

REVISIONS as adopted 11-10-15 by the RTAWG

*Receivers Handbook for Insurance Company Insolvencies*  
Chapter 1 – Takeover & Administration

In order to effectively utilize the following pre-receivership procedures, it is recommended to first differentiate between a stand-alone entity and a group. To make the best judgement, evaluate the type of the entity and choose the applicable components of the checklist.

Checklist 1—Pre-Takeover	Project Assigned To	Date Completed	Completed By	Notes
<u>INITIAL STEPS</u>				
Assign takeover responsibilities for each of the insurer’s departments/functional areas to an appropriate representative of the Receiver’s team and distribute checklists accordingly.				
Undertake a thorough review of available information pertaining to the insurer, its operations and a description of core lines of business to obtain a detailed understanding of the insurer to assist the receiver in planning an efficient and effective takeover.				
Review commercial publication reports such as A.M. Best, Dunn & Bradstreet, Standard & Poor’s, and Moody’s in order to obtain an overview of the insurer.				
<u>REGULATORS AND SUPERVISORS</u>				
<u>Determine the identities and contact information of all relevant supervisory authorities. (i.e. from most current analysis, examination or supervisory college information)</u>				
Secure contact information for the person(s) at the Department of Insurance responsible for <u>oversight</u> of this company.				
Receiver’s staff should meet with the Department of Insurance to obtain background information and specific issues with the insurer.				
<u>COMPANY INFORMATION &amp; OVERVIEW</u>				
Obtain overview of the insurer’s situation, including type of proceeding and timing of takeover.				

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Obtain from the Department of Insurance <ul style="list-style-type: none"> <li>• <u>Its</u> most recent examination work papers,</li> <li>• <u>The</u> insurer’s most recent annual and quarterly statements,</li> <li>• <u>A</u>udited financial statements with auditor’s opinion,</li> <li>• <u>A</u>ctuarial certifications,</li> <li>• <u>A</u>ny SEC filings,</li> <li>• <u>T</u>ax returns and any other financial statements;<sup>3</sup></li> <li>• <u>Holding Company Analysis</u>,</li> <li>• <u>Most recent Insurer Profile Summary</u>,</li> <li>• <u>Most recent Holding Company Registration Statement and related filing (Form B, Form F, etc.)</u></li> </ul>				
Obtain copies of any other insurer documents held by the Department such as insurer charter, by-laws, Form A’s and other applications, etc.				
Obtain list of management, including officers and directors, along with biographical affidavits on file with the Department.				

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<p>Obtain or prepare an organization chart of the insurer and its subsidiaries and affiliates. A description of the company's organizational structure, including:</p> <p>1) A hierarchical list of all material entities within the company's organization (including legal entities that directly or indirectly hold such material entities) that identifies:</p> <ul style="list-style-type: none"> <li>a) <u>The holder of each legal entity and foreign office.</u></li> <li>b) <u>Differentiate between stand-alone and group</u></li> <li>c) <u>The location, jurisdiction of incorporation, licensing, and key management associated with each material legal entity and foreign office identified.</u></li> <li>d) <u>Whether the company utilizes any third party vendors (affiliated or unaffiliated )</u> <ul style="list-style-type: none"> <li>• <u>Investment manager.</u></li> <li>• <u>Managing General Agents (MGA), Third Party Administrators (TPA), Individual Practice Associations (IPA)</u></li> <li>• <u>Reinsurance intermediary</u></li> </ul> </li> <li>e) <u>Working relationships with</u> <ul style="list-style-type: none"> <li>• <u>Professional Employer Organizations (PEO)</u></li> <li>• <u>Administrative Services Organizations (ASO)</u></li> </ul> </li> <li>f) <u>Identify if a premium finance company is being utilized for any material contracts, such as the D&amp;O policy.</u></li> </ul> <p>†2) <u>A mapping of the company's critical operations and core business lines, including material asset holdings and liabilities related to such critical operations and core lines of business, to material entities.</u></p>				

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<u>Obtain description and review foreign operations.</u>				
<u>Obtain description of the corporate governance structure and processes related to resolution planning.</u>				
If possible, obtain all of the above for any affiliated companies that might be affected by the takeover such as parent, affiliates and/or subsidiaries.				
<ul style="list-style-type: none"> <li>● <u>Obtain a detailed inventory and description of the key management information systems and applications, including those for risk management, policy and claims administration, reinsurance, and financial and regulatory accounting, used by the company and its material entities.</u></li> <li>● <u>Draft a description of each system or application provided to identify the legal owner or licensor, the use or function of the system or application, service level agreements related thereto, any software and system licenses, and any intellectual property associated therewith.</u></li> <li>● <u>Obtain detail on the company's system back-up procedures. Include information on the following:</u> <ul style="list-style-type: none"> <li>○ <u>Frequency of back-up and software/methods used for backup process.</u></li> <li>○ <u>Location of any off-site storage and frequency of back-up restored off-site.</u></li> <li>○ <u>Date of oldest back-up.</u></li> <li>○ <u>Date of most recent back-up.</u></li> </ul> </li> </ul>				
<u>Obtain an identification of the scope, content, and frequency of the key internal reports that senior management uses to monitor the financial health, risks, and operations of the company, its material entities, critical operations and core lines of business.</u>				

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<p><u>Review -the processes the company employs for:</u></p> <ol style="list-style-type: none"> <li>1) <u>Determining the current market values and marketability of the core lines of business, critical operations, and material asset holdings of the company.</u></li> <li>2) <u>Assessing the feasibility of the company's plans for executing any sales, divestitures, restructurings, recapitalizations, or other similar actions; and</u></li> <li>3) <u>Assessing the impact of any sales, divestitures, restructurings, recapitalizations, or other similar actions on the value, funding, and operations of the company, its material entities, critical operations and core business lines.</u></li> </ol>				
<p><u>Obtain a description of the process for the appropriate supervisory or regulatory agencies to access the management information systems and applications.</u></p>				
<p><u>Obtain a mapping of the key management information system/application to the material entities, critical operations and core lines of business of the company that use or rely on them.</u></p>				
<p><u>Obtain information on remote access to company management information systems (e.g., Who has access? How is remote access implemented and managed?)</u></p>				
<p><u>Obtain information regarding location of offices and storage facilities, staffing and how to deal with satellite offices.</u></p>				
<p><u>Obtain information on office layouts and security issues.</u></p>				
<p><u>Pre-inspect premises if possible.</u></p>				

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Obtain information on related party transactions and agreements, including leases, service agreements, agreements containing collateral calls, and ownership of shared assets, including personnel.				
Obtain information on items that will affect immediate operational needs such as leases (including those on computers), telephones, Web sites, supply vendors and key personnel.				
Obtain information on agents, TPAs, administrators, MGAs, intermediaries and reinsurers, including locations and contacts.				
Obtain information on auditors/accountants and attorneys.				
<u>Request information relating to payroll and employee benefits. Is payroll handled internally or by a payroll provider? How frequently is payroll made? If it is handled by a payroll provider, obtain the name of the provider. What types of benefits does the company provide to its employees (401K, health insurance, etc.)?</u>				
Identify banking relationships and obtain information on bank accounts, financial institutions and securities custodians (including Federal Home Loan Bank agreements, if applicable). <u>This information should include the bank contact's name and title, the branch address, and the contact's information (phone, fax, email address, etc.).</u>				
Obtain information on licenses in other states, statutory deposits, special deposits and communications with other states.				
Determine any possible guaranty/fund association involvement. Contact NCIGF and/or NOLHGA if insurer was licensed in multiple states. <u>If guaranty funds/associations are involved, advanced planning for the transition of claims data and file information is essential. Please see Chapter 6 of the Receivers Handbook for additional information.</u>				

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<u>FINANCIAL INFORMATION</u>				
Review and analyze insurer’s annual statement balance sheet by line item to obtain as much information as possible about the assets and liabilities, including any subsequent events, potential problems/unusual circumstances and special items in the Examiner’s report for each line item.				
<u>Obtain or develop an unconsolidated balance sheet for the company and a consolidating schedule for all material entities that are subject to consolidation by the company.</u> <u>Also include request from most recent exam, CPA workpapers or recent analysis.</u>				
<u>Obtain a description of the material components of the liabilities of the company, its material entities, critical operations and core lines of business that separately identifies types and amounts of short-term and long-term liabilities, and secured, unsecured, and subordinated liabilities.</u>				
<u>Request claim information for the company, to include averages of count of claims/year, total amount in claim payments/year, and funding mechanism(s) for claim payments.</u>				
<u>Review financial information regarding the company’s capital position and major sources of capital and funding.</u>				
<u>Review description of funding, liquidity and capital needs of, and resources available to, the company and its material entities, which shall be mapped to its critical operations and core business lines.</u>				

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<u>Review any material off-balance sheet exposures (including guarantees and contractual obligations) of the company and its material entities.</u>				
Review notes and interrogatories to financial statements.				
<u>DERIVATIVES AND COUNTERPARTY EXPOSURE</u>				
<u>Obtain information and describe the practices of the company, its material entities and its core lines of business related to the booking of trading of derivative activities.</u>				
<u>Identify material hedges of the company, its material entities, and its core lines of business related to trading and derivatives activities, including a mapping to legal entity.</u>				
<u>Review the hedging strategies of the company.</u>				
<u>Review the process undertaken by the company to establish exposure limits.</u>				
<u>Identify the major counterparties of the company and describe the interconnections, interdependencies and relationships with such major counterparties.</u>				
<u>Analyze whether the failure of each major counterparty would likely have an adverse impact on or results in the material financial distress or failure of the company.</u>				
<u>Identify each trading, payment, clearing, or settlement system of which the company, directly or indirectly, is a member and on which the company conducts a material number or value amount of trades or transactions. Map membership in each such system to the company's material entities, critical operations and core lines of business.</u>				

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<p><u>Identify the processes used by the company to:</u></p> <ol style="list-style-type: none"> <li>1) Determine to whom the company has pledged collateral;</li> <li>2) <u>Identify the person or entity that holds such collateral; and</u></li> <li>3) <u>Identify the jurisdiction in which the collateral is located, and, if different, the jurisdiction in which the security interest in the collateral is enforceable against the company.</u></li> </ol>				
<u>NEXT STEPS</u>				
Review condition and location of insurer's books and records.				
Coordinate with counsel to assist in preparation of the petition and order and determine parties to be served.				
Determine method(s) of notification of various parties in other locations, e.g., financial institutions, securities custodians, etc.				
Reconfirm Receivership team assignments, and determine Receivership team needs in other locations and logistics of getting team members to assigned locations.				
If possible arrange for a meeting with management to discuss ramifications and procedures.				
Prepare agenda for meeting with insurer personnel (or memo for distribution to personnel) that discusses ramifications of order and procedures to be implemented.				
Prepare phone scripts for customer service representatives.				
Prepare information to be posted on Web sites.				
Prepare notices for posting on office doors as may be required.				

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Determine if security service is required and hire as needed.				
Determine frequency of Receiver team meetings after takeover and method of communicating issues to team/Receiver and the decision-making process.				
Contact applicable guaranty association(s) as early as possible.				

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