement~~ decision.

Procedures Step ~~1a-1e~~

The purpose of procedures ~~1a-1e~~ is to assess the GCC level, and to identify the drivers of any changes in the GCC, in order to summarize and to document that overall assessment in the GPS and its strategic risk category, which is the minimum expected input of the GCC into the GPS. However, the analyst should understand that in the early years of the GCC, limited amount of prior year(s) comparative data will be available, therefore requiring more judgement in determining ~~if or~~ where further analysis is warranted. Such judgement may need to be based upon various factors, including but not limited to other known information regarding the applicable group obtained from other sources (~~e.g.e.g.~~, ORSA, Form F, Form B, ~~etcetc~~).

Procedure 1 is also intended to help the analyst determine if more follow-up ~~analysis-review~~ work should be performed. However, if the answer to any of the questions in ~~1a-1e~~ is “yes”, the analyst should proceed with step 2, ~~evaluating understanding~~ decreases in total available capital and/or step 3, ~~evaluating understanding~~ increases in leverage to determine the cause(s) of the negative trends. In the example provided above, ~~the ratio is above 150%, which suggests further review may not be necessary. In addition,~~ the trends are positive with no decreases in the base ratio ~~and the only year below the 150% benchmark being except~~ in PY1; ~~where~~ presumably the analyst may have performed some level of inquiry to the holding company to understand the driver of the drop. ~~Even then the drop was below the Handbook’s predefined threshold of 10% and may not have been necessary.~~

Procedures Step ~~2a-2m~~

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

Unlike step 1, the intent of ~~the~~ step 2 (and 3) is to determine the actual source of the negative issues and where ~~they should be to~~ documented ~~them~~ in the GPS. Procedure 2a is specifically focused on identifying the category of legal entities (and subsequently the individual legal entities) that might be driving the issues by looking at the ratio of actual-to-required capital for the legal entity insurers over the available years reported. The following sample of a table from the GCC calculation completed by the group from the data in Schedule 1 can be helpful in determining the source of the issues.

Insurance Capital Table		Ratio of Actual to Required Capital				
		2024 5	2025 23	2023 22	2022 21	2021 20
Template Groupings		[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX		

Procedure 2b recognizes that the GCC does allow some debt to be included in capital up to a predetermined limit and can drive the overall GCC ratio. The following sample table taken from the GCC calculation using the data in Schedule 1 can be helpful in making this determination. ~~Cases where debt is issued to address risk-~~ driven reductions in the GCC ratio, may not offset those reductions. This data metric may not be available in the case of a “limited filing”.

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

Debt/Equity Table Template Groupings		Debt/Equity (\$)				
		20245	20234	20223	20212	20201
		[1]	[2]	[3]	[4]	[5]
Total	[8]	XXXX	XXXX	XXXX	0	0

Procedure 2c recognizes that profitability is generally one of the biggest drivers of changes in capital and utilizing the following table from the GCC can assist in identifying if there are entities reporting net losses that may be driving the decreases in capital. The following table taken from the GCC using the data in Schedule 1 can be helpful in determining the source of the issues.

Income & Leverage Table Template Groupings		Net Income (\$)					Return on Capital				
		20245	20234	20223	20212	20201	20245	20234	20223	20212	20201
		[1]	[2]	[3]	[4]	[5]	[1]	[2]	[3]	[4]	[5]
US Ins	[1]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Non-US Ins	[2]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Non-Financial Entities	[3]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bank	[4]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Asset Manager	[5]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Other Financial w/Capital Requirement	[6]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Financial Entities w/o Capital Requirements	[7]										
Total	[8]	XXXX	XXXX	XXXX	0	0	XXXX	XXXX	XXXX		

If the source of the issues is the insurers, the following sample from a table from the GCC using the data in Schedule 1 can be helpful in determining the source of the issues among the insurers.

Core Insurance Table 1 Template Groupings		Net Income (\$)					Return on Capital				
		20245	20234	20223	20212	20201	20245	20234	20223	20212	20201
		[1]	[2]	[3]	[4]	[5]	[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

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

Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Composite	[13]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

Procedure 2d is focused on requesting more specific information from the legal entity regulator or the group to better identify the source of the issue(s). Procedures 2e-2l simply contemplates that if the source of the issues can be identified into one of the branded risk categories, ~~it should be documented to document as such~~ in the detailed workpapers and into ~~that~~ the appropriate branded risk category of the GPS. However, ~~it is-it's~~ recognized that the source of issues may be in multiple branded risk categories, in which case documentation of each of the sources into the detailed workpapers is still appropriate. However, documentation into one of the single branded risk ~~categories classifications~~ of the GPS is only appropriate if that risk category is a material driver of the negative trends. Procedure 2m is intended to identify if the source of the issues is related to non-insurance operations. The GCC is intended to provide for more consistent analysis of risks to the insurer that may originate from non-insurance entities within the holding company system.

Procedures Step 3a-3f

Procedure 3a is specifically focused on identifying the category of legal entities (and subsequently the individual legal entities) that might be driving the issues by looking at indicators of leverage, e.g., the leverage ratios, where this risk may manifest itself either through increased writings or exposure, or through increased balances relative to capital and surplus. The following sample of a table from the GCC calculation using the data in Schedule 1 can be helpful in determining the source of the issues.

Insurance Leverage Table	Net Premium Written (\$)	Liabilities (\$)/Capital & Surplus
--------------------------	--------------------------	------------------------------------

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

Template Groupings		2024 ₅	2023 ₄	2022 ₃	2021 ₂	2020 ₁	2024 ₅	2023 ₄	2022 ₃	2021 ₂	2020 ₁
		[1]	[2]	[3]	[4]	[5]	[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Composite	[13]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Hong Kong - Life	[18]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Hong Kong - Non-Life	[19]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Singapore - All	[20]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Chinese Taipei - All	[21]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

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

South Africa - Life	[22]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Africa - Composite	[23]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Africa - Non-Life	[24]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Mexico	[25]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
China	[26]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
South Korea	[27]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Malaysia	[28]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Chile	[29]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Brazil	[30]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
India	[31]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
Other Regime	[32]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		
TOTAL	[33]	XXXX	XXXX	XXXX			XXXX	XXXX	XXXX		

Procedure 3b is more forward looking by suggesting the analyst look at the same leverage ratios used in 3a to determine if the trends might continue and lead to further decreases in the GCC ratio. Procedure 3c simply requests the analyst use the leverage information to target questions to the group to better identify the drivers. Procedure 3d-3f are all questions designed to help the analyst consider whether the changes in leverage will lead to greater underwriting risk, reserving risk, or market and credit risk. Procedures 3d-3f provide general inquiries for additional information for the analyst. However, these inquiries may also appropriately provide a basis for the analyst to hold enter conversations with the group on the same topics to understand how the group views these topics and how the group is managing and monitoring these risks. For groups filing an ORSA, see also documentation within the ORSA report for additional information on the identified risks and the group’s monitoring of risks, as well as consistency of the discussion with management and management’s observations in the ORSA Summary report.

Procedures Step 4a-4b. Procedure 4a is intended to help the lead state understand the historical capital allocation patterns or the likely future needed capital allocation patterns by simply documenting in the detail analysis workpapers. This includes, for example, noting that there is consistency in the entities generating net income and distributing it further through the group, and in some cases may require distribution through other insurers, which in the US often requires approval if considered extraordinary. Procedure 4a is intended to utilize that knowledge, along with other planned actions of the group, to understand whether problems with repaying debt or other obligations in the group could occur. The intent is to be in a better position for discussions with the group on where the group may deem capital come from may come from to support future expected activity or future unexpected material events. The following sample of tables from the GCC calculation using data in Schedule 1 can be helpful in determining the source of the issues.

Insurance Capital Table		Capital Contributions \$ Received/(Paid)				
		20254	20234	20223	20212	20201
Template Groupings		[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX		

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

RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX		

Insurance Capital Table Template Groupings		Intragroup Dividends \$ Received/(Paid)				
		2024 5	2023 4	2022 3	2021 2	2020 1
		[1]	[2]	[3]	[4]	[5]
RBC Filing U.S. Insurer (P&C)	[1]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Life)	[2]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Health)	[3]	XXXX	XXXX	XXXX		
RBC Filing U.S. Insurer (Captive)	[4]	XXXX	XXXX	XXXX		
Non-RBC filing US. Insurer	[5]	XXXX	XXXX	XXXX		
Canada - Life	[6]	XXXX	XXXX	XXXX		
Canadian - P&C	[7]	XXXX	XXXX	XXXX		
Bermuda - Other	[8]	XXXX	XXXX	XXXX		
Bermuda - Commercial Insurers	[9]	XXXX	XXXX	XXXX		
Japan - Life	[10]	XXXX	XXXX	XXXX		
Japan - Non-Life	[11]	XXXX	XXXX	XXXX		
Solvency II - Life	[12]	XXXX	XXXX	XXXX		
Solvency II -- Composite	[13]	XXXX	XXXX	XXXX		
Solvency II - Non-Life	[14]	XXXX	XXXX	XXXX		
Australia - All	[15]	XXXX	XXXX	XXXX		
Switzerland - Life	[16]	XXXX	XXXX	XXXX		
Switzerland - Non-Life	[17]	XXXX	XXXX	XXXX		

Procedures Step 5a-5h. Procedures 5a-5h are designed for those ~~are uncommon~~ situations where the group ~~believes they has a~~ need to reduce risk ~~given the alternative of~~ ~~because~~ raising capital may be unlikely (see appendix for further discussion on that topic). In performing this procedure, ~~the analyst~~ should ~~be~~ understand ~~and~~ that ~~Procedure~~ ~~step~~ 2 (Evaluating Decreases in Total Capital) and Procedure ~~step~~ 3 (Evaluating Increases in Operating Leverage) have already been considered, and therefore ~~it has been~~ concluded that either capital is ~~decreasing~~ ~~decreasing~~, or operating leverage is increasing. As such, after considering information that may already be available to the regulator on the business plan, Procedure 5b ~~is~~ largely focused on better understanding directly from the group the drivers of the apparent negative trends. ~~The analyst~~ ~~it~~ ~~should~~ ~~be~~

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

understand~~ed~~ that some of these trends may have already been known, through for example the ORSA review, and discussions by the lead state ~~regarding such takeaways from such ORSA discussions of the ORSA~~. In fact, ~~if already known~~, the key takeaways may already be documented in the GPS and therefore the remaining procedures in this section may be irrelevant and could be skipped if recently ~~already~~ considered and understood~~evaluated~~. In addition, ~~to be sure~~, such trends from Procedure Steps 2 and 3 may ~~not~~ suggest ~~anything more needs to be done, in fact no additional understanding that~~ is necessary. It is for this reason ~~why~~ the first procedure is focused on ~~an~~ the group's existing business plan ~~since as it is~~ its possible these trends may have been expected. ~~Further~~~~in fact~~, Procedure 5a is based ~~on~~~~upon~~ the belief that reducing risk by the group may have ~~already~~ been previously incorporated into the group's latest business plan, which may have ~~already~~ been obtained from the Annual Form F Filing.

Procedure 5b on the other hand contemplates that the manner to address any unexpected negative trends may not have ~~already~~ been incorporated into the latest business plan and simply thus further contemplates that the analyst speaks with the group to understand how the group intends to address the issue. However, it should be recognized that some trends may appear to be "negative", e.g., a decline in the reported GCC, may actually be the result of a conscience determination by the group to more efficiently deploy capital yet remaining at sufficient levels from an ERM perspective. The existence of This this procedure is not meant to suggest action must be taken by ~~any~~ regulator, rather to understand whether a trend is in fact "negative" or not, and if so, what the group has is already decided or plans on doing to address the issue. ~~To be sure, s~~Some of what the group is currently ~~already~~ doing may already be known by the lead state, either through the ORSA, the Form F, or a periodic meeting with the group that some states conduct annually ~~with all groups~~. Rather, the procedure provides an opportunity for the analyst to ensure ~~make sure~~ they understand the drivers and what if anything the group is already doing to address the underlying issues that the group thinks is appropriate. To be clear, increases in operating leverage are often planned, and often come with ~~them~~ expected future actions by the group, such as capital injections or future transactions that may reduce risk. ~~Therefore, these discussions would allow these actions to be completely documented and understood~~. Meanwhile, decreases in capital sometimes are not expected, and may not result in immediate action, if any, but it is ~~it's~~ possible that it may lead ~~to~~ the group to ~~take future actions, or~~ contemplate future possible actions to take. Therefore, these discussions would allow these potential actions to be completely better understood by the analyst and documented ~~and understood~~.

Procedure 5c contemplates assessing if the group has the ability and resources to either reduce its risks or to raise additional capital. See the section below for further Considerations of the Group's Capacity to Raise Capital. This procedure is not intended to suggest the analyst has the capacity to make this determination on their own, but rather to question the reasonableness of the possibility. Further, the GCC and related provisions in the NAIC's 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; regulators will use other existing tools and authorities to take action, primarily at the legal entity level.

Procedure 5d contemplates that the group may believe no action is necessary because it believes current capital is adequate to meet its business plan and is more likely to be the case when the company experienced a one-time reduction of capital as opposed to a growth in leverage that may continue. Procedure 5~~ee~~ is for the rare situation where the legal entity insurers have been strained enough or face impending pressure contemplated within NAIC Model 385–*Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition* that would suggest one or more of the insurers may be in a hazardous financial condition. Procedure 5f is designed to suggest the analyst bring the collective supervisors of the legal entity insurers together for a supervisory college to fully understand what is occurring and the group's

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

plans for addressing the underlying issues ~~it is facing~~. Procedure ~~5gE6~~ is an extension of Procedure ~~E5f~~ as it contemplates the regulators discussing whether ~~they believe~~ the proposed actions from the group are adequate. This action could represent something either informally done before an insurer is in a regulatory action level, or formally once an insurer is in a regulatory action level. Procedure ~~E75h~~ is similar to the other actions contemplated within a supervisory college or, for example, to address a troubled insurance company under Accreditation requirements regarding communication with other states.

Additional Procedures – Business Plans

While there is a multitude of possibilities ~~which are beyond the scope of and~~ this guidance ~~is not intended~~ to address ~~all of these~~, the following provides some summary of the related issues that may be helpful to the analyst to consider (See also section 6 ~~to consider the~~ regarding the analyst's consideration of the structure of the group and capital infusion issues).

Group's Business Plan:

Planning Process:

- Group system's overall planning process (e.g., who is involved, how frequently it occurs, etc.) and how the overall initiatives are determined
- Understand the group's estimate of the impact of the proposed actions on financial results
- Review the plan's assumptions for reasonableness. Consider the likelihood of variations in the assumptions and the resulting impact on the future financial results
 - Consider subcategories of changes including:
 - Overall potential changes in investment strategy
 - Overall potential changes in underwriting strategy or existing concentrations
 - Overall impact on financing matters (e.g.e.g., debt, requirements, etc.)
 - Overall impact on derivatives to mitigate economic conditions
 - Overall changes in governance or risk management procedures
 - Increased ceded reinsurance transactions (common approach to reducing risk/increasing surplus):
 - Details regarding the revised strategy
 - Specifics on types of coverage such as assumption reinsurance, loss portfolio transfers
 - Transfer of risk considerations

Variances to Projections:

- Consider the group's history of explanations regarding variances in projected financial results and the insurer's actual results. If analysts determine the goals of the business plan are not attainable and/or projections are unreasonable, a revised business plan may be ~~requested;~~requested.

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

- Identify any internal or external ~~issues/problems~~ not considered in the plan that may affect future financial results. Examples of such ~~issues/problems~~ include the following: 1) the existence of competitors to limit future sales levels; 2) recent state legislation restricting the company's product designs; or 3) the loss of key marketing personnel.

Evaluating a Business Plan:

Analysts should consider further detail where necessary in evaluating the proposed revised business plan but also monitor, on a periodic basis, the insurer's progress in achieving the initiatives included in the group's plan. ~~The goal of any plan. Assuming that the analyst has determined that a decline in the GCC is to considered~~ a "negative event, i.e., it was not the result of capital management and planning to more efficiently utilize capital while staying within sound levels to achieve ERM objectives, the goal of the plan would then be to ~~address~~ the improvement of the underlying causes that led to the issues and an improvement in subsequent GCC ~~base~~-ratio results. Detail considerations for improving the plan may include the following (where considered inadequate):

- Trending comparative measures of targeted risk exposures including (where applicable):
 - Asset mix by detailed types
 - Credit risk by detailed types
 - Business writings/ratios by detailed product
- Impacts on financing items:
 - Projected cash flow movements for ongoing principal and interest payments on debt
 - Impact on debt interest coverage ratio, other debt covenants, rating agency ratings
 - Discussion of impact on parental guarantees and/or capital maintenance agreements
 - Expected source and form of liquidity should guarantees be called upon
- Impact of reasonable possible stress scenarios
- How the legal entities capital will be maintained at required levels

Consultation with Other Regulators

- Consult with members of the supervisory college (if applicable) or other domestic states for input in evaluating the revised business plan

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

Considerations of Group’s Capacity to Raise Capital

The following is designed simply as a reminder of considerations the lead-state would contemplate when discussing the group system response to the issues identified in this section. More specifically, in most situations a group will first consider ways to reduce risk, ~~but in~~ limited situations, ~~it they~~ may consider trying to raise additional capital. While this is typically not an option for a group that is currently not performing as it anticipated, in some situations alternative sources of capital ~~may can~~ be raised if the holders of the new capital are given rights that are attractive to the holder. In addition, in some cases the group may have the ability to issue other forms of capital (e.g., debt), which can be used to inject into the insurance ~~subsidiar~~~~essubsidiaries~~. While these facts are not unique to the utilization of the group capital calculation, they are worth a reminder along with relevant other related details.

New Equity Considerations

Public Holding Company

While no two groups are the same, issuing public stock may be limited for the reasons previously identified. In addition, regulators are reminded that a public holding company may be obligated to pay dividends in order to maintain expectations of their shareholders, making the reduction of risk a more viable action under the circumstances.

Private Holding Company

While no two groups are alike, a private company has some of the same characteristics as a public company in terms of owners’ expectations, but usually such expectations differ from a public ~~company~~company, and it may be more feasible for a private company given their access to specific individuals that may have a higher interest in higher capital rights.

Mutual Insurance Company

A mutual insurer is limited in terms of its access to capital because it cannot issue new ~~stock~~stock but can issue surplus notes.

Mutual Holding Company

Because mutual holding companies have characteristics of both public companies and mutual companies, there are implications of how such a structure affects its operations.

Non-profit Health Company

Insurers that are non-profits are generally charitable organizations and it is not uncommon that some types of insurers, particularly those that provide health insurance, to have some history as a non-profit. It may be helpful to understand these types of dynamics when considering a group structure.

Fraternal Associations

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

Regulators often find similarities between a fraternal benefit society and a mutual insurer because both can be limited in terms of their ability to raise additional funds ~~funds~~ but can issue surplus notes. If allowed within state law and the charter, the fraternal could assess members or adjust members policy values.

Reciprocal Exchanges

Regulators often find similarities between reciprocal exchanges and fraternal benefit societies and mutual insurers because they can be limited in terms of their ability to raise additional funds. Although this is a general consideration for the regulator when evaluating the group system, there is generally much more that must be understood before coming to this conclusion because in some cases, the reciprocal may be able to assess policies that can serve a similar purpose as raising capital.

New Debt Considerations

Through discussions with the group, understand the potential impact of any new debt on the group system, including specifically the extent of future additional reliance on the insurance operations and whether those insurers have the capacity for such. ~~Consider also~~ Also consider an updated review ~~of~~ the following:

- Total debt service requirements.
- Revenue streams expected to be utilized to service the debt.
- Any new guarantees for the benefit of affiliates.
- Any new pledge assets for the benefit of affiliates.
- Any new contingent liabilities on behalf of its affiliates.

International Holding Company Considerations

International Holding Company Structure

This section is applicable only to those international groups that are required to complete the GCC, which may be relatively ~~small~~ few considering many international holding companies have a non-US groupwide supervisor and are exempt from the GCC. Those foreign groups that are required to complete the GCC will generally file a “subgroup” GCC that included entities that are part of the group’s U.S. operations. In those situations, the analysts should understand the structure to determine if it has any impact on this analysis. For example, a German-based holding company may have advisory boards established to communicate with U.S. regulators. Analysts should direct any regulatory concerns to the appropriate organization contact to ensure a prompt reply or resolution if the insurance regulator is not responding.

Capital / Operational Commitment to U.S. Operations

Some foreign holding companies may consider their U.S. enterprises non-core and consequently show weaker commitment to their ongoing business operations or financial support. In recent years, after sustaining continued losses from U.S. subsidiaries, several prominent foreign holding companies decided to cease their U.S. operations and liquidate their assets. Analysts should be aware of a holding company’s stated commitment to ensure the continued stability of U.S. operations. This commitment may include a written or verbal parental guarantee.

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

Primer on the Group Capital Calculation Formula

The National Association of Insurance Commissioners (NAIC) began development of the Group Capital Calculation (GCC) in late 2015 following extensive deliberation on potential measurement models and methodologies. The GCC uses a bottom-up aggregation approach, accounting for all available capital/financial resources, and the required regulatory capital based on the measurement of assets and liabilities of the various corporate entities, including insurers, financial and non-financial businesses.

The GCC Aggregation Methodology

As illustrated in the sample tables above, the proposed GCC is an aggregation or grouping of the available financial resources and calculated required capital of all legal entities in an insurance group that potentially pose material risk to the insurers in the group. The GCC allows some discretion in determining what entities under common control but outside of the defined Insurance Group may be excluded from the scope of application in the GCC. When reviewing a group's choice of entities to be excluded from application of the GCC, the following points should be considered:

- The regulatory evaluation should be based on the criteria for material risk (e.g., structural separation; no history of cross subsidies, or other criteria as defined in the GCC instructions).
- Group requests for reducing the scope of application of the base GCC should be based on supporting information and rationale provided by the Group.
- Information on excluded entities should be made available upon request by the analyst.

The GCC includes the following types of entities and sets forth the general approach of calculated capital toward each.

U.S. Insurers – The available capital of U.S. domiciled insurers is determined by statutory accounting principles (SAP) as defined by state law and the NAIC Accounting Practices and Procedures Manual, which defines assets, liabilities, and in-turn net available capital/financial resources, sometimes referred to as policyholder surplus. The calculated capital for these insurers is subject to state law that requires these insurers to maintain minimum capital based on the applicable NAIC Risk-Based Capital formula at 200% x Authorized Control Level (Trend-Test level).

Non-U.S. insurers – Similar to the available capital and calculated required capital of U.S. insurers, the available and calculated capital of non-U.S. insurers is determined by reference to the home jurisdiction's basis of accounting and capital requirements converted to U.S. dollars. While most non-U.S. jurisdictions do not possess the same level of industry specific technical guidance, as included in the NAIC Accounting Practices and Procedures Manual, all jurisdictions have established accounting standards that insurers are required to follow to determine available capital/financial resources. In some cases, this represents local Generally Accepted Accounting Principles (GAAP), which may or may not be consistent with International Financial Reporting Standards (IFRS).

DRAFTING NOTE: While the GCC utilizes the available capital and home jurisdictions' capital requirement, for jurisdictions where data is available, the use of appropriate scalars are currently being explored to produce more comparable measures for risk which can be aggregated into the group-wide measure. One such scaling methodology is included as part of sensitivity Analysis in the GCC template. That scalar methodology uses

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

aggregated data from the U.S. and other jurisdictions at first intervention level to recognize that (for example), state regulators often have much higher reserve requirements that are required to be carried as required capital in other jurisdictions. For jurisdictions where the data is not available, the full jurisdictional requirement at first intervention level is used.

U.S. Insurers Not Subject to RBC – Some types of U.S. insurers are not subject to an RBC formula (e.g., Financial Guaranty Insurers, Title Insurers). For these entities, the available capital/financial resources ~~is~~are determined by reference to state law and the NAIC Accounting Practices and Procedures Manual. However, since an RBC formula does not exist, calculated capital is determined by reference to the state minimum capital requirements set out in state law (or 300% of reserves for Title insurers). For U.S. captive insurers, available capital is determined based upon the states accounting requirements, but the calculated capital is required to be calculated using the applicable RBC formula even if RBC does not apply to that entity in their state of domicile.

Banking or Other Financial Service Operations Subject to Regulatory Capital Requirements – Non-insurers such as banks are subject to their own regulatory valuation methods (typically GAAP with tiering of available capital) and their own regulatory capital requirements (e.g., OCC, Federal Reserve, ~~FBI~~FDIC, or other requirements for banks). These regulatory values are used for the GCC.

Financial and non-financial operations not subject to regulatory capital requirements – In general, financial entities (as defined in the GCC Instructions) are subject to a higher capital charge in the GCC than the non-financial entities. However, the GCC does require available capital/financial resources and calculated capital to be gathered for all such entities that pose a material risk to insurers. In both cases the GCC will utilize the valuation used by such legal entities (typically U.S. GAAP) and a calculated capital based upon a risk factor. There are two important exceptions:

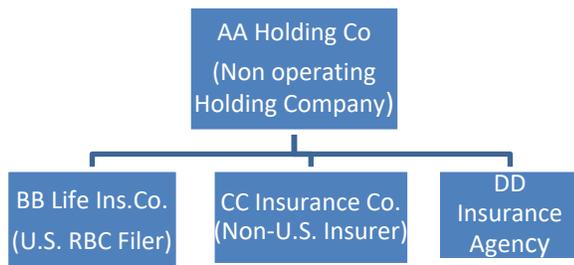
- All entities within the defined insurance group (definition included in GCC Instructions) must be included
- All financial entities (definition included in GCC Instructions) must be included
- The level of risk (low / medium / high) and associated capital calculation assigned to a financial entity will be selected by the group and evaluated by the lead-State reviewer
- Non-financial entities that are subsidiaries of U.S. insurers, foreign ~~insurers~~insurers, or banks where a capital charge for the non-financial entity is included in the regulated Parent's capital formula will remain with the Parent and will not be inventoried. –Regulators already have access to the financials of these entities if needed (if causing unrealized losses within the insurer).

Eliminations

The GCC uses an aggregation and elimination approach, where each of the above legal entities' available capital/financial resources and calculated capital are combined, then eliminations are utilized to prevent any double counting of available capital/financial resources or calculated capital. The following example illustrates the use of eliminations for both available capital/financial resources and calculated capital. However, in practice the GCC only requires the foreign insurers and other financial entities owned by an insurance company to be "de-stacked" so if AA Holding Company was a U.S. insurer (e.g., AA Insurance Company) the capital required and calculated capital for DD Insurance Agency as a nonfinancial entity would remain in the values of AA Insurance Company and not be de-stacked.

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

EE Insurance Group (EEIG)



EEIG Financial Information

Entity	Total Available Capital	Minimum Regulatory Capital
AA Holding Company	50.0 Million million	0 ²
BB Life Insurance Company	30.0 Million million	3.0 Million million ³
CC Insurance Company	6.0 Million million ¹	1.6 Million million ³
DD Insurance Agency	2.0 Million million ¹	0 ²

Calculation of ARC

Entity	TAC	Less: Subs' TAC	Adjusted TAC
AA Holding Co.	50.0M	(38.0M) ¹	12.0M
BB Life Insurance Co.	30.0M	0	30.0M
CC Insurance Co.	6.0M	0	6.0M
DD Ins. Agency	2.0M	0	2.0M
ARC (EEIG Group Total)			50.0M

¹ Amount of TAC for Subs as follows: (30.0M + 6.0M + 2.0M)

¹ For Non-RBC filers this is regulatory available capital or stockholder equity

² There is no regulatory capital for these entities when owned by a non-regulated entity. Calculated Capital is added @ 10.5% x stand-alone ARC

³ Authorized Control Level (ACL) RBC or Prescribed Capital Requirement for non-U.S. insurers

Calculation of MRC

Entity	ACL or Calculated Capital ¹	Less: Subs' Calculated Capital	Adjusted Calculated Capital	Multiply by 2.0 ³	MRC
AA Holding Co.	6.07M	(4.81M) ²	1.26M	NA	1.26M
BB Life Ins. Co.	3.0M	0	3.0M	6.0M	6.0M
CC Insurance Co.	1.6M	0	1.60M	NA	1.6M
DD Ins. Agency	0.21M	0	.21M	NA	0.21M
MRC Total					9.07M

¹ Estimated post covariance factor of 10.5% @ CAL x ARC per GCC added for AA Holding Co. and DD Ins. Agency

² Amount of Calculated Capital for Subs as follows: (3.0M + 1.6M + .21M)

³ Applies to U.S. insurer only to increase level to Company Action Level (CAL) RBC

In the above example, available capital/financial resources are referred to as available regulatory capital (ARC) and total authorized capital (TAC1) and minimum calculated capital is referred to as minimal regulatory capital (MRC) and authorized control level (ACL2). The GCC will allow non-insurance / non-financial entities owned by RBC filers in the group to remain within the available capital and regulatory ~~capital~~ capital, so no eliminations are required for these entities. -As shown, since AA Holding Company owns each of the other business entities in the organizational chart, \$38 million (which is the amount of available capital/financial resources in the subsidiaries of AA) is eliminated from the TAC column since accounting methods include those as an asset on AA Insurance Company's balance sheet. -Also, the GCC includes capital calculations for AA Holding Company and DD Insurance Agency as part of the MRC in addition to the regulatory capital already included for the insurance subsidiaries. The MRC of the subsidiaries is eliminated from the parent's (AA Holding Company) calculated capital. Therefore, in this example \$4.81 million of calculated capital is eliminated from the MRC. -Finally, the MRC of U.S. insurance subsidiary is multiplied by 2 in order to reflect Company Action Level (CAL) RBC as required in the GCC.

¹ Terminology used in RBC for available capital/financial resources

² Terminology used in RBC for calculated regulatory capital

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

Debt—It is important to note that the available capital used in deriving the GCC recognizes a portion of the group’s senior and hybrid debt as capital. This allowance recognizes that debt that is not already recognized as available capital/financial resources under all known accounting principles (SAP, U.S. GAAP or IFRS) may have some value to the group under the U.S. insurance regulatory requirements where such is dividend down to the insurance companies and where extraordinary dividends must be approved by the state. —Qualifying debt along with limitations thereon is described in the GCC instructions as is the calculation for the additional available capital. In addition to looking at the group’s debt leverage overall consideration should be given to how the allowance for additional capital from debt interacts with changes in available capital and capital requirements from year to year. The impact of procyclical changes in the allowance for debt as capital should be assessed.

Other Information Included in the GCC

The GCC includes selected financial information (net income, premiums, liabilities, debt, etc.) that are captured in Schedule 1 and in the “Analytics” tabs of the GCC that are meant to be used to help isolate potential strengths and weaknesses of the group and more specifically where such exist among the entities in the group. Some important information related to other features in the GCC also should be considered and are discussed below. Schedule 1, a simplified version of the Inventory Tab, and most analytics are required in the case of a “limited filing”. However, data is not required for the capital instruments, sensitivity analysis and other information tabs in a limited filing.

Grouping - The GCC separately allows certain financial entities (e.g., asset managers) and non-financial entities included in the GCC to have their values and capital calculation combined (grouped) for more efficient reporting and analysis. Although the GCC instructions set parameters for such grouping, the general expectation is that regulators will work with each applicable GCC filer in determining where grouping is and is not appropriate outside of what is allowed within the GCC Instructions. —Grouping should be viewed in context of materiality. A single entity conducting a given activity may not be material, but when all entities conducting the same activity are combined, they can be material.

Excluded entities – The GCC provides two mechanisms for the exclusion of non-financial entities in Schedule 1 and in the Inventory Tab at the discretion of the lead state. —State regulators should consider whether any of the information collected in the GCC template in support of, is collected for an entity or group of similar entities that would otherwise be excluded from the GCC ratio calculation. —Regulators should separately monitor increases in the level of activity of an “excluded” entity or group of similar entities for purposes of materiality and potential subsequent inclusion in the GCC.

Sensitivity analysis— A tab devoted to individual sensitivity analysis is included in the GCC. These informational items provide the regulator with impact of discretion in excluding listed entities and alternative perspectives on risk charges for non-financial entities and foreign insurers. Monitoring of these items can help the regulator identify areas where the GCC may be ~~improved~~improved, or capital calculations adjusted in the future. One item included in the A-sensitivity analysis is a “sensitivity test” that increases the overall calibration of the calculated capital requirements in the GCC from its normal 200% x ACL RBC calibration to 300% x ACL RBC. This should be used as an initial benchmark to conduct further analytical review. No other cushion should be applied.

Accounting Adjustments - The impact of accounting adjustments and related detailed information is collected in the GCC template in the Inventory Tab and in the Other Information Tab respectively. Such adjustments can be material during the de-stacking process. —For example, a consolidated holding company may include GAAP values for entities that would otherwise be valued under regulatory accounting rules (e.g., Statutory Accounting Principles - SAP) on a stand-alone basis. —When the regulated entity is de-stacked the difference between the GAAP

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

values and SAP values will be removed from the group’s available capital. -These “lost” values can result in a material reduction in the inventoried available capital compared to consolidated available capital. -Understanding the impact and the components of this adjustment can help the regulator when considering the impact of issuing new debt or when evaluating the allowance for debt as capital calculated in the GCC template.

Intangible Assets – Acquisitions, mergers and reorganization often can create significant intangible assets at a holding company level or possibly at an operating company (other than a regulated entity) level. -The GCC template collects information on intangible assets held by inventoried entities in the Other Information Tab. -The available capital associated with the value of entities whose assets are materially comprised of intangible assets should be evaluated in the context of fungible resources and in assessing the adequacy of the capital calculation assessed on such entities.

Dividend pass-thru (gross view of dividends) – Schedule 1D collects information on dividends paid and received within the group. It also includes a column that indicates whether dividends were declared but not yet paid, as well as cases where dividends received were retained or “passed thru” to another affiliate or paid out in dividends to shareholders. -This information will assist the regulator in evaluating the movement of capital within the group to fund strategic insurance and non-insurance operations or activities (e.g., expansion of activities) or to fund entity specific capital shortfalls. It also provides a window to capital leaving the group (e.g., debt repayment, stock repurchase, or dividends to shareholders).

Considerations When Exempting Insurers

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 either required capital on regulated insurers or banks, if the relative operations and assets of non-insurers to US RBC filers is 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 these types of situations. The possible exemptions exist after the GCC has been filed once. The general consideration in developing the requirement in the model that the GCC must first be filed once for all groups, was that without seeing the completed GCC, it may be difficult for the lead-state to determine if the GCC has no value or is at least cost beneficial to require filing. 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 and that prior to the GCC, this was done by states 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, even if it is only used as a general gauge as its intended. Therefore, in deciding if a group should be

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

exempted, the lead-state will need to consider a number of factors, including how easily it can make this assessment without the GCC, again, only as a general gauge. 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 existing knowledge of the group. This fact is no different when considering whether a group should be exempt.