# **Introduction and Overview**

The previous section introduced the U.S. group supervision framework. This included references to the NAIC model laws, including respective state laws and regulations that help set forth the framework, followed by a discussion of the supervision review process. As previously discussed, in the U.S., the supervisory review process consists primarily of off-site and on-site monitoring activities. This section will discuss the roles and responsibilities of the group-wide supervisor/lead state.

For purpose of this Handbook, the terms “group-wide supervisor” and “lead state” are used somewhat interchangeable, but with greater use of the term lead state. This is due to the fact that the states have used the term lead state for years, however there are some instances where both would exist, and therefore it is important to understand that distinction. The lead state is generally considered to be the one state that “takes the lead” with respect to conducting group-wide supervision within the U.S. solvency system. The concept of the lead state and determining the lead state is discussed more in the following section. A U.S.-based company that only conducts business in the U.S., unless the group also has banking or similar functions, would result in the lead state being the group-wide supervisor. In the case of an international-based company, the group-wide supervisor would typically be a foreign-based regulator. (See Section VI.J. Supervisory Colleges Guidance, regarding international supervisory colleges). Ideally, when a foreign-based group-wide supervisor is involved, the U.S. lead state regulator should be able to defer some of his or her responsibilities to the foreign-based group-wide supervisor. However, it is possible that the U.S. lead state may not be able to obtain group-wide information from the foreign-based group-wide supervisor, and, therefore, the U.S. lead state regulator may need to complete a portion of the group-wide analysis.

Before discussing the roles and responsibilities of the lead state/group-wide supervisor further, the following is defined:

**Group-wide supervision** – The process of promoting effective and coordinated supervision of an insurance group on a group-wide basis, including coordinating the input of insurance legal entity supervisors, as a supplement to insurance legal entity supervision.

The process for monitoring the financial condition of a group is similar to monitoring a specific insurer in that it requires the use of basic financial information, coupled with the ability to gather additional information produced by management. The information produced by the group’s management that is generally considered to be the most helpful is that which is associated with managing the group’s risks, or more specifically those risks that may ultimately have financial implications on the financial condition of the group, including prospective risks. During this supervision review process, the regulators role is to understand the various risks faced by the group and how the group is managing such risks.

One of the primary reasons for determining a lead state/group-wide supervisor is to increase the efficiencies and effectiveness of group supervision. The state-based system framework for group supervision is centered on the *Insurance Holding Company System Regulatory Act* (#440), which provides, among other things, that every domestic state within the insurance group should have the ability to evaluate the group and its potential impact on the domestic insurer. The use of a lead state or group-wide supervisor has the benefit of retaining this authority but sets up a system in which states regularly defer this authority to a key regulator. However, even if domestic regulators are not technically required to defer this authority, this deferral is considered a best practice that should be used in virtually all cases, with few exceptions. This has the effect of increasing efficiency and effectiveness of group regulation.

# **Lead State/Group-Wide Supervision Concept**

The operations of an insurance company often are not limited to one state. When multiple states are involved in monitoring the activities or approving the transactions of a company or insurance holding company system, it is prudent to coordinate regulatory efforts.

These coordinated activities should include:

* The establishment of procedures to communicate information regarding troubled insurers with other state insurance departments
* The participation on joint examinations of insurers, when appropriate
* The assignment of specific regulatory tasks to respective state insurance departments and/or other jurisdictions in order to achieve efficiency and effectiveness in regulatory efforts and to share personnel resources and expertise
* In the case of troubled or potentially troubled insurance groups, the establishment of a task force or crisis management group consisting of personnel from various state insurance departments and/or international jurisdictions to carry out coordinated activities
* Coordination and communication of insurance holding company system analysis

If significant concerns are identified related to the IAIG’s current or prospective solvency, whether due to legal entity or group-wide risks, the group-wide supervisor should determine whether additional supervisory measures as outlined in Model #440 should be implemented. Model #440 provides the group-wide supervisor the authority to obtain the information necessary and appropriate to assess enterprise risk. In addition, Model #440 provides for coordination, through the authority of the regulatory officials of the jurisdictions where members of the IAIG are domiciled, to compel the development and implementation of reasonable measures designed to ensure that the IAIG is able to timely recognize and mitigate enterprise risks to members of the IAIG that are engaged in the business of insurance.

The concept of lead state/group-wide supervision is not intended to relinquish the authority of any state or jurisdiction, nor is it intended to increase any state or jurisdiction’s statutory authority or to put any state or jurisdiction at a disadvantage. It is intended to facilitate efficiencies when one state coordinates the regulatory processes of all states and/or jurisdictions involved. Nevertheless, the lead state/group-wide supervisor should coordinate with non-lead states and/or other jurisdictions on all regulatory items that affect the group, or multiple legal entities contained in the group, to make it clear which state is responsible for activities and reduce regulatory duplication.

# **Procedures for Determining the Lead State**

Insurance holding company systems with more than one U.S. insurance legal entity are deemed U.S. insurance groups and assigned NAIC group codes (see section VI.K for more information on group code assignment). For U.S. insurance groups with insurance entities domiciled in more than one U.S. state/jurisdiction, a lead state is selected to oversee the group. The ultimate decision of who should function as the lead state is up to the domestic state insurance regulators of the group where a majority of such domestic states must agree to the decision. However, in practice, it has generally occurred through a consensus decision. The determination of a lead state is affected by the following factors:

* The state with the insurer/affiliate with largest direct written premiums
* Domiciliary state/country of top-tiered insurance company in an insurance holding company system
* Physical location of the main corporate offices or largest operational offices of the group
* Knowledge in distinct areas of various business attributes and structures
* Affiliated arrangements or reinsurance agreements
* Lead state must be accredited by the NAIC

The Lead State Report is located in iSite+, within Summary Reports, and provides an up-to-date listing of all insurance groups and the companies within each group. The purpose of the report is to improve coordination and communication between regulators. The report also contains current contact information for the state’s assigned insurance company analyst and the state’s chief analyst which is maintained by state department staff. Within the Lead State Report the user can view the Domestic Report which displays each group that includes an insurer domiciled in the state selected by the user. The Consolidated Domicile Data Report displays consolidated data (direct and gross premiums written and percentage distribution and net admitted assets) by state within each group.

# **Procedures for Identifying an IAIG**

U.S. based insurance holding company systems that operate internationally are designated Internationally Active Insurance Groups (IAIGs) if they meet the following criteria included in Model #440:

1. Premiums written in at least three countries;
2. The percentage of gross premiums written outside the United States is at least ten percent (10%) of the insurance holding company system’s total gross written premiums; and
3. Based on a three-year rolling average, the total assets of the insurance holding company system are at least fifty billion dollars ($50,000,000,000) or the total gross written premiums of the insurance holding company system are at least ten billion dollars ($10,000,000,000).

Any involved supervisor of an insurance group operating internationally may prompt the process of identifying an IAIG. If no group-wide supervisor has been determined (see discussion on determination below), the supervisor most demonstrating the characteristics of a group-wide supervisor should lead the identification process and invite other involved supervisors to participate. The scope of an insurance group should be determined before considering whether the criteria for determining whether the group is an IAIG are met. If there is already a supervisory college for a group, it should be used to facilitate the determination as to whether the group is an IAIG.

In addition to the primary criteria for use in identifying an IAIG, although not explicitly addressed in Model #440, in limited circumstances it may be appropriate for the group-wide supervisor to utilize discretion to determine that a group is not an IAIG even if it meets the criteria or that a group is an IAIG even if it does not meet the criteria, if permitted under state law. If discretion is used, then the reasons for exercising such discretion should be based on verifiable and documented quantitative and qualitative information. Examples of situations where it may be appropriate to determine that a group is an IAIG, even if it does not currently meet the criteria include but are not limited to:

* Growth/expansion or acquisition plans of the group
* Significant off-balance sheet assets
* Situations where a temporary event or fluctuation causes the group to fall below thresholds

Examples of situations where it may be appropriate to determine that a group is not an IAIG even though it currently meets the criteria include but are not limited to:

* Planned contraction or disposal of business
* Situations where an unusual event or fluctuation causes the group to temporarily exceed thresholds
* Situations where the group’s business outside the U.S. exceeds 10% in aggregate but its business in any one foreign jurisdiction is negligible

The group-wide supervisor should regularly review its decision to determine whether the group continues to meet the criteria and invite other involved supervisors to participate in that process. At a minimum, the group-wide supervisor should review its decision once every three years and whenever a significant change or event occurs that impacts the group.

Model #440 states that prior to issuing a determination that an internationally active insurance group is subject to group-wide supervision, the commissioner shall notify the insurer and the ultimate controlling person within the IAIG providing reasons for that decision. The IAIG shall have not less than thirty (30) days to provide the commissioner with additional information pertinent to the pending determination. The commissioner shall publish on the state’s website the identity of IAIGs that the commissioner has determined are subject to group-wide supervision.

# **Procedures for Determining the Group-wide Supervisor**

# Model #440 defines group-wide supervisor as the regulatory official authorized to engage in conducting and coordinating group-wide supervision activities who is determined or acknowledged by the commissioner to have sufficient significant contacts with the internationally active insurance group. Model #440 requires a single group-wide supervisor to be identified for any IAIGs operating in the U.S., which could either be a state insurance regulator (most likely the lead state in the case of a U.S. based insurance group) or a regulatory official from another jurisdiction, based on individual facts and circumstances. The following factors are considered when making the group-wide supervisor determination:

# The jurisdiction of domicile of the insurers within the internationally active insurance group that hold the largest share of the group’s written premiums, assets or liabilities;

# The jurisdiction of domicile of the top-tiered insurer(s) in the insurance holding company system of the internationally active insurance group;

# The location of the executive offices or largest operational offices of the internationally active insurance group;

# Whether another regulatory official is acting or is seeking to act as the group-wide supervisor under a regulatory system that the commissioner determines to be:

# Substantially similar to the system of regulation provided under the laws of this state, or

# Otherwise sufficient in terms of providing for group-wide supervision, enterprise risk analysis, and cooperation with other regulatory officials; and

# Whether another regulatory official acting or seeking to act as the group-wide supervisor provides the commissioner with reasonably reciprocal recognition and cooperation.

# **Procedures for Identifying the Scope and Head of the IAIG**

In conducting group-wide supervision of an IAIG, it is important for the group-wide supervisor to work with other involved supervisors to identify all the legal entities that are part of the insurance group.

The determination of both the scope and head of the IAIG is significant to group supervision as review procedures and risk assessments are conducted at this level. Therefore, the group-wide supervisor should carefully consider this guidance, as well as additional best practice considerations outlined in Insurance Core Principle 23 – Group Wide Supervision, in making determinations regarding the scope and the head of the IAIG. However, IAIS materials are not deemed authoritative and should not be viewed as official NAIC guidance if they are not directly incorporated into this chapter. The group-wide supervisor should provide the supervisory college with the main reasons and judgements it made when identifying the head of the IAIG and obtain concurrence from other college members, when possible.

To determine the scope and head of an insurance group, supervisors should:

* First identify all insurance legal entities within the corporate structure. Model #440 provides the authority to collect all information necessary to determine scope and head of the IAIG.
* Second, identify all entities which have control over those insurance legal entities, as defined in Model #440. As noted in Model #440, control is generally presumed to exist based on 10% or more ownership (direct or indirect) of voting securities but can also take operational control factors into consideration.
  + If this results in only one entity being identified with control over all the insurance legal entities, this entity is the head of the insurance group.
  + However, if there is more than one entity with control over all the insurance legal entities, supervisors should identify the head of the insurance group such as the entity which has the greatest level of control over the insurance business by considering the following factors:
* The proportion of the insurance business relative to other businesses it controls;
* The degree of operational control; and
* The degree of shareholder control.

**Head of IAIG vs. UCP:** The head of the IAIG is not necessarily synonymous with the Ultimate Controlling Person of the holding company system, which is the top-tier company or individual with control over and responsibility for all entities within the holding company system that is not controlled by any other person. As holding company systems may include various business segments and intermediate holding companies, it is the responsibility of the group-wide supervisor, in consultation with other involved supervisors, to identify the entity most responsible for direct supervision of the insurance operations of the group.

**Non-Insurance Legal Entities:** In determining the scope and head of the IAIG, the group-wide supervisor should consider whether non-insurance legal entities within the group pose risk to the insurance operations. In making this determination, the group-wide supervisor should evaluate whether there is a linkage between the insurance operations and the noninsurance legal entity (other than an investment in or from the non-insurance legal entities) that could adversely affect the insurance operations; and a lack of adequate safeguards, including additional capital, to mitigate risks arising from any such linkages. If so, such non-insurance entities should be included within the scope of the IAIG and the group-wide supervisor should take this into consideration in identifying the head of the IAIG.

**Subsidiary as Head of IAIG:** Where a legal entity controls all insurance legal entities within the group and non-insurance legal entities which pose risks to the insurance operations, the group-wide supervisor has discretion to identify a subsidiary of that entity as the head of the IAIG if: prudential supervision is exercised by another financial sector supervisor over that entity; and the group-wide supervisor can rely on the other financial sector supervisor to provide sufficient information concerning risk that this entity and the legal entities it controls pose to the insurance operations.

**Lead State or Group Wide Supervisor Roles and Responsibilities**

The following identifies the roles and responsibilities, or procedures that should be performed by the lead state or group-wide supervisor as it relates to supervision of insurance groups. It also includes a short summary of the purpose of each of these duties. Most of these are further detailed in the remaining parts of this section of this Handbook.

# **Communication and Coordination**

Two of the main responsibilities of the lead state are:

1. to establish communication with other identified states, federal regulators and international regulators, including establishing points of contact, and,
2. to determine the amount of interest in participating in the multi-jurisdictional coordination. It also includes establishing lines of communication and serving as the regulatory contact with top management of the group.

The most important role of the lead state is to act as a communicator of group risk assessment information to other domestic states and then acts as a coordinator with the other states in determining what, if any, further action is appropriate regarding the domestic insurers in the group or the group as a whole. By serving in this role, the lead state can coordinate and add efficiency to the states’ requests for group-level information. This approach helps to prevent regulatory gaps and, more importantly, efficiently detect problems earlier. In addition, this approach also helps to reduce duplication of regulatory requests with non-lead states only making additional regulatory requests of an insurer’s domestic entity(ies) located in that non-lead state. Inquiries seeking group-level information or information concerning entities domiciled in another state or jurisdiction should be coordinated by, and made by, the lead state. Non-lead states should generally not pursue such inquiries directly with the group parent or indirectly through queries channeled via a domestic. To increase the effectiveness of this concept, it may be helpful for the lead state to find a means to make sure that each group for which it is the lead is aware that it is, in fact, the lead state for that group. This may include directing it to certain information or through some other communication.

**Confidentiality of Information**. Maintaining confidentiality of all information is of utmost importance and as such implementing confidentiality agreements with all regulators is imperative. The lead state is responsible for communicating and coordinating the procedures as to how information will be shared among each other. Verbal or written briefings that are arranged by the lead state, in conjunction with company management, have been the most effective.

**Other Responsibilities.** The lead state will have many procedures assigned to it, which includes determining and documenting: 1) the depth of and approach to the insurance holding company analysis; 2) the assessment of the group’s governance and enterprise risk; 3) questions addressed in a periodic meeting with the group; 4) targeted examination procedures; and 5) the extent to which there are any market conduct risks.

**Participating States.** In addition to the importance of lead state or group-wide supervisor communication and coordination, it is also important for domestic (non-lead) states to communicate and coordinate effectively regarding the group. Of particular importance is that a domestic state notifies the lead state and/or group-wide supervisor prior to taking any regulatory action or placing sanctions on an insurance legal entity or key individual within a broader holding-company system. This type of proactive communication can ensure that regulators are effectively coordinating and not undermining each other’s efforts in conducting group/legal entity supervision.

# **Holding Company Analysis and the Group Profile Summary (GPS)**

NAIC Model #440, which has been adopted by all the states, establishes the platform for holding company analysis. One of the most important aspects of the holding company analysis is the requirement for the lead state to understand the entire insurance holding company system. As previously noted, the holding company system includes the ultimate controlling person or entity, as well as all of its direct and indirectly controlled subsidiaries. There are various things that must be considered in gaining this understanding, including documenting the nature and function of all non-insurance legal entities within the holding company system. The primary purpose of gaining such an understanding is determining the risks and risk concentrations that each entity may pose to the insurer and the group as a whole.

Another important aspect of the holding company analysis is the analysis of the financial condition of the insurance holding company system. This specifically includes evaluating and assessing how four different areas i.e., profitability, leverage, liquidity and overall financial condition - impact its exposure to the nine branded risk classifications. Although much of this analysis can be driven by aggregating risks identified in the legal entity analysis (including a review of the Insurer Profile Summary (IPS)) and by reviewing the group’s financial statements submitted as part of the registration statement or filed with the U.S. Securities and Exchange Commission (SEC), the analysis may also require further discussion with management of the group. See Section VI.H. – Periodic Meeting with the Group Procedures for further guidance.

Completing the holding company analysis as detailed in Section VI.C. Insurance Holding Company System Analysis Guidance (Lead State) is one of the roles of the lead state. This analysis is intended to be completed by the lead state only. However, as discussed elsewhere in this Handbook, all domestic states are responsible for documenting the impact that the holding company group could have on the domestic insurer, which requires a basic level of understanding of the group’s risks.

**Group Profile Summary (GPS).** All results of holding company analysis are to be documented in the GPS for purposes of presenting a comprehensive view of the current and prospective risks facing the holding company group as well as the ongoing regulatory plan (or supervisory plan) to ensure effective supervision. A separate supervisory plan document may also be utilized to outline more detailed steps to ensure effective supervision for high-priority or potentially troubled insurers within the group, as necessary. The purpose of the GPS also is to serve as the primary communication tool between the lead state and other regulators that provides consistency between the states. The GPS is intended to serve as a “living document” to “house” summaries of information from legal entity IPSs that are material to the group, such as coordinated risk-focused examinations, financial analysis, internal and external changes, supervisory plans, and other group information. Completing and distributing the GPS to other regulators on a timely basis is the sole responsibility of the lead state.

Analysts are involved in all phases of the risk-focused surveillance approach. There should be a continuous exchange of information between examiners and analysts to ensure that all members of the department are properly informed of solvency issues related to the group. Analysts should work with the examination staff to update the GPS.

**IAIG**: In performing holding company analysis and maintaining a GPS for IAIGs, the group-wide supervisor should ensure that both the scope and head of the IAIG are clearly defined and described within analysis documentation. In addition, key considerations relevant to IAIGs are highlighted throughout to ensure that they are adequately addressed and incorporated, as appropriate, into holding company analysis processes and the GPS to meet the expectations of other involved international supervisors.

# **Corporate Governance Risks**

The *Model Regulation to Define Standards and Commissioners Authority for Companies Deemed to be in Hazardous Financial Condition* (#385) specifically indicates that if an officer, director, or any other person who directly or indirectly controls the operation of the insurer, fails to possess and demonstrate the competence, fitness and reputation deemed necessary to serve the insurer in such position, the insurer can be deemed to be a company that is in a hazardous financial condition. Clearly, this inclusion recognizes that such a situation is a risk to a policyholder. For this reason, Model #385 specifically provides the supervisor with the authority to issue and order that insurer to correct corporate governance practice deficiencies, and adopt and use governance practices acceptable to the commissioner.

The NAIC has incorporated into its *Annual Financial Reporting Model Regulation* (#205) specific governance requirements as it pertains to insurers audit committees. Most notably, the regulation requires an increasing amount of independent audit committee members as the premium increases. The calculation of this independence requirement may be provided to the audit committee on an aggregate basis for insurers in the insurance holding company system. However, specific reporting is limited and instead governance is assessed with information gathered during the examination and analysis process.

The *Corporate Governance Annual Disclosure Model Act* (#305) and the *Corporate Governance Annual Disclosure Model Regulation* (#306) provide the analyst with annual reporting from insurers on their corporate governance practices. While there is flexibility in determining the level at which governance information is reported in the annual filing, the insurer or insurance group is encouraged to make the CGAD disclosures at the level at which the risk appetite is determined, or at which the earnings, capital, liquidity, operations, and reputation of the insurer are overseen collectively and at which the supervision of those factors are coordinated and exercised, or the level at which legal liability for failure of general corporate governance duties would be placed.

Assessing the corporate governance of the group is one of the roles of the lead state and group-wide supervisor and conclusions regarding this assessment should be incorporated in holding company analysis documentation and the GPS. Certain elements of governance that should be reviewed and assessed at the head of the IAIG level are discussed in more detail at VI.D.

# **Enterprise Risk Management (ERM) Risks**

As part of the risk-focused surveillance system, analysts and examiners identify and assess the inherent risk in the branded risk categories using their authority under the *Model Law on Examinations* (#390) and specific state laws and regulations. Analysts, although more commonly the examiner, also identifies and evaluates risk mitigation strategies/controls to assess the risk management environment of the group and will consider that in determining the overall supervisory plan. Larger scale insurers and insurance groups are subject to all of the requirements of the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505). This model requires among other things, the maintenance of a risk management framework to assist with identifying, assessing, monitoring, managing and reporting on its material and relevant risks. It also requires the completion of an Own Risk and Solvency Assessment (ORSA) no less than annually, but also at any time when there are significant changes to the risk profile of the insurer or the insurance group. The ORSA is the insurer/group’s internal assessment appropriate to its nature, scale and complexity addressing the material and relevant risks associated with an insurer’s current business plan and the sufficiency of capital resources to support those risks.

The ORSA has two primary goals:

1. To foster an effective level of ERM, through which each insurer or insurance group identifies, assesses, monitors and reports on its material and relevant risks, using techniques that are appropriate to the nature, scale and complexity of the insurer’s risks, in a manner that is adequate to support risk and capital decisions.

2. To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

If a U.S. state insurance commissioner is the global group-wide supervisor of an IAIG, the U.S. state insurance commissioner should receive an ORSA Summary Report covering all material group-wide insurance operations. Otherwise, the insurer may file ORSA Summary Reports encompassing, at a minimum, the U.S. insurance operations, as long as the lead state receives access to information from ORSA Summary Reports encompassing the non-U.S. insurance operations. The lead state commissioner should discuss with the global group-wide supervisor from the relevant foreign jurisdiction(s) the reports received to inquire of any concerns and to either confirm that the reports were compliant with the foreign jurisdictions’ requirements or consistent with the applicable principles outlined in the International Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 16: Enterprise Risk Management (ERM), as well as the NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual to determine if additional information is needed. The commissioner will, where possible, avoid creating duplicative regulatory requirements for internationally active insurers.Any follow-up associated with this risk assessment should be coordinated through the lead state to improve regulatory effectiveness and reduce the level of regulatory duplication. Assessing the ERM process risks of the group as detailed in Section VI.E. Enterprise Risk Management Process Risks Guidance is one of the roles of the lead state.

# **Market Conduct Risks**

This Handbook discusses within Section I.A. Department Organization and Communication the need for communication with other divisions of the insurance department. This Handbook also discusses within Section I.B. Interstate Communication and Cooperation, and specifically discusses regulatory actions taken relative to market conduct issues. The Risk Assessment worksheet within this Handbook also list market conduct actions/findings and documenting in the IPS. The IPS is a tool used for sharing information between states that also encompasses group information. Refer to the *Market Regulation Handbook* for further discussion of these types of risks.

# **Periodic Meeting with Group**

As previously discussed, Model #440 and respective state laws and regulations give state regulators the authority to obtain and examine any information related to the group in order to determine the financial condition impact on the insurer. In addition, there is generally a need to meet periodically with group management in order to ascertain that the regulator has all relevant information he or she needs to have a current understanding of the financial condition of the group and insurer.

How often such a meeting takes place, or the depth of discussion, will vary considerably from group to group. However, an in-person meeting is recommended in the year of an examination. For example, if an examination is as of December 31, 2014, then meet early in 2014. The lead state regulator will use its judgment in making decisions on whether to meet or not, based on what it already knows about the group and insurer. Every holding company situation is different, and for that reason, the lead state should use its judgment in determining how best to gather additional information that can come from this type of process.

With the general objective of better understanding the financial condition of the group, the lead state should tailor any questions or discussion points to most accurately fit what the regulator knows about the group and its financial position and what could be projected into the future without the benefit of understanding what the group is doing to address such items. Therefore, considering what type of questions should be developed, or the focus of such a discussion, either through an in person meeting or a conference call, is one of the roles of the lead state. See Section VI.H. Periodic Meeting with the Group procedures for possible questions to consider for such a meeting.

# **Targeted Examination Procedures**

The need for target examinations should be driven by the results of the risk-focused surveillance process. Therefore, because the general purpose of a targeted on-site examination is to focus resources on a particular risk, such procedures would generally be driven by any change in risks or any weaknesses or concerns given that on-site inspection can provide assurances that cannot be provided through off-site monitoring.

Targeted examinations on groups would generally not need to focus on risks that are already addressed within individual company examinations, unless there appears to have been a change in that risk since the last examination and that particular risk is one that is shared among several insurance legal entities within the group. It may be appropriate for the lead state to involve other domestic states in order to determine if resources for addressing such potential issue can be shared, thus preventing the extraordinary strain on the lead state resources. The targeted group examinations are generally expected to occur on those risks that are either outside the insurance legal entity or risks that are common to all entities within the group. Targeted examinations on changes in governance, risk management and internal controls are the more common areas where such procedures may be expected. Also expected, although not expected to be commonly performed, is targeted examination on particular non-insurance entities within the group. Considering if any targeted examination procedures should be completed is one of the roles of the lead state, and it should consider the guidance in Section V.I. Targeted Examination Procedures and Guidance in making such a determination. Non-lead states should defer to the lead state with regard to whether a targeted group examination is necessary.

**IAIG**: For IAIGs, in certain circumstances targeted exam procedures may include the group-wide supervisor joining on-site inspections of an insurance legal entity in another jurisdiction to address specific issues of concern, coordinated by the relevant involved supervisor, with prior consent from that supervisor. In addition, it may be appropriate for the group-wide supervisor or other involved supervisors to conduct targeted exam procedures in response to concerns and risks identified during supervisory college discussions and to report the results back to the supervisory college. Finally, in addition to targeted exam procedures to address concerns identified through holding company analysis and supervisory colleges, the Financial Condition Examiners Handbook outlines additional examination considerations relevant to IAIGs that are more effectively conducted during an onsite examination.

# **Supervisory Colleges**

The NAIC through the state regulators has defined a supervisory college as a regulatory tool that is incorporated into the existing risk-focused surveillance approach when a holding company system contains internationally active legal entities with material levels of activity and is designed to work in conjunction with a regulatory agency’s analytical, examination and legal efforts. The supervisory college creates a more unified approach to addressing global financial supervision issues. Effective and efficient regulatory scrutiny of group-wide issues should occur in the context of an organized global approach and involve all significant regulatory parties, including regulatory agencies from countries outside of the U.S., and other state and federal agencies within the states. In rare cases (e.g., certain large health insurance groups), the use of a supervisory college for U.S.-only insurance groups (no insurance business outside the U.S.) may be beneficial to increasing the efficiency and effectiveness of group regulation. This type of supervisory college is referred to as a regional supervisory college.

A supervisory college establishes a routine communication channel with appropriate company personnel and all regulators, which can be beneficial in identifying the appropriate contacts quickly in the event of a crisis.

The above description of supervisory college is largely consistent with the lead state concept that has been used for years by state insurance regulators. In such situations, one jurisdiction takes the lead in terms of being primarily responsible for the coordination and communication between the insurance group and the other states, as well as other potential responsibilities. But, ultimately each jurisdiction may have to do what it believes is necessary and that is in the best interests of the policyholders in its jurisdiction. In addition, the supervisory college acts as a peer review process similar to how the NAICs Financial Analysis (E) Working Group acts as a peer review process of troubled or potentially troubled insurers or insurance groups. This peer review process has the effect of allowing other jurisdictions to defer some of their authority. To the extent issues arise, the collective group makes them known to all jurisdictions so that the group-wide supervisor and the other jurisdictions can discuss how best to deal with the issues. Alternatively, the collective group can make the jurisdiction aware that more may need to be done. State insurance regulators have been dealing with these types of multi-jurisdictional issues for years. Both state insurance regulators and the International Association of Insurance Supervisors (IAIS) are aware that these situations demand mutual cooperation in order to build the relationship and trust needed.

IAIG: For IAIGs, the group-wide supervisor establishes a supervisory college which is expected to meet at least annually. In addition, the members of the IAIG’s supervisory college are expected to communicate and exchange relevant information on an ongoing basis, including information on group capital prepared by the group-wide supervisor, as well as a summary of any additional reporting related to group capital that has been reported at the option of the group-wide supervisor. Furthermore, through the supervisory college process, the group-wide supervisor should establish a crisis management group (CMG) for the IAIG with the objective of enhancing preparedness for, and facilitating the recovery and resolution of, the IAIG. To facilitate this, the group-wide supervisor should put in place a written coordination agreement between the members of the IAIG CMG. The structure, participation in, and role of an IAIG supervisory college or CMG is ultimately the responsibility of the group-wide supervisor.

Guidance for use in conducting supervisory colleges and related activities is included in Section VI.J.