The following information is intended to provide a narrative description of the issues/considerations for analysts when performing insurance holding company analysis as well as procedures and processes for developing a Group Profile Summary (GPS). As discussed in Section VI.B Roles and Responsibilities of the Lead State/Group-wide Supervisor, the group-wide supervisor/lead state is not intended to eliminate any authority that any jurisdiction has over a legal entity insurer. Rather, group-wide supervision is intended to increase the efficiencies and effectiveness for each insurance group by emphasizing that one state is responsible for completing certain duties that allow all other domestic states to focus their efforts in other areas.

**States’ Roles in Performing Insurance Holding Company Analysis**

It is important for analysts to understand the concept that the lead state has certain responsibilities pertaining to insurance holding company analysis and understanding that many of these responsibilities focus on increasing communication and coordination. There are several other coordination activities involved with group-wide supervision, particularly if the result of the group analysis identifies areas that targeted examination procedures are warranted within the insurance operations and as a result involve other states. The following table lists the possible scenarios and actions for lead and domestic states completing an insurance holding company system analysis:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **When your state is the lead state and another state has a domestic in the group:** | **When your state is sharing duties with a lead state:** | **When your state is the lead state and all insurers within the group are domestics of your state:** | **When there is no group code, but your state’s domestic is a multi-state writer and part of a holding company system (i.e., you receive a Form B):** | **\*When your state domestic has a group code, but your state is NOT the lead state:** |
| * Complete an insurance holding company analysis that considers procedures similar to those contained within the *Financial Analysis* Handbook Insurance Holding Company Analysis guidance and document results in the GPS.
* The insurance holding company analysis chapter represents guidance that the accreditation team will use to evaluate the sufficiency of depth and documentation considerations.
* Complete before October 31st.
 | * Coordinate the completion of holding company analysis and preparing a GPS.
* The *Financial Analysis Handbook* Insurance Holding Company analysis chapter represents guidance that the accreditation team will use to evaluate the sufficiency of depth and documentation considerations.
* Complete before October 31st.
 | * Complete an insurance holding company analysis that considers procedures similar to those contained within the *Financial Analysis* Handbook Insurance Holding Company Analysis guidance and document the analysis results in the GPS.
* Complete before December 31st.
 | * Complete an insurance holding company analysis that considers procedures similar to those contained within the *Financial Analysis Handbook* Insurance Holding Company Analysis guidance and document the analysis results in GPS.
* Complete before December 31st.
 | * Offer a copy of the “legal entity IPS” or other applicable information to the lead state to assist in the completion of the insurance holding company analysis.
* Obtain and review the GPS from the lead state and update the impact of holding company on insurer section of the domestic IPS.
* If a copy of the analysis has not been received from the lead state by November, contact the lead state and consider completing your evaluation of the impact of the insurance holding company system on the domestic insurer without the benefit of a detailed insurance holding company analysis.
 |

\*Each state should still review Form B for its domestic companies (See also chapter V.A. Holding Company Procedures (Non-Lead State) and V.F. Holding Company Procedures (Non-Lead State) Analyst Reference Guide for possible Form B and C compliance and assessment procedures and guidance).

**Responsibilities of the Lead State**

Insurance Holding Company System Analysis

The lead state or an agreed upon other designated state(s) is responsible for completing the insurance holding company analysis. The domestic state is responsible for completing and documenting an evaluation/analysis of the impact of the insurance holding company system on the domestic insurer. The distinction of these responsibilities is set forth in the following.

The depth and frequency of the insurance holding company analysis will depend on the characteristics (i.e., sophistication, complexity, financial strength) of the insurance holding company system (or parts thereof), availability of information (e.g., SEC Form 10K or Form 10Q) and the existing or potential issues and problems found during review of the insurance holding company filings. Analysts are required to document the results of the insurance holding company system analysis once annually but will update it periodically as needed. The Form B, Form C and any other holding company filings should be analyzed by October 31st for analysis conducted by the lead state. (See also chapter V.A. and V.F. for possible Form B and C compliance and assessment procedures and guidance.)

Documentation and Communication of Insurance Holding Company System Analysis

Documentation in the GPS of the analysis work performed by the lead state (or the domestic state for those groups with only one multi-state insurer or with multi-state insurers domiciled in only one state) should include sufficient evidence of a review of the insurance holding company system. The GPS should be updated and shared with other domestic states within the group prior to October 31 each year. If the GPS includes information from the analyst’s summary of the Own Risk and Solvency Assessment (ORSA) analysis, analysts are reminded of the sensitivity of the information in the ORSA Summary Report and that it includes proprietary and trade secret information. Before sharing the GPS with another domestic state or other impacted regulator, the lead state should verify the ability of each regulator to keep the shared information confidential, consistent with state law. Analysts may consider consulting with the state’s legal counsel before sharing with another regulator.

The lead state may choose to rely on the analysis work performed by an international insurance supervisor (e.g., work products from a supervisory college) or another functional regulator. If such reliance takes place, the lead state is still responsible for documenting and distributing to other domestic states an analysis of the overall financial condition of the group, significant events, and any material strengths and weaknesses of the holding company group. Additionally, if the lead state has material concerns with respect to the overall financial condition of the holding company group, it is responsible for notifying all other domestic states.

**Responsibilities of Each Domestic State**

Evaluation of the Impact of Holding Company System

The domestic state is responsible for completing an evaluation of the impact of the insurance holding company system on the domestic insurer. In doing so, the domestic state is responsible for identifying and understanding the affiliated risks within the insurance holding company system. This information and understanding can be obtained from several sources, including the supplemental filings (i.e., Form A, Form B, Form D, Form E, and Form F). The Form B, Form C and any other holding company filings should be analyzed, to at least some extent, by December 31st for analysis conducted by the domestic state (See also chapter V.A. and V.F. for possible Form B and C compliance and assessment procedures and guidance.) Additionally, the domestic state should obtain a GPS from the lead state containing the risk assessment of the group that is necessary to evaluate the impact that the insurance holding company system could have on the domestic insurer. The domestic state is responsible for summarizing a conclusion regarding this evaluation. This should be included in either the annual or quarterly financial analysis work papers and summarized in the Insurer Profile Summary (IPS) of the respective domestic insurer on a yearly basis.

Communication of Holding Company System Analysis

The communication with the lead state should be documented in order to substantiate the domestic department’s understanding of the insurance holding company analysis that was performed and included in the financial analysis work papers of the respective domestic insurer on a yearly basis. Such documentation should include the bulleted items in the section above included in the GPS. If a state relies on the insurance holding company analysis of another regulator, communication of such by the lead state should be completed by October 31.

**Holding Company System Analysis Consideration and Guidance**

Overview of Insurance Holding Company System Structures

It is important for analysts to gain a thorough understanding of the organizational structure in order to properly analyze how each subsidiary/affiliate in the holding company operates. Organizational structures can vary significantly between insurance holding company systems. Larger holding company systems will often include lower-tier holding companies that manage both non-insurance and insurance subsidiaries independently of the ultimate holding company. Others may be partially held by different individuals and companies or have indirect ownership relationships.

An insurance holding company system may consist of one company that directly or indirectly controls one or more other companies. Control may exist through ownership of the voting shares of a company’s common stock or, particularly in the case of a mutual insurer where ownership lies with the policyholders, control may exist or be strengthened through contractual relationships and/or common management. The controlling entity often delegates operational functions to subsidiaries so that it can focus on the management of the overall insurance holding company system. Some insurance holding company structures are established to hold only insurance operations, while others may be more complex and engage in multiple types of businesses. Understanding the insurance holding company system structure and the various types of operations and obligations that the entities within the structure create is critical in performing insurance holding company analysis.

A sophisticated/complex insurance holding company system may include, but not be limited to, the following:

* Insurance and non-insurance operations
* International operations
* Multiple or diverse lines of business
* Numerous entities or segments

This first step in understanding the insurance holding company structure is obtaining an organizational chart. Organizational charts are included in: 1) initial applications for licensure; 2) holding company registration statements (Form B); and 3) the Annual Financial Statement Schedule Y, which is also required to be updated and reported to regulators quarterly if there any changes from the prior year-end. The first step in understanding the organizational chart is identifying all the insurance subsidiaries and non-insurance affiliates in addition to identifying all the states and other jurisdictions responsible for regulating those subsidiaries.

There can be variations as to how an insurance holding company is classified. The most common types of insurance holding company structures are described below, each of which has different implications for understanding the impact that the structure may have on the financial condition of the group.

**Public Holding Company**

A public holding company is an entity that controls various other affiliates, including financial intermediaries, such as insurance companies, banking institutions, security firms, etc. The shares in a public holding company are open to investors (thus making them shareholders), which can be purchased via a public securities exchange market, giving such entities greater abilities to access additional capital. Transactions that result from the public holding company are approved by the board of directors. A public holding company may be obligated to pay dividends in order to maintain expectations of their shareholders. No two groups are the same and, only through conversations with management and/or reviewing external historical actions can these things be properly evaluated.

**Private Holding Company**

A private holding company is a separate legal entity designed to hold either investments or operating assets. The shares in a private holding company are held by or on behalf of the beneficial owners. All transactions regarding the holding company must be approved by or on behalf of the beneficial owners. A private company has some of the same characteristics as a public company in terms of expectations, but usually such expectations differ from a public company. A private company may have some access to capital that mutual insurers do not have, but it also may be just as limited.

**Mutual Insurance Company**

A mutual insurance company is formed and bound by its policyholders. A mutual insurer does not issue stock and, therefore, does not have stockholders. The initial net worth of a mutual insurer is limited to surplus paid-in by the original policyholders or by a third-party contributor. A mutual insurer can create or acquire subsidiaries, thus becoming the controlling affiliate of an insurance holding company system. It may also create a subsidiary to act as a holding company for downstream affiliates. Although a mutual insurer may be subject to some pressure from its policyholders, such pressure is usually much different from what is experienced by a public company. However, a mutual insurer is limited in terms of its access to capital because it cannot issue new stock. Again, no two groups are alike and understanding these issues usually can only be obtained through conversations with management and/or reviewing historical actions.

**Mutual Holding Company**

In most states, a mutual insurer may be permitted to restructure by converting from a mutual to a stock insurer, with a new upstream mutual holding company owning a majority of the voting stock. The mutual policyholders’ ownership rights are transferred to the mutual holding company. This structure gives the insurer more options to raise funds, through the issuance of stock. Such a conversion is subject to the approval of the policyholders and the domiciliary state’s commissioner. 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**

The term non-profit organization is generally most associated with the treatment of organizations under the Internal Revenue Code. The Internal Revenue Service (IRS) generally associates not for profits with charitable organizations, churches and religious organizations, political organizations and private foundations. 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 particular insurance holding company structure.

**Fraternal Associations**

State insurance departments have authority over fraternal benefit society insurers, and although each state may define them slightly differently, such definitions usually provide that they are a corporation, society, order, supreme lodge or voluntary association, without capital stock, conducted solely for the benefit of its members and their beneficiaries. Because of this structure, 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. Although this is a general consideration for the regulator when evaluating the insurance holding company system, there is generally much more that must be understood before coming to this conclusion because in some cases, the fraternal may be able to assess its members or take other actions that can serve a similar purpose as raising capital.

**Reciprocal Exchanges**

State insurance departments have authority over reciprocal insurance exchanges and although each state may define them slightly differently, such definitions are generally centered on the notion of a group of persons who agree to share each other’s insurance losses. The IRS provides that a reciprocal is an organization or group of subscribers, including individuals, partnerships and corporations, who may insure each other by “exchanging” insurance contracts through their commonly appointed attorney-in-fact. All such insurance contracts are executed on behalf of all the subscribers by their designated attorney-in-fact. Because of this structure, 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 insurance holding company 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.

**Sources of Insurance Holding Company Information**

**Statutorily Required Filings:** The most readily available source for gaining an understanding of an insurance holding company structure is through the statutory filings submitted by insurers. Analysts may use the statutory filings to gain an understanding of: 1) the entities included in the insurance holding company system; 2) where revenue comes from; 3) how many jurisdictions the insurance holding company system writes in along with the percentage of U.S. versus foreign revenues; and 4) contagion risks. Insurers are required to submit an organizational chart and details of affiliated transactions in Schedule Y—Part 1, Part 1A, and Part 2. Part 1A includes the relationships within the insurance holding company system to the ultimate controlling person(s) or entity. This schedule provides valuable insight into the ownership structure, insurance holdings, locale and affiliated relationships within the insurance holding company system. To understand the different levels of interconnectivity and impact within the insurance holding company system, analysts should review Form D which includes the management service agreements, tax sharing agreements and affiliated reinsurance. Analysts should also review Form B to assess the overall financial condition of the insurance holding company system as Form B includes the holding company’s profitability, debt, equity and assets. Review and consider the impact any holding company debt reported by the holding company and whether the insurers fund this debt through upstream dividend payments (See also chapter V.A. and V.F. for possible Form B and C compliance and assessment procedures and guidance).

**Form B - Insurance Holding Company System Annual Registration Statement:** Form B is filed annually on June 1 and contains information on identity and control of the registrant, organizational structure, ultimate controlling person(s), biographical information on directors and officers, transactions, relationships and agreements, litigation, statement regarding plans or service transactions, and financial statements and exhibits.

**Note #10:** Under guidance from *Statement of Statutory Accounting Principles (SSAP) No. 25 - Affiliates and Other Related Parties*, insurers are also required to provide detailed information on related party transactions and relationships in Note #10. Refer to Section IV.B. Analysis of Notes to Financials for more information.

**MD&A and Audited Financial Statement:** These filings also contain information on the insurance holding company structure. These reports are filed with the NAIC by April 1 and June 1, respectively, of the year following the annual reporting period. Specifically, the MD&A provides background information on organizational structure, product lines, marketing systems, and actions such as corporate restructuring, acquisitions, and dispositions. It is a narrative that provides information to regulators that enhances understanding of the insurer’s financial position, results of operations, changes in capital and surplus, and cash flows. The report often explains transactions or events that have occurred during the year that affect the financial condition of the insurer. It may also contain information about affiliated relationships or changes in those relationships.

**Audited Financial Statement:** This statement provides an overview of the background, operations, affiliated transactions, mergers and subsidiary holdings regarding a holding company. Several of the footnotes (Related Party Information, Reinsurance and Other Insurance Transactions, Reorganization, Acquisitions and Dispositions, and Summary of Ownership Relationships of Significant Affiliated Companies) also provide valuable insight into organizational structure and affiliated transactions. These footnotes provide disclosures on such issues as affiliated transactions, agreements, guarantees, reinsurance transactions, capital contributions, and organizational structure, which allow analysts to gain an understanding of how the different entities within the holding company operate together.

**SEC Filings:** Disclosures on non-insurance entities found within the holding company may be limited. For publicly traded companies, analysts can reference reports filed with the U.S. Securities and Exchange Commission (SEC) to gain insight on the insurance holding company structure. The SEC filings provide significant background information about the holding company and its subsidiaries. Form 10-K is used to report the entities’ annual financial data. An example of sections within the Form 10-K that may provide valuable background information includes:

* Business**:** This section includes a general discussion of the entity’s business, financial information, and industry segments. The industry segment section allows analysts to assess the organization by its major operating business segments.
* Directors and Executive Officers: This section helps analysts identify key officers, owners, and family relationships.
* Security Ownership of Certain Beneficial Owners and Management: This section identifies certain beneficial owners of the filer’s securities and possible subsequent changes in control.
* Certain Relationships and Related Transactions: This section discusses affiliated transactions and business relationships.

Form 10-Q is used to report quarterly financial data and is much more limited in scope than Form 10-K, but it does require condensed financials as well as some background information. Form 8-K is required after certain significant changes in business occur, including change in control, bankruptcy or receivership, and resignation of directors.

**Combined Statutory Financial Statements:** These statements are required for property/casualty insurers only. These statements have been adjusted for intercompany transactions and affiliated investments.

**Shareholders’ Reports:** These are generally available on a holding company’s website. The scope of the shareholder’s report may vary between companies but is generally reported on a consolidated generally accepted accounting principles (GAAP) basis and may contain segment information. An insurance holding company system’s Web page may contain additional information such as current stock price information, company history, descriptions of products or business segments, and recent press releases. The insurer’s website can be obtained from the Jurat page of the insurer’s annual and quarterly statutory financial statements. Links to company websites can also be obtained from the rating agency websites, as well as other financial websites or through tools such as Bloomberg Financial.

**Rating Agency Reports:** Credit rating providers, each with their own unique methodology for assigning ratings, often provide financial data and/or analysis of an insurer or insurance group. This information is available through purchase or subscription. Some of the organizations include: A.M. Best; Fitch Ratings; Moody’s Investor’s Service; Standard and Poor’s (S&P); Dominion Bond Rating Service; RealPoint, LLC (for CMBS only); Kroll Bond Rating Agency (KBRA); and TheStreet.com Ratings.

**NAIC database and iSite+ Reports:** These iSite+ applications provide information primarily on the insurance companies, rather than the insurance holding company system, with the exception of the property and casualty combined annual financial statement. However, other information or resources on iSite+ may be helpful when reviewing collectively the insurance companies within an insurance holding company system. In addition to the financial statement and financial analysis solvency tools, other reports exist such as summary reports, the Lead State Summary Report and market analysis information. Line reports may be useful in collecting selected lines of data from the financial statements for all insurers within an insurance holding company system.

**Internet/Websites:** The Internet offers a variety of websites that contain information on the financial background of publicly traded companies. Some financial websites provide a comparison of the company’s own financial results to that of their closest competitors and to industry averages. Some of these sites may provide information such as the buying and selling activities of company stock by senior level employees of the company. Additionally, links to news articles concerning the company and the industry are available.

**Other Information Sources:** These may include prior analysis performed on the insurance holding company system, financial and market examination reports, target examinations or special studies, discussions and other communications with other lead states or foreign regulators, and discussions with company management. The last point to make is that discussions with company management should not be minimized. This may be necessary particularly in those insurance holding company systems where the structure is more complicated, and more difficult to understand. The group should be willing to explain its structure and the purpose of such a structure to its regulators, including more in-depth discussions with the lead state or group wide supervisor. If the lead state or other regulators believe the structure is opaque, or difficult to understand, it should raise the issue with management. In rare cases, the lead state and/or other regulators may want to suggest that management consider some changes to either eliminate such confusion or determine if some additional disclosure could be made to in the public financial statements to reduce such confusion. The domestic regulator may initiate discussions to suggest dissolving, merging, de-stacking or other such transactions with legal entities within the insurance holding company system to facilitate corporate efficiencies and minimize complicated structuring.

**International Data Sources:** When an insurance holding company system is domiciled in a foreign country, it is necessary to determine the supervisory authority in that country and the filing requirements. Some countries have an agency that functions similar to the SEC, and financial statements may be available through that agency. For example, The System for Electronic Document Analysis and Retrieval is the official site for the filing of documents by public companies as required by securities laws in Canada. This website can provide the annual report for publicly traded insurance companies domiciled in Canada. When information is not readily available through a government source, the company’s shareholder’s report or other information may be available on the company’s website or through regulator request.

For foreign holding companies, certain sources of information may require conversion of financial data to U.S. currency. Conversion rates can be found on a variety of different Internet websites.

## Recent News and Rating Information

Analysts should research recent news relevant to the insurance holding company system. Press releases and publications may provide valuable insight about important events and management decisions. These items may include significant transaction activity, changes in the company’s stock price, legal or regulatory issues, employee layoffs, losses of key personnel, and issues with customers or providers.

 Review current financial strength and debt ratings of the group. Rating agencies often issue separate ratings and analyses on the credit and claims-paying ability of insurers or the holding company. Reports of rating agencies provide a quick overview of a company. Such reports should be scanned for background information about the company’s operations, management, and significant changes. If a report of the entire insurance group is available, it may be useful as an early step in understanding the relationships of each entity within the insurance group.

Rating agencies focus on liquidity available at the holding company, so much of a subsidiary’s cash may be pushed up to the holding company through dividends, management fees, or other intercompany arrangements to gain a better rating. A rating downgrade may have a material effect on the ability of the company to sell its products (particularly in the commercial property/casualty and annuity lines of business), to obtain reinsurance, or to compete in the marketplace in general. Events such as these may place a greater strain on the insurance companies, which may already be coping with various financial issues such as high debt servicing requirements.

## Stock Price Evaluation/Debt Prices/Credit Default Swaps

If the stock of the intermediate or ultimate holding company is publicly traded, monitor the stock price and volume. Compare the trends of price and volume of the holding company with peer organizations. Analysts should strive to determine the factors affecting stock prices, which extend well beyond the financial status of the insurer. The use of professional securities analyst reports may provide additional insight regarding the fluctuation of stock prices. In some cases, the intermediate or ultimate holding company debt may also be publicly traded, in which case similar to stocks; analysts should monitor the price and volume. Analysts should strive to determine the factors impacting the change in bond prices. Finally, some intermediate or ultimate holding companies may have credit default swaps issued on them. These should also be monitored where they exist. The NAIC Capital Markets Bureau monitors such information and summarizes the changes in the weekly reports available to state insurance regulators.

## International Holding Company Considerations

Many insurance companies domiciled in the U.S. are owned by holding companies that are located in foreign countries. Depending on the country of domicile, for some, financial information is not readily available through a government-sponsored source similar to the SEC. Analysts may find that the investor’s page of publicly held international holding companies’ websites will provide the best source of financial information.

The regulation of international holding companies varies according to the laws of its country of origin. For most European Union organizations, accounting treatment and reporting is somewhat consistent and is improving due to the efforts of many groups working with the standards developed by the International Accounting Standards Board (IASB). However, for many organizations domiciled in offshore countries, such as Ireland, those located in the Caribbean, and others, the regulation around public financial reporting may be less robust.

Analysts should understand the contact structure of the organization. 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 proper organization contact to ensure a prompt reply or resolution.

Many transactions between a foreign holding company and U.S. companies, including the holding company’s U.S. subsidiaries, are governed by special requirements. Transactions such as reinsurance, servicing, investment, the handling of pooling taxes, etc., are controlled by requirements that are in many cases quite different from similar transactions between two domestic entities.

Foreign holding companies invest in their U.S. subsidiaries to nurture profitable operations, to complement existing operations or to add to existing capacity. 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.

Some points to consider when assessing a holding company’s commitment regarding continued U.S. operations include:

* The importance of the U.S. operations in the insurance holding company structure
* The holding company’s historical involvement in supporting its subsidiaries
* Parental guarantees or commitments of financial support, or failures to act on these commitments

### **Forms A, B, D, E, and Extraordinary Dividend/Distribution**

Forms A, D, E and Extraordinary Dividend/Distribution are transaction-specific and are not part of the regular annual/quarterly analysis process. The review of these transactions may vary as some states may have regulations that differ from the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450). See section V. procedures for holding company considerations for domestic and non-lead states.

### **Lead State Holding Company Analysis – Process and Procedures**

In completing the process of holding company analysis and developing a GPS, analysts are encouraged to customize the work performed and documented at a level commensurate with the nature and complexity of the group. Analysts may elect to limit the amount of analysis and supporting documentation performed outside of the GPS and/or eliminate certain sections of the GPS to promote efficiencies in conducting analysis work. Conversely, analysts working on very complex groups may elect to perform additional analysis (including those listed in the Additional Procedures on Key Risk Areas – Insurance Holding Company System) as well as provide additional documentation within the GPS and/or in supporting analysis workpapers. Keep in mind, the GPS should provide sufficient information about the group and its risks to enable other state, federal and international regulators to understand the group risks that may be relevant to their regulated legal entities.

If the domestic insurers in a holding company system consist of only run-off companies, the domestic regulator, at its discretion, should determine the value, if any of performing a holding company system analysis. If it is determined that a holding company system analysis would be of no added value, this determination should be documented.

As the lead state, the department should coordinate the ongoing surveillance of companies within the group with input from other affected states (with the understanding that the domestic state has the ultimate authority over the regulation of the domestic insurer under its jurisdiction). The documentation contained in the GPS is considered to be part of the workpapers, and represents proprietary, confidential information that is not intended to be distributed to individuals other than state regulators.

**Confidentiality of Information:** Financial analysts are reminded that information collected from the group, generally under the authority of their holding company statutes or their more specific statutes dealing with the ORSA Summary Report may be confidential by law. Accordingly, before sharing statutorily confidential information with other jurisdictions, regulators will need to review their own statutory authority to do so, which generally requires that the receiving jurisdiction is able to maintain also the confidentiality of such information.

**UCP is an Insurer:** If the ultimate controlling person (UCP) of the holding company is a U.S. domiciled insurance company with a cocode, analysts may consider preparing one document that includes all the elements of the IPS and the GPS, in order to promote efficiency in the overall analysis. For example, in addition to the standard elements of the IPS, the document may also include sections such as corporate governance, ERM/ORSA, non-insurance affiliates/subsidiaries, etc. In addition, depending on the nature and extent of risks, analysts should consider whether it is more appropriate to assess and document certain risk exposures from a group or legal entity perspective (or both) in the IPS/GPS. In all cases, analysts are expected to document and complete both the legal entity and holding company analysis work in accordance with timeliness expectations. Therefore, the analyst and supervisor should demonstrate that the combined IPS/GPS is updated for both the results of legal entity analysis and holding company analysis through separate signoffs at different dates, as necessary.

## Specific Procedures for Completing the Insurance Holding Company Analysis

The following procedures are intended to assist analysts completing a holding company analysis documented in the GPS. The following procedures do not represent additional documentation requirements.

**Understand the Insurance Holding Company System**

1. Evaluate and document an understanding of the insurance holding company system. Consider using the following if available and/or applicable: statutory Schedule Y, Form B Registration Statement, ORSA Summary Report, and financial filings of the insurance holding company system and/or person. Summarize the understanding of the holding company in the GPS. If necessary, analysts may also document further details below.
2. Ultimate controlling entity(ies) or person(s).
3. Nature and level of complexity of structure (e.g., public, non-public, mutual, complex, simple, etc.) including the level of interdependence within the group structure (e.g., pooling, guarantees, risk structure, etc.).
4. Business segments and percent of overall revenue per segment (use segments as defined in the most current 10-K or financial statement, if available), including how the group sells and distributes its primary products and whether they expose the group to risk concentrations (geographic or product related).
5. Number of insurers and respective jurisdictions, including the level of international insurance activities (including branches) within the group. Where are the largest concentrations of international business and which regulatory authorities are charged with oversight?
6. The existence of captive insurance vehicles within the insurance holding company system as well as their specific purpose and domicile. What type of financial reporting is available/provided to the state of domicile for the entities? What risks do these captives pose to the insurance holding company system?
7. Nature and function of material non-insurance legal entities that pose a material risk to the insurance holding company system. Are there material risks presented by these non-insurance entities? (Note: It is recommended that the insurer supply information via the non-insurance company grid provided [Excel] to assist with this determination. See also procedure 2 to be completed in conjunction with Procedure 1, to determine how to tailor this grid to the risks of the group and therefore the focus of the remaining analysis)
8. Recent news, press releases or other information received from the group that identify changes in the holding company system or financial results.
9. Obtain and review information to consider whether high-level management of the insurance holding company system is suitable for the respective positions held (e.g., does the individual have the appropriate background and experience to perform the duties expected of him/her?). Any suitability and other governance-related concerns identified should be communicated in writing to other relevant regulators both domestically and internationally. Follow-up on any previously-identified corporate governance issues of the insurance holding company system.

***Procedures #1 - 2***are intended to be completed simultaneously, as each is anticipated to be informative to the other. In many cases, information obtained from prior years may not have changed**.** That prior information can also be helpful in determining the extent of information regarding individual companies (non-insurance and insurance) that needs to be collected from the group in accordance with Procedure #1f and Procedure #2. Analysts should use such prior analysis and prior knowledge, as well as updated financial and nonfinancial information on the group, or members of the group, to help determine what information update is requested from the group and its affiliates. The information requested is intended to be focused on the primary risks of the group, and changes in the group or economic environment which require additional information to evaluate. For example, a lead state that has previously identified possible concerns with the overall profitability of the group will commonly track measures of profits against some measure, and individual company by company information would be used by the lead state to monitor and better understand and continue to evaluate that risk. Another example may be a group for which the lead state has seen a substantial increase in business written without a corresponding increase in group capital. The lead state should use information from other filings (e.g., ORSA Summary Report and/or Form F) in understanding the business change, but may require further detail on the specific products and legal entities for which the business is written to fully understand and evaluate the change in risk. The exclusion or inclusion of entities from the focus of the group-supervision should be re-assessed annually.

***Procedure #1***assists analysts in documenting his or her understanding of the insurance holding company system. Various documents are available as a resource in helping to understand the insurance holding company system and its business purpose, but it is also anticipated that much of this information will be accumulated and updated by analysts through inquiries to the group.

As part of this review, analysts should also consider on a regular basis whether high-level management of the insurance holding company system is suitable for the respective positions held. Suitability includes considering whether the individual has the appropriate background and experience to perform the duties expected of his/her position. Any suitability and other governance-related concerns identified should be communicated to other relevant state insurance departments (and also possibly with international regulators). Analysts should also follow-up on any previously identified corporate governance issues of the insurance holding company system.

**Complete Lead State Analysis Considerations**

After gaining an understanding of the holding company system, complete the following considerations to assist in determining the detailed analysis procedures to be performed.

1. Based upon the information obtained in Procedure 1, and in combination of prior year analysis or prior knowledge of the group, determine the focus of this year’s annual holding company analysis. Specifically consider the information obtained regarding both insurance and non-insurance entities and their impact on the entire group. Additionally, include a summary within this analysis that discusses the focus areas and why.
2. Using the Lead State Report on iSite+, identify the primary contact of other involved domestic states. Based on the analysis of the overall holding company structure and the state’s preference, analysts may consider whether there is a need to request the confidential IPS report(s) from the applicable U.S. domestic states for insurers within the holding company system, pursuant to the NAIC’s Insurer Profile Summary Sharing Best Practices. (E.g., A state may consider using the NAIC Prioritization Summary Report to assess the need to request such reports.) If the IPSs are requested, identify and document any material concerns or risks that were not covered elsewhere in this analysis.
3. Identify and document any other regulated entities within the holding company system and the respective involved supervisor. (Note: Consider using Annual Financial Statement, General Interrogatories – Part 1, #8.1 through #8.4). Consider the following:
4. Does the size, complexity and/or interconnectivity of the entity with the holding company system warrant communication with the respective regulator/supervisor? If “yes,” describe any communication between state, federal and international regulators that has been planned or initiated.
5. If there is international insurance activity, document which jurisdiction(s) is considered the group-wide supervisor(s) of the insurance holding company system.
6. Does the size, complexity and/or interconnectivity of the entity with the holding company system warrant a potential supervisory college? If “yes,” describe any communication between state, federal and international regulators that has been planned or initiated.
7. Does the department and/or other domestic state(s) within the group have a MoU to share confidential information with the involved supervisor(s)?
8. Have any state, federal and/or international regulatory action(s) been taken? If “yes,” describe.
9. Determine and document whether it is necessary to develop an overall understanding of the relevant regulatory and supervisory requirements of the authority and document accordingly.
10. If applicable, identify and document contact information for federal or international involved supervisor(s).
11. Establish a plan for communicating and coordinating with the domestic state(s) and other involved supervisors if significant events, material concerns, adverse financial condition or prospective risks are identified.
12. If your state is leading or participating in a supervisory college of the holding company system, review the most recent information obtained as part of the supervisory college to determine if there are any areas of risk that require follow-up or additional analysis.

***Procedure #2***assists analysts in determining the focus of this year’s annual holding company analysis. A practical method of determining the entities to focus on may begin with some type of internal unaudited consolidating financial statements prepared by the group, if applicable although other more simple methods could be used once the lead state had a better recognition of the size and risks of the individual legal entities. Alternatively, if internal unaudited consolidating financial statements are not prepared by the group, analysts may be able to obtain some information from the ORSA Summary Report. However, in many cases, that report will not contain legal entity information, therefore analysts may instead choose to request the insurer supply information via the non-insurance company grid provided. Analysts should also consider if there are other entities that pose a risk to the group, and for which the lead state analyst can only obtain qualitative information from the group in better evaluating such risks (such entities and these situations are presumed to be rare but can occur under some unique situations). The purpose of this step is to consider if there are any individual legal entities that can be excluded from the scope of group-wide supervision, because individual legal entities that are negligible to the group should be excluded. This procedure also assists analysts in putting together the Holding Company System Summary section of the GPS to indicate which entities have been subject to review and to be used as a starting point in ensuring there are no gaps or duplication in regulatory oversight between all of the states. Such process would conclude when the GPS is distributed and reviewed by the other domestic states and the lead state receives no feedback which would suggest otherwise. Although duplication is expected to be rare, obtaining input from other domestic states regarding the focus of the analysis is considered appropriate because the group can have an impact on each of the domestic insurance entities.

***Procedures #3 - 7***assist analysts with regulator/supervisor communication and coordination and supervisory college considerations. See Section VI.J. Supervisory Colleges Guidance for a more detailed discussion of supervisory colleges utilized for internationally active insurance groups.

## Conduct Detailed Analysis of the Insurance Holding Company System

Conduct detailed analysis by evaluating the overall financial condition of the holding company system through an assessment of the group’s exposure to each of the nine branded risk classifications. Consider both the financial review of insurance and non-insurance entities within the insurance holding company system. In certain cases, the review of non-insurance entities may be mitigated by the lack of interdependence of the entities. Conduct the assessment by using quantitative and qualitative information. Consider utilizing the following, if available and/or applicable: legal entity IPSs; Form B and Form F; ORSA; shareholders’ report; combined financial statements; quarterly and annual SEC filings; International Financial Reporting Standards (IFRS) filings; personal net worth statements; audited financial statements; management’s assessment of internal controls; auditor’s assessment of management’s assessment of internal controls; press releases; confidential information from other regulatory/supervisory bodies; and any other available sources.

The following are key areas of review of financial solvency. Below each are examples of the branded risks that may be identified through the analyst’s review. The examples of related risks shown below do not represent a complete list; therefore, analysts should use professional judgment in categorizing issues identified during analysis into the risk categories. Summarize the overall analysis of the holding company in the branded risk assessment section of the GPS. If necessary, analysts may also document further details below.

1. Profitability: Evaluate the insurance holding company system’s operating and net income over the past three years, as well as return on equity (ROE) and document any trends as well as the primary drivers of those trends.
* Pricing and Underwriting Risk—e.g., volume/growth; new product lines; geographic concentrations; pricing policies; price adequacy as identified through quantitative metrics; segment information identifying profitable vs. non-profitable product lines; impact of insurance vs. non-insurance operations on the profitability of the insurer: etc.
* Reserving Risk—e.g., reserve development & trends; reserve adjustments; crediting rates; shifts in exposures to product lines: etc.
* Market Risk—e.g., impact of market changes on investment income/yields; impact of/exposure to interest rate changes; impact of/exposure to changes in foreign exchange rates: etc.
* Strategic Risk—e.g., planned growth/decline in writings; management expertise; variance to business plans and ability for group to adequately project future profitability; investment strategy and the adherence to it: etc.
* Operational Risk—e.g., risk of events impacting the overall financial results, such as catastrophe events impacting P/C lines of business, issues with IT systems, cyber-security risks; degree of variability in profitability; high expense structures; TPA/MGA relationships; risks associated with distribution/sales channels; risks associated with unprofitable segments or lines of business: etc.
1. Financial Position**:** Evaluate the insurance holding company system’s shareholder’s equity (or equivalent), and document any negative deterioration.
2. If publicly traded, review the holding company’s stock price history. Has the value of common stock declined significantly over the past year? If “yes,” explain the reasons for the negative trend.
3. Assess the holding company’s sources of capital.
* Reputational Risk—e.g., sharp fluctuations and/or drops in stock prices or changes in financial strength and credit ratings that may impact market perceptions, sales growth and access to capital markets, etc.
* Credit Risk—e.g., concentrations in investments; materiality of high risk or low quality investments; credit risks concentrated within certain segments of the group that impact the overall group financial position, etc.
* Market Risk—e.g., stress test results, concentrations in certain investment market segments, changes in asset valuation due to market shifts, etc.
* Operational Risk—e.g., impact of overall financial results; have sufficient profits been generated to meet business model needs and to generate capital, etc.
* Strategic Risk—e.g., capital position; capital plans as may be outlined in ORSA or ERM planning; impact of changes in corporate structure, etc.
* Legal Risk - e.g., litigation resulting in material contingent liabilities, etc.
1. Leverage: Review the insurance holding company system’s leverage positions and document any negative trends and/or deteriorating ranges. In addition to traditional measures of financing leverage (debt to equity, interest coverage, etc.) and operating leverage (e.g., writings to surplus, surplus aid from reinsurance, etc.), evaluate the group’s use of derivatives and their purpose including collateral held/required, trends, etc.
* Market Risk – e.g., use of derivatives to mitigate economic conditions, generate profit, etc.
* Credit Risk—e.g., asset leverage risk in the insurance vs. non-insurance investment portfolios, extensive use of reinsurance, etc.
* Reserving Risk—e.g., level of operating leverage created by premium growth, etc.
* Strategic Risk—e.g., effectiveness of risk mitigation strategies as may be outlined in ORSA, ERM filings or business plans; risks posed by the use of captive insurance vehicles, etc.
* Operational Risk—e.g., financing leverage as indicated through measurements such as interest coverage ratio and debt-to-equity ratio; amount/type/trend in debt issuance and ability to meet payment schedules, etc.
* Reputational Risk—e.g., impact of reputational risk changes, such as ratings, on debt covenants, sales, etc.
1. Liquidity: Evaluate the insurance holding company’s liquidity and document any negative trends and overall strength.

Liquidity Risk—e.g., assessment of cash flow trends; cash and short-term investments held; indications of liquidity shortfalls reflected in quantitative ratios (i.e. liquidity ratio); liquidity needs for high surrender activity impacted by economic changes; liquidity needs created by catastrophic events; liquidity requirements for future debt payments; available lines of credit; stress testing.

1. If applicable, review the insurance holding company system’s independent public audit report. Comment on the following:
* Auditor’s Opinion
* Notes to Financial Statements
* Management’s Assessment of Internal Controls
* Auditor’s Assessment of Management’s Assessment of Internal Controls
1. Document in this analysis any concerns that arose during the lead state’s evaluation of its domestic insurer(s) that in the opinion of the lead state have an impact on the evaluation of the overall financial condition of the insurance holding company system.
2. During the holding company analysis process, identify and document any material concerns or conditions within the group that may have a material impact on the lead state’s domestic companies. Update the IPS of the state’s domestic insurer(s) in the group for the impact of the Holding Company on that insurer(s).

***Procedures #8 - 13***assists analysts in determining and understanding the overall financial condition of the insurance holding company system which includes understanding profitability, financial position, leverage, liquidity and the organization’s use of derivatives (if applicable). These procedures, and any additional/supplemental procedures that are chosen from the list below, are generally the most critical aspect of the insurance holding company analysis and contribute significantly to the identification and assessment of branded risk exposures as presented in the GPS. The following summarizes some approaches/issues for analysts to consider when completing these procedures. In most cases, analysts will require further information from the group in order to complete his or her evaluation of these key areas. Such information is necessary in part because no two groups are the same, and no two groups manage themselves in the same way. For example, in the area of profitability, it may be necessary to request more detail information at a particular legal entity or even product level to determine the cause of the changing trend and its impact on branded risk assessments. Another example is that the group may appear to have a greater than average amount of operating leverage and it may be necessary to gather more legal entity information to understand the source of this leverage. Although this may be discussed in the ORSA Summary Report, in many cases it may not. This approach of requesting further information to further isolate the causes of the profitability, leverage and liquidity trends is consistent with general techniques used in financial analysis. This use of general financial analysis techniques is the primary reason the states approach to group reporting requires only limited information. Consequently, much of the information that should be requested is centered more on the way the group manages itself and its risks.

***Procedure #8***assists analysts in evaluating the profitability of the group and the impact of profitability issues on the group’s exposure to branded risks. The first step in making such an evaluation would typically begin with analyzing the group’s experience over a sufficient period of time so as to draw some conclusions. Although no two groups are the same, a good starting point for evaluating profitability would be looking at the group’s operating and net income, as well as return on equity (ROE) (i.e., net income/stockholders equity) over a five-year period. The use of ROE is a common measure because it considers the perspective that the most common stakeholder, a shareholder, may use. Shareholders, or at least potential investors, commonly use ROE since it provides a measurement of the benefit that the company is generating for the potential use of shareholders. The measurement, although simple, can be effective because investors may make a decision to invest, or continue to invest, based on the value that the group can bring to the investors. Although return on equity does not indicate specifically how much value a group has generated for an investor, it provides a good starting point. It is suggested that it be measured over a five-year period, because such a time period is usually likely to show the results of the group under different economic conditions and therefore stresses, and can help to establish a normal expectation along with an expectation as to variables in the group’s business plan.

As discussed in other areas, public company investors have different expectations than private investors, and stakeholders of mutual companies and mutual holding companies have even different expectations. Consequently, analysts should use caution in assuming certain things about the group only because its ROE is higher or lower than some of its peers. It is suggested that the information be used instead as a starting point to better understand the specific group. Analysts should use the information in connection with the latest business plan to better understand how the profits compare to what the group expected, and what its investors expect, on a short-term and long-term basis. The group may use other measures to track their experience (e.g., return on assets, return on revenue) but what is important is to understand how well the group is performing compared to its business plan, and how well that business plan allows them to continue to meet all of the demands of being part of a regulated insurance group. The measurement of profitability should not be minimized because, in virtually every single business sector, it is a major driver of strategic actions. The inability to generate sufficient profits can prevent the ability to generate additional capital. Consequently, although the regulator is primarily concerned about the ability of the insurance company, and therefore the group, to have sufficient capital/equity to absorb certain events or situations, a group that is unable to generate sufficient profits may have no ability to generate any new capital. As history has shown, in most cases, groups with insurance operations do not simply raise additional capital in time of stress, but rather find ways to reduce risk. This must be well understood in evaluating the financial condition of a group, and generally speaking, the starting point is the inability to generate the appropriate amount of profits to meet the business model needs. However, because this is a starting point for analyzing the group, and although most group analysis would be done using consolidated GAAP, that is currently not a requirement and therefore insurers may use different accounting basis that can skew such results. In such situations, analysts should consider asking for input from the group itself on the effect that such an issue has on the analysis and again, consistent with previous comments, ask the group to discuss the measures its stakeholders use to measure profitability.

In addition to measuring, tracking and monitoring profitability, analysts will need to obtain an understanding of what activities drive the profitability (or lack thereof) of the holding company system. As the group may be involved in various business activities across a number of segments, profitability may need to be reviewed and considered at the business segment level. Profitability challenges experienced by the group may indicate, or result from, any one of a number of branded risk exposures (e.g., pricing and underwriting risk, reserving risk, market risk, strategic risk and/or operational risk). Therefore, analysts will need to investigate the cause of profitability challenges to determine the extent of the group’s exposure to branded risks in these areas.

***Procedure #9***assists analysts in evaluating the overall financial condition of the group and its impact on the group’s exposure to branded risks. When performing this procedure, it is necessary for analysts to consider the requirement to obtain and understand the nature and function of all non-insurance entities within the group. This is needed in order to evaluate the potential risk associated with each entity. In connection with obtaining five years of historical profitability figures and obtaining an understanding of the risks of the non-regulated entity, analysts may want to consider requesting consolidating information from those groups that either have a higher degree of variability in their profitability over a five-year period or those groups that have non-insurance entities that have higher potential risk. These are factors that can drive the capital that a group may need to operate its business plan in addition to the capital that is needed for the insurance operations itself, which can be determined at a more granular level at an insurance legal entity and then accumulated up to the group level. Alternatively, or in addition, for those entities that prepare an ORSA, the latter can be easily determined through such a report and can be used as a better starting point for discussing the same issues because they are from the perspective of how the group is managing such risk. (See section VI.E. Enterprise Risk Management Process Risks Guidance for discussion of procedures related to ORSA reports). For those entities that do not, the regulator should use the information from Form F, as well as all of the regulated entities required capital levels, in connection with any additional consolidating information to determine if existing equity levels within non-insurance entities are sufficient to address the needs of the group. However, bear in mind that the ORSA is a report of internal management processes and company business plans and strategies involve management judgment and flexible elements. A deeper discussion with management can provide input to understand management’s view of the adequacy of the capital for its business and help analysts better make an appropriate assessment in this area.

In addition to evaluating the group’s and individual entity’s equity/surplus position, analysts may choose to evaluate the group’s stock price and recent trading activity (if publicly traded) and access to additional sources of capital. If the group has been exposed to significant shifts in its stock price, this may be indicative of market concerns regarding the group’s financial position. In addition, the sources of capital for the group may provide insight to sources of strength that can be accessed in a troubled company situation and provide greater stability for the group. However, if the sources of additional capital are questionable, this may indicate broader concerns regarding the group’s strategy and prospective solvency.

Concerns regarding the group’s financial position may indicate, or result from, any one of a number of branded risk exposures including, for example, reputational risk, credit risk, market risk, operational risk, strategic risk and/or legal risk. Therefore, analysts will need to investigate the cause of financial condition concerns to determine the extent of the group’s exposure to branded risks in these areas.

***Procedure #10***assists analysts in evaluating the leverage of the group. There are generally two kinds of leverage: 1) operating leverage; and 2) financing leverage. Procedures related to operating leverage are generally very closely related to those regarding overall capital/equity adequacy/evaluation. This is because by definition, leverage is generally intended to be a relative measure of risk, and for insurers, operating leverage is created every time they generate an insurance policy. As alluded to within Procedure #4, insurance legal entity capital requirements already address such facts. Additionally, insurance legal entity capital requirements already address the other major causes of leverage created from operations, including asset leverage. Asset leverage is created when insurers generate risk within their invested asset portfolios. However, when considering the group’s financial condition and leverage, analysts must consider the extent to which these same types of operating leverage are created by non-insurance affiliates within the group. Consistent with Procedure #8, leverage can be measured by reviewing the ORSA Summary Report. For those entities that do not prepare an ORSA, the regulator should use the information from the Form F, in connection with any additional consolidating information to determine if there is other operating leverage within the group. Financing leverage is more easily analyzed when its source is debt, which is generally very transparent and easily analyzed in terms of its impact or potential impact on a group’s operations. Most public groups that own insurance operations have some level of debt, although most insurance groups do not carry the same level of debt as other financial institutions. This is important because debt by its very nature can generate a significant amount of strain on any entity. This strain can be captured with another simple ratio that should be considered for analysis on any group with debt, the interest coverage ratio (income/interest expense). Similar to the debt/equity ratio, this ratio should be looked at over a period of time (e.g., five years). The following presents different gauges for evaluating this ratio.

|  |  |
| --- | --- |
| Interest Coverage | Benchmarks |
| Extremely strong | 10 to 1 and higher |
| Strong | 5 to 1 |
| Adequate | 4 to 1 |
| Marginal | 3 to 1 |
| Weak | 2 to 1 |
| Extremely weak | 1 to 1 |

The interest coverage ratio can either be expressed as a percentage or as a factor over 1. The interest coverage ratio is a major driver of any corporate entity’s credit rating, and in many cases, it can be as high as 10 to 1 or 1000%. A ratio this high demonstrates that the interest expense is only a small portion of the group’s operations, or a very small strain on the operations. As this number decreases, it suggests that such debt is a strain. It also demonstrates the amount of funds that are not available for stockholder dividends. Therefore, it can also indicate a potential concern for investors, and as a result, the ability to raise additional capital, or at a minimum be subject to more pressure from shareholders. More pressure to generate higher profits often times forces a group to take higher risks, and thus creates more leverage.

Another measure of debt is the debt to equity ratio (debt/equity). There are different ways to measure this ratio, and usually short-term operating debt is excluded because the intent of the ratio is to demonstrate the overall capital position of the group. As the ratio increases, it creates a greater possibility that shareholders would be left with less value in a bankruptcy because stockholders’ claims are subordinate to bondholders. Therefore, similar to other ratios, it is an indicator that it may be difficult for the group to obtain more capital because investors may not be attracted to such groups.

Asset leverage may be demonstrated through the group’s use of derivatives or other complex invested assets. Analysts should work with the group to gain a full understanding of the group’s purpose for using these instruments, as they may be subject to significant shifts that can impact the profitability, financial position and/or liquidity of the group. Derivatives may be held by the company to hedge against existing business risks or to generate income for the group. The purpose of the group’s use of derivatives as well as their effectiveness over an extended period of time should be evaluated and considered. In addition, analysts should consider the impact that any collateral requirements associated with these instruments may have on the group’s financial position and liquidity.

Concerns regarding the group’s leverage position may indicate, or result from, any one of a number of branded risk exposures including, for example, market risk, credit risk, reserving risk, strategic risk, operational risk and reputational risk. Therefore, analysts will need to investigate the cause of leverage concerns to determine the extent of the group’s exposure to branded risks in these areas.

***Procedure #11***assists analysts in evaluating the liquidity of the group. Liquidity is important for any type of organization, but can be more important for others, including certain insurers or types of insurers who may have products or other aspects of their business plan that make them susceptible to immediate withdrawals. Having said that, most insurers’ cash flows are predictable, and it is an area that insurance regulation or business practices already address, including asset/liability matching required for life/annuity writers and the maintenance of very liquid assets. But this procedure requires an analysis that can generally only be conducted through understanding information developed by the group, which may be available through the risk-focused examination or otherwise requested by analysts. Updated information may be best obtained in the periodic meeting with the group as discussed within Section VI.F. Own Risk and Solvency Assessment (ORSA) Procedures, unless the group is more susceptible to immediate withdrawals, in which case analysts may want to obtain/discuss the issue with the group sooner. Generally, issues impacting liquidity that are identified through holding company analysis should be presented within the Liquidity Risk classification of branded risk assessments.

***Procedure #12***assists analysts with identifying if there are any concerns regarding the insurance holding company system’s independent public audit report and other related reports.

***Procedure #13*** assists analysts in identifying any significant risks identified through a review of the IPS obtained for its domestic insurer(s) in the group. As the IPS presents the exposure of individual legal entities to the branded risk classifications, the lead state analyst may be able to identify exposures in the legal entity IPS to assist in conducting holding company analysis and preparing a GPS.

***Procedure #14*** is intended for analysts to identify, evaluate and document during the holding company analysis any material concerns or issues that may have a material impact on the lead state’s domestic insurer(s). This may include, but not limited to: affiliated risks, interdependence within the holding company entities and the insurer, reputational risk, and holding company debt service and other corporate initiatives that impact the lead state’s domestic insurer(s). A summary of the evaluation of the impact of the holding company on the insurer(s) should be included in the appropriate section of the IPS of the insurer(s).

## Additional Procedures on Key Risk Areas – Insurance Holding Company System

The following are available procedures that the lead state may consider performing in analyzing the financial condition of the holding company in part or in total to address current or prospective risks at the discretion of analysts, depending on the level of concern, the area in which the risk was identified, and the degree of interdependence within the holding company entities.

Analysts should use their judgment in determining if any of the following procedures should be applied to the group analysis, where the primary input for determining what is appropriate would depend on sophistication, complexity and overall financial position of the insurance holding company system. Documentation of the results of holding company analysis is in the GPS. After each additional procedure, examples of the branded risk classification(s) that may be associated with the procedure have been referenced in parentheses for use in mapping the procedures to branded risk classifications in the GPS.

1. Review the distribution of the insurance holding company’s invested assets in order to assess the overall asset quality and note any shift in the mix. (CR, MK, LQ, ST)
2. Is the insurer(s) the only member(s) or the primary member(s) of the insurance holding company system that holds cash and invested assets? (CR, MK, LQ, ST)
3. If there are significant investments in non-investment grade bonds, unlisted stocks, mortgages, real estate or other invested assets, review the supporting schedules in greater detail to determine exposure to default, credit, and liquidity risk. (CR, MK, LQ, ST)
4. Review the distribution of the non-invested assets, and assess the overall collectability risk. (CR, LQ)
5. Review the level of goodwill and intangible assets. Determine the level of goodwill and intangible assets relative to the value of equity. (LQ, OP) If significant, summarize the following:
6. Nature of intangible assets
7. Change or trend in goodwill
8. Source of goodwill
9. Impairment of goodwill
10. Assess whether the insurance holding company system is reliant on the insurance operations for any of the following (LQ, ST):
	1. Service debt
	2. Provide financing
	3. Provide revenue streams
	4. Provide services and/or facilities/equipment
	5. Provide guarantees for the benefits of its affiliates
	6. Pledge assets for the benefit of its affiliates
	7. Contingently liable on behalf of its affiliates
11. Has debt shown an increasing pattern? If “yes,” explain any unusual changes. (ST)
12. Determine the level of insurance holding company debt and its relative value-to-equity. (ST, LQ) If significant, summarize the following:
13. Type of debt
14. Terms of the debt covenants
15. Maturity schedules
16. Interest payment schedules
17. Ability to meet payments (e.g., principal and interest)
18. Business purpose
19. Review the insurance holding company system’s commitments and contingent liabilities.
	1. Has the insurance holding company been subject to substantial complaints, class action lawsuits or other litigation or investigations? If "yes”, document the nature and outcome of those matters. (RP, LG)
	2. Are any contingencies expected to have a material impact on the financial condition of the insurance holding company? If so, document whether the holding company estimated the potential costs and established a reserve liability. (RV, LG)
20. Gain an understanding of and document the use of collateral across the holding company system. (ST, LQ).

**Financial Position**

1. Review the insurance holding company’s statement of shareholders’ equity. (ST, OP)
	1. Has equity decreased from the prior year or deteriorated over the past three years? If “yes,” describe the reason(s) for the decline.
	2. Does the net worth of the insurer(s) represent the total net worth or the majority of the net worth of the insurance holding company system?
	3. Is the net worth of the insurance holding company system less than the net worth of the insurer(s)?
2. If publicly traded, review the changes in the insurance holding company’s outstanding common stock. Document and understand the nature and business purpose of the following: new stock issuance; stock repurchase, stock split, short sales, or change in major exchange listings. (ST)
3. Have any insurer(s) of the insurance holding company paid extraordinary dividends upstream? If “yes”:
	1. Assess the nature of the dividends and the amount of dividends paid in relation to prior year surplus to determine the materiality of the insurance company dividends. (OP, ST)
	2. Compare current year extraordinary dividends to prior year dividends to identify any excessive trends in payments. (ST)
4. Review the revenue of the group.
	1. Identify each business segment as identified on the 10K, and review the net income from each. Discuss any notable changes in performance. Are there any business segments that are troubled or pose unusual risks to the insurance holding company system? (PR/UW, ST)
		1. Is the insurer(s) the only or primary revenue producer within the insurance holding company system?
		2. If affiliates produce net income independently of the insurer(s), what percentage of total net income is produced independently of the insurer(s)?
	2. Has the insurance holding company entered into any new lines of business or types of non-insurance business or discontinued any business? (ST, OP)
	3. Has the volume of business increased or decreased significantly over the prior year? If “yes,” explain the reason for the change. (ST, OP)
5. If the insurance holding company group places a significant amount of gross business with reinsurers, assess the following regarding reinsurance agreements:
	1. Risk transfer (CR)
	2. Collateralization to unauthorized reinsurance (CR)
	3. Recent reinsurance transactions (CR, ST)
	4. Credit quality of the reinsurer (CR)
	5. Collectability of recoverables (CR)
	6. Level of surplus aid (ST)

**Profitability**

1. Review investment income and realized capital gains and losses.
	1. Has net investment income increased or decreased significantly over the prior year? If “yes,” explain the reason for the change. (ST, MK)
	2. Document the amount of investment income by sector that is attributed to dividends received from insurance subsidiaries. (ST)
	3. Document the annual investment yield. Has the yield decreased materially over the prior year? If “yes,” explain the reason(s) for the change. (ST, CR, MK)
	4. Review the components of investment income. Has investment income from any asset category changed significantly over the prior year? If “yes,” explain the reason for the change. (ST, CR, MK)
	5. Did the insurance holding company report material realized capital gains/losses? If “yes,” identify the cause of the loss. (ST, CR, MK)
2. Review all other sources of revenue, and note any material changes or weaknesses. (PR/UW, ST)
3. Review expenses.
	1. Have losses increased or decreased substantially over the prior year? If “yes,” explain the reason for the change. (RV)
	2. Have administrative and other expenses increased significantly over the prior year? If “yes,” explain the reason for the change. (OP)
	3. Summarize the loss and expense ratios by line of business for material insurance lines and review the trend. (OP, RV, PR/UW)
4. Has the insurance holding company reported any non-recurring revenues or expenses that materially inflate or reduce earnings? If “yes,” describe the reason for the revenue or expense. (ST, OP)
5. Did the insurance holding company report income or losses from discontinued operations? If “yes,” summarize the nature of those operations and evaluate the earnings from those operations. (ST, OP)
6. Examine cash flow and document if there has been a negative trend in operating, investing, or financing activities over the past year or the past three years. (LQ)
7. Evaluate any downstream payments and explain the reason(s) for the downstream contributions. (LQ)

***Procedures #1 - 3***assist analysts in reviewing the invested assets of the group, noting any significant increases or decreases from the prior reporting period. Identify the most significant concentration of assets, and review the quality distribution of the asset portfolio. Assess the group’s asset risk including credit, default, sector, and/or concentration risk. Include a review of affiliated ownership and any upstream holdings.

***Procedures #4 - 5*** assist analysts in reviewing the non-invested assets of the group, noting any significant increases or decreases from the prior reporting period. Assess the group’s exposure to risk related to high recoverable and receivables and miscellaneous balances. Also, assess the risk related to any miscellaneous assets such as goodwill or other intangible assets.

***Procedures #6 - 10*** assists analysts in reviewing the liabilities of the group, noting any significant increases or decreases from the prior reporting period. Determine if debt exists at the holding company level that may be material and could affect the insurance companies. Debt includes not only long-term debt financed through the issuance of bonds, but also includes other long-term debt granted by a financial institution, as well as short-term vehicles such as commercial paper, repurchase agreements or bank credit facilities. Consider all types of debt arrangements when determining the amount and timing of cash flow payments.

***Procedures #11 - 13*** assist analysts in reviewing the holding company’s overall financial position. Holding company equity is usually reported on a GAAP consolidated basis and represents the retained earnings of the holding company and its ownership share of the equity of its subsidiaries.

The initial focus of insurance holding company analysis centers on the current level of equity. The amount of equity is primary in evaluating the organization’s capacity to write business and its ability to cover unanticipated loss payments and expenses, uncollectible premiums and receivables, and capital losses to invested assets. Analysts should take note of the trend over past reporting periods and the factors that have significantly influenced an increase or decline.

***Procedures #14 - 15*** assist analysts in reviewing the operations of the group. A required component of certain holding company filings, including SEC filings, is the reporting of premium or other non-insurance business segments. The segment disclosure is fairly broad, including information for each segment on net income, total revenue, and total assets. This information is helpful because it provides analysts with information that management considers in evaluating the results of the entire organization. Reporting segments may include:

* **Operational***—*This segment reports the holding company results by categories such as property/casualty, life, bank, non-insurance, or financing and may describe the major operational divisions.
* **Special Sectors**—This segment may identify writing categories or specific lines of business in which an organization specializes. Examples include program business such as artisan contractors.
* **Geographic Concentrations**—Some organizations report their results according to the geographic areas in which the insurance coverage is written or the location of the controlling branch office. This is a fairly common type of reporting for international organizations.
* **Managing General Agents (MGA) and Third-Party Administrators (TPA)**—This segment identifies business produced by MGAs or TPAs. For additional information regarding MGAs and TPAs, refer to Part III. Analyst Reference Guide—Operational Risk.

Analysts should focus on the overall profitability of the segments as well as the stability of earnings over a period of time. To the extent that the segment has reported inconsistent earnings or has reported any losses, analysts may wish to obtain a greater understanding of the causes.

Review the insurer’s overall plan of operations, including mission statement, business plan, financial projections, marketing strategies, investment policy and management’s philosophy.

* **Mission Statement**—Overall focus and philosophy is clearly stated.
* **Business Plan/Financial Projections**—Determine whether the group has a current business plan that includes details on its primary lines of business and growth strategies, geographic focus, and a plan of operation that contains the group’s annual financial and marketing goals. Determine that the group has projected future financial results that appear reasonable based on the variances between plan versus actual results.
* **Marketing Strategies***—*Determine whether the group has in place a viable marketing plan that outlines the methods of marketing its products and services, (e.g., direct marketing, agent force, managing general agents, projected sales growth, geographic strategies, and the development and sales of new products).
* **Investment Policy***—*Determine the methodology of investment practice, (e.g., investment pool, investment manager, and investment consultants). Ensure that the domestic insurer is in compliance with state investment laws. Evaluate management’s philosophy on high-risk securities, affiliated investments (both insurance and non-insurance), and asset and liability matching.
* **Management’s Philosophy**—Gain an understanding of the group’s culture, management’s expertise, and management’s future vision of the group.

Determine whether the reinsurance programs in place support the overall risk profile of the group. Determine whether significant errors exist relating to the accounting for reinsurance. Review reinsurance recoverables for materiality and collectability. Identify whether reinsurance between affiliates within the group involve any unusual shifting of risk from one affiliate to another. Determine whether any of the companies within the group are using reinsurance for fronting purposes, and if so, whether any potential problems exist.

***Procedures #16 - 20*** assist analysts in evaluating the profitability of a holding company, which is measured by its ability to generate earnings and reported on a consolidated basis as net earnings (loss). The earnings statement includes revenues and expenses and the contributing factors to net income. Attention should be focused on special reporting items such as earnings or expenses from discontinued operations. Losses from discontinued operations may represent a significant source of drain on the holding company’s earnings. These operations should be investigated thoroughly to identify the types of operations involved, expected durations, and their impact on holding company earnings.

***Procedures #21 - 22*** assist analysts in reviewing a group’s cash flow. The three primary sections within a holding company cash flow statement include cash from operating, investing, and financing. These categories detail the cash inflows and the expenses associated with the activities of the holding company.

A positive cash flow from operations is essential to the continued financial stability of a holding company. A negative cash flow from operations or a negative cash flow trend could present a drain on assets.

Analysts should assess the level of liquid assets to current liabilities to determine the proper matching of assets to claims obligations. Analysts should also assess the material risk associated with low-quality assets and understated reserves.

**Additional Procedures for U.S. Based IAIGs**

The following general procedures are outlined for the group-wide supervisor of U.S. based IAIGs to use in analyzing the financial condition of the IAIG. Analysts should use their judgment in determining how to apply the procedures to group analysis and how to document the results but should not duplicate efforts if these considerations are already addressed in other holding company analysis, corporate governance or ORSA review procedures. However, as other jurisdictions expect the U.S. group-wide supervisor to address these elements on a regular basis, the analyst should consider the level of documentation to produce in this area. In addition, findings and relevant information from the completion of these procedures should be incorporated into the GPS and shared with other impacted regulators, including supervisory college members, as deemed appropriate.

1. Consider and evaluate the complexity of the IAIG’s group structure and the resulting risks to effective group-wide supervision.
	1. See also procedure 1 of Appendix C in VI.F Group-Wide Supervision – Own Risk and Solvency Assessment (ORSA) Review Template.
2. Consider and evaluate the impact of the complexity of the IAIG’s group structure on the effectiveness of its corporate governance framework.
	1. See also procedures 6-8 in VI.D Group-Wide Supervision – Corporate Governance Disclosure Procedures.
3. Review the IAIG’s capital adequacy and the availability of capital to meet group-wide capital expectations, considering the regulatory capital requirements for each insurance legal entity within the IAIG. Consider information provided in the Group Capital Calculation (GCC) in conducting this review, as well as information provided in Section 3 of the group’s ORSA Summary Report (see related procedures in VI.F). When applicable and available, review group capital reporting such as the Aggregation Method or the Reference Insurance Capital Standard (ICS) as reported to the IAIS to prepare for discussions with international supervisors participating in a supervisory college. See also VI.J for guidance regarding discussions of group capital during IAIG supervisory college sessions.
	1. Recognize and assess the effect of potential legal, regulatory, and operational impediments to the IAIG’s ability to transfer capital and assets within the group, including on a cross-border basis.
4. If significant concerns are identified related to the IAIG’s current or prospective solvency, whether due to legal entity or group-wide risks, determine whether additional supervisory measures (as outlined in Model #440) should be implemented to obtain the information necessary and appropriate to assess enterprise risk and 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.
	1. Coordinate with other involved supervisors (including the Crisis Management Group, if appropriate) before requiring a specific preventive or corrective measure if that measure will have a material effect on the supervision of the IAIG, or on the supervision of an insurance legal entity within the IAIG, unless exceptional circumstances preclude such coordination.
	2. Coordinate with other involved supervisors (including the Crisis Management Group, if appropriate) if the head of the IAIG, or an insurance legal entity within the IAIG, fails to take action to address the group-wide supervisor’s, or other involved supervisors, identified concerns.
		1. If an insurance legal entity within the IAIG fails to take preventive or corrective measures, as required by the involved supervisor, inform the head of the IAIG and coordinate with other involved supervisors and the head of the IAIG to address.

The following procedures (#5 through #11) are outlined for the group-wide supervisor to utilize in assessing various elements of an IAIG’s internal control framework, including specific functions, strategies, and policies. As many of these assessments and considerations are detailed in nature and may be more effectively assessed during group examination efforts at the IAIG, the analyst is generally encouraged to collaborate with and place reliance on the examination function in this area, where appropriate. In addition, the analyst should not duplicate efforts if these considerations are already addressed in other holding company analysis, corporate governance or ORSA review procedures.

1. Review the results of the most recent group examination efforts at the IAIG to understand the internal control assessment performed and determine if any follow-up is necessary to address concerns or recommendations.
	1. Consider the extent to which the examination addressed controls and processes related to the outsourcing of critical functions including:
		1. Policies and contractual requirements; due diligence prior to entering new outsourcing agreements; ongoing risk assessment and oversight of outsourced functions; and contingency plans for emergencies and service disruptions.
	2. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group’s ability to address:
		1. Diversity and geographical reach of activities; intra-group transactions; interconnectedness of entities; and applicable laws and regulations of the jurisdictions in which the IAIG operates.
2. Review the results of the most recent group examination efforts at the IAIG to understand the compliance function assessment performed and determine if any follow-up is necessary to address concerns or recommendations.
	1. Consider the extent to which the examination addressed the compliance function’s ability to ensure compliance with relevant legislation and supervisory requirements applicable at both the group and material legal entity level.
	2. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group’s ability to maintain an effective compliance function.
3. Review the results of the most recent group examination efforts at the IAIG to understand the actuarial function assessment performed and determine if any follow-up is necessary to address concerns or recommendations.
	1. Consider the extent to which the examination addressed the actuarial function’s ability to provide oversight of the groups actuarial activities, functions and risks emanating from insurance legal entities within the IAIG including:
		1. Policies and controls; actuarial concerns at the group or legal-entity level; current and prospective solvency position; adequacy of reinsurance arrangements; actuarial-related risk modelling in ORSA and use of internal models; coordination with legal entity actuarial functions; and providing independent advice and regular reporting to the IAIG Board or one of its committees.
	2. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group’s ability to maintain an effective actuarial function.
4. Review the results of the most recent group examination efforts at the IAIG to understand the internal audit function assessment performed and determine if any follow-up is necessary to address concerns or recommendations.
	1. Consider the extent to which the examination addressed the internal audit function’s ability to provide independent assessment and assurance regarding:
		1. Policies, processes, and controls; preservation and protection of assets and prevention of fraud; reliability, integrity, and completeness of accounting, financial, management, IT, and risk reporting information; capacity and adaptability of IT systems to provide accurate and timely information to the Board and Senior Management; and design and operational effectiveness of risk management and internal controls systems.
	2. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group’s ability to maintain an effective internal audit function.
5. Review the results of the most recent group examination efforts at the IAIG to understand the review performed of the investment policy (or similar policies and practices) and determine if any follow-up is necessary to address concerns or recommendations.
	1. Consider the extent to which the examination addressed whether the investment policies and practices incorporate the following criteria:
		1. Guidelines/limits for investment quality; guidelines/limits to ensure proper diversification and mitigate asset concentration risk; a counterparty risk appetite statement to limit credit risk from a single counterparty; guidelines/limits for intra-group investments; tracking and monitoring of investments to ensure compliance with policies; guidelines to avoid placing undue reliance on assessments by credit rating agencies for investment selection and risk management process.
	2. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group’s ability to maintain effective investment policies and practices.
6. Review the results of the most recent group examination efforts at the IAIG to understand the review performed of the claims management policy (or similar policies and practices) and determine if any follow-up is necessary to address concerns or recommendations.
	1. Consider the extent to which the examination addressed whether the claims management policies and practices incorporate the following criteria:
		1. Guidelines for claims estimation and settlement; feedback into the group’s underwriting policy and reinsurance strategy; and claims data reporting for group analysis.
	2. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group’s ability to maintain effective claims management policies and practices.
7. Review the results of the most recent group examination efforts at the IAIG to understand the review performed on the strategy for reinsurance and other forms of risk transfer and determine if any follow-up is necessary to address concerns or recommendations.
	1. Consider the extent to which the examination addressed whether the following issues are appropriately addressed:
		1. Interaction with the group’s risk and capital management strategies; achievement of underwriting risk appetite, both gross and net; appetite for and practices in place to address reinsurer credit risk; policies and practices around legal entity reinsurance arrangements and group aggregation; procedures for managing reinsurance recoverables; intra-group reinsurance strategy and practices; use of alternative risk transfer; and effectiveness of risk transfer in adverse circumstances.
	2. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group’s ability to maintain effective strategies for reinsurance and other forms of risk transfer.

***IAIG Procedures #1 and 2*** assists the analyst in evaluating the impact of the group’s complexity on the effectiveness of group supervision and the IAIG’s governance processes. As many IAIGs have multiple levels of holding companies, various legal entities incorporated in various jurisdictions, and a significant number of shared-services and inter-connectedness, it is important for the analyst to consider the impact of this complexity on the group’s risks and corporate governance activities.

**IAIG *Procedure* #3** assists the analyst in assessing the group-wide capital position of the IAIG, as well as any potential issues related to capital fungibility. The focus of this review should be utilizing information provided in the GCC and ORSA Summary Report to assess the IAIG’s capital position. For additional guidance on utilizing information provided in the ORSA Summary Report to assess group capital, see supporting guidance and review procedures at VI.E and VI.F. Also, when applicable, this procedure assists the analyst in understanding the ICS if calculated and provided by the IAIG or other reporting such as the Aggregation Method, during the ICS Monitoring Period. Understanding the group capital information reported to the IAIS can assist the analyst in communicating with international supervisors and participating in discussions on the ICS at supervisory college sessions (see additional guidance at VI.J). The IAIS’ ICS Monitoring Period runs from 2020 through the end of 2024 and is intended to assess the effectiveness of the newly developed standard. A main objective of the Monitoring Period is to receive feedback from insurance regulators on the Reference ICS and, if applicable, feedback on additional reporting. During the Monitoring Period, the ICS is not designed for the purpose of supervisory intervention on the basis of capital adequacy but may assist supervisors in ongoing risk assessment. During the Monitoring Period, U.S. IAIGs may report an alternative group capital calculation to the IAIS known as the Aggregation Method, which is expected to be similar to the GCC. The Aggregation Method will be subject to a Comparability Assessment and by the end of 2024, will be deemed to produce, or not produce, comparable outcomes to the ICS.

***IAIG Procedure #4*** assists the analyst in determining whether additional supervisory measures should be taken in response to risks or concerns identified during the holding company analysis for the IAIG. As the group-wide supervisor assumes responsibility for overseeing the overall solvency monitoring for the group, it is important that risks or issues requiring supervisory intervention are identified and addressed in a timely manner through coordination with other involved supervisors.

***IAIG Procedure #5*** assists the analyst in coordinating with the examination function to evaluate control processes and functions. As discussed in procedures 1 and 2, the structure and complexity of an IAIG can lead to various challenges, including challenges in effectively organizing and coordinating control functions across holding companies, legal entities, and jurisdictions. However, as evaluation of control processes is generally performed during on-site examination efforts, the analyst should review and follow-up on relevant results of the most recent examination and consider whether any recent changes in group structure or strategy have impacted control functions.

***IAIG Procedure #6*** assists the analyst in coordinating with the examination function to evaluate the compliance function and how it ensures compliance with regulatory requirements at both the group and legal entity level.

***IAIG Procedure #7*** assists the analyst in in coordinating with the examination function to evaluate the actuarial function and its role in providing oversight of the group-wide actuarial activities, functions and risks emanating from insurance legal entities within the IAIG.

***IAIG Procedure #8*** assists the analyst in coordinating with the examination function to evaluate the internal audit function and its role in providing independent assessment and assurance regarding internal controls, systems, and risk management practices.

***IAIG Procedure #9*** assists the analyst in coordinating with the examination function to evaluate investment policies and practices, including whether they set criteria for investment quality and address the selection of, and exposure to, low-quality investments or investments whose security is difficult to assess.

***IAIG Procedure #10*** assists the analyst in coordinating with the examination function to evaluate claims management policies and practices, including whether they include procedures for: claims estimation and settlement; feedback into the group’s underwriting policy and reinsurance strategy; and claims data reporting for group analysis.

***IAIG Procedure #11*** assists the analyst in coordinating with the examination function to evaluate the strategy for reinsurance and other forms of risk transfer, including whether the strategy is consistent with risk and capital management strategies, in line with underwriting risk appetites, and addresses credit risk with reinsurance counterparties.

**Contents of the Group Profile Summary (GPS)**

The following analysis work should be documented in the GPS:

* **Holding Company System Summary** – Include an understanding the holding company system by discussing the structure and business operations, including any significant recent events, changes in structure, key business segments, international activity, rating organization changes/actions and key entities/persons within the insurance holding company system. Include discussion of new and material affiliated transactions/relationships, management and third-party agreements and non-insurance agreements as well as the impact of these agreements to the group/insurers.
* **Corporate Governance Summary** – Present a summary of the group’s overall corporate governance structure and an overall assessment for the holding company system.
* **Enterprise Risk Management Summary** – Present a summary and assessment of the enterprise risk management function in place at the holding company system, as well as a discussion of ORSA Summary Report filing/review status (if applicable).
* **Branded Risk Assessments** – Include a summary assessment of the group’s exposure to branded risk classifications, including prospective risks, the financial strength of the insurance holding company system, including finanical position, liquidity, leverage, and profitability. Such documentation should include summarizing key risks noted within the IPSs from respective domestic regulators within the group.
* **Overall Conclusion** – Present an overall conclusion as to the group’s financial condition, including key strengths and weaknesses or material concerns that regulators may have with the group’s operations going forward.
* **Supervisory Plan** – Present any specifically identified items that require further action and/or monitoring by analysts or specific testing by the examiner.
* **Other Functional Financial Regulators/Supervisors** – Where appropriate, it may be necessary to document an understanding of other functional financial regulators/supervisors involved with legal entities within the insurance holding company system, including international regulators/supervisors and U.S. federal banking regulators.