UNITED STATES

SELF-ASSESSMENT OF OBSERVANCE WITH INSURANCE CORE PRINCIPLES

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Prepared By

Federal Insurance Office (FIO), National Association of Insurance Commissioners (NAIC), Federal Reserve Board (FRB)

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INTRODUCTION

Jurisdiction:	United States of America
Authority(ies):	Federal Insurance Office; Board of Governors of the Federal Reserve System; and insurance regulators for the 50 states, the District of Columbia, and 5 territories
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1. This self-assessment questionnaire has been prepared with reference to the *Insurance Core Principles, Standards, Guidance and Assessment Methodology*, which was issued by the IAIS on October 1, 2011 and amended in October 2013 (ICP Materials). Please refer to pages 10 and 14 of the ICP Materials for a description of the assessment methodology. An additional country-specific questionnaire, designed to supplement the self-assessment, will be sent in due course.

INTRODUCTORY STATEMENT

The insurance industry is a significant component of the U.S. economy. Over 900 licensed Life/Health (L/H) insurance entities and over 2,700 licensed Property/Casualty (P/C) insurance entities operate in the United States, and those figures exclude insurers licensed solely to write health insurance as well as other specialized firms such as title insurers. Some insurers based or doing business in the United States write a limited number of lines of business, while others are comprehensive providers. These insurance firms also vary with respect to scope, with firms having different levels of local, regional, national, and/or international business.

In 2013, net written premiums for the L/H sector were approximately $583 billion and net written premiums for the P/C sector were approximately $481 billion. As of December 31, 2013, the L/H sector held approximately $6.0 trillion of total assets (including $2.3 trillion held in separate accounts), while the P/C sector held approximately $1.7 trillion of total assets.[1]

The regulation of insurance in the United States has a long, established history. The first insurance company founded in the United States was established in 1752. Since the mid-nineteenth century, the insurance sector has been regulated and overseen by a state-based regulatory framework—not a federal one. Since the last FSAP process, however, the U.S. system of insurance regulation, supervision, and oversight has evolved. Building on the established, state-based regulatory framework, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or DFA), passed in 2010, created an increased role for the federal government in the insurance sector. The U.S. system of insurance regulation now provides complementary, tiered regulation, supervision, and oversight by state and federal agencies.

The business of insurance continues to be regulated primarily at the state level in the United States. Each state's legislature enacts insurance laws and empowers agencies within that state with the implementation and enforcement of those laws. The National Association of Insurance Commissioners (NAIC) is the standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate their regulatory oversight.

A standard legal framework for state insurance regulation has been created over many years through the development and adoption of NAIC model laws, regulations, and other NAIC requirements, among other inputs. Although model laws require state legislative enactment to become effective, a core set of solvency regulation standards are effectively obligatory by operation of the NAIC Accreditation Program. The NAIC Accreditation Program was established to develop and maintain standards to promote sound insurance company financial

[1] These data were collected by FIO from SNL Financial.

solvency regulation. The NAIC Accreditation Program requires a state insurance department to demonstrate that they meet a wide range of legal, financial, functional, and organizational standards as determined by a committee of their peers. The NAIC Accreditation Program emphasizes: (1) solvency laws and regulations to protect consumers, including risk-based capital requirements; (2) financial analysis and examination processes based on priority status of insurers; (3) cooperation and information sharing with other state, federal, or foreign regulatory officials; (4) action when insurance companies are identified as financially troubled or potentially financially troubled; (5) organizational and personnel practices; and (6) processes for company licensing and review of proposed changes in control. All fifty states, the District of Columbia, and Puerto Rico are currently accredited.

At the federal level, the Board of Governors of the Federal Reserve System (FRB or Federal Reserve), the Federal Insurance Office (FIO) within the U.S. Department of the Treasury (Treasury), and the Financial Stability Oversight Council (FSOC) are active in the U.S. insurance sector.

The Federal Reserve is the primary, consolidated federal regulator of bank holding companies (BHCs), savings and loan holding companies (SLHCs), certain foreign banking organizations with U.S. operations (FBOs), and nonbank financial companies the FSOC has determined should be subject to supervision by the FRB and enhanced prudential standards (nonbank financial companies). In some instances, those supervised entities are holding companies of insurers. The FRB regulates their operations, activities, and capital to varying degrees, among other things.

The FRB's authority to supervise these entities, including conducting examinations, is provided in the Bank Holding Company Act of 1956 (BHC Act), Home Owners' Loan Act (HOLA), International Banking Act, and Dodd-Frank Act, among others. Generally, the objective of FRB regulation and supervision of BHCs, SLHCs, and FBOs is to ensure that companies that control depository institutions operate in a safe and sound manner and in compliance with banking laws. The objective of FRB regulation and supervision of a nonbank financial company is to ensure that the company operates in a safe and sound manner and to prevent or mitigate risks to U.S. financial stability that could arise from the material financial distress or activities of a nonbank financial company.

FIO was created by the Dodd-Frank Act. *See* 31 U.S.C. § 313(a). FIO has the authority "to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the United States financial system" and "to monitor the extent to which traditionally underserved communities and consumers, minorities . . . and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance." 31 U.S.C. § 313(c)(1)(A)-(B). FIO has authorities regarding financial stability through its work on and in support of the FSOC (discussed below), and through its representation of the United States at the International Association of Insurance Supervisors (IAIS). FIO's authority also extends to prudential aspects of international insurance matters: FIO is authorized "to

coordinate Federal efforts and develop Federal policy on prudential aspects of international insurance matters, including representing the United States, as appropriate, in the IAIS" and "to consult with the States (including State insurance regulators) regarding . . . prudential insurance matters of international importance." 31 U.S.C. §§ 313(c)(1)(E) and (G).

The FSOC was established by the Dodd-Frank Act and is charged with: (1) identifying risks to the financial stability of the United States that could result from the material financial distress or failure, or ongoing activities, of large, interconnected bank holding companies or nonbank financial companies, or that could arise outside the financial services marketplace; (2) promoting market discipline by eliminating expectations that the U.S. government will shield shareholders, creditors, and counterparties from losses in the event of failure; and (3) responding to emerging threats to the stability of the U.S. financial sector. There are ten voting members and five non-voting members of the FSOC. The Chair of the FRB serves as a voting member of the FSOC and the Director of FIO serves as a nonvoting member. The FSOC also includes an independent member with insurance expertise who is appointed by the President and confirmed by the Senate for a six-year term (as a voting member), and a state insurance commissioner designated by the state insurance commissioners for a two-year term (as a nonvoting member). FSOC may designate nonbank financial companies, including insurers or their holding companies, for enhanced prudential oversight and supervision by the FRB. The FSOC itself does not directly supervise any insurance company (or other commercial entities).

On the international front, all 50 states, the District of Columbia, and five U.S. territories, NAIC, FRB, and FIO are members of the IAIS, holding leadership roles and supporting the IAIS's major standard setting initiatives by working with fellow regulators from around the world to improve standards of supervision for cross-border insurers, identifying systemic risk in the insurance sector, and setting international best practices.

This Self-Evaluation provides a combined response by U.S. federal and state authorities (the states through the NAIC, FIO, and the FRB) as to the procedures, processes, and implementation aspects of the matters that are the subject of this FSAP. This introduction and the overview of the *Preconditions for Effective Insurance Supervision* are submitted jointly. Unless otherwise indicated, each authority has submitted an individual response herein to the ICPs and standards. Some ICPs and standards do not apply to all of the authorities; for such ICPs and standards, only the applicable authority or authorities have submitted a response.

PRECONDITIONS FOR EFFECTIVE INSURANCE SUPERVISION

Sound and sustainable macroeconomic and financial sector policies

The goals of monetary policy are spelled out in the Federal Reserve Act, which specifies that the FRB and the Federal Open Market Committee (FOMC) should seek "to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates." Stable prices in the long run as well as moderate long-term interest rates are preconditions for maximum sustainable output growth and employment. When prices are stable and believed likely to remain so, the prices of goods, services, materials, and labor are undistorted by inflation and serve as clearer signals and guides to the efficient allocation of resources and thus contribute to higher standards of living. Moreover, stable prices foster saving and capital formation, because when the risk of erosion of asset values resulting from inflation—and the need to guard against such losses—are minimized, households are encouraged to save more and businesses are encouraged to invest more.

Beyond influencing the level of prices and the level of output in the near term, the FRB can contribute to financial stability and better economic performance by acting to contain certain financial disruptions and to prevent their spread outside the financial sector. As noted in the most recent Monetary Policy Report to the U.S. Congress, the FRB stated:

> With the economic recovery continuing, most Committee members judged by the time of the December 2013 FOMC meeting that they had seen meaningful, sustainable improvement in economic and labor market conditions since the beginning of the current asset purchase program, even while recognizing that the unemployment rate remained elevated and that inflation was running noticeably below the Committee's 2 percent longer-run objective.

Monetary Policy Report to the U.S. Congress (February 11, 2014), available at http://www.federalreserve.gov/monetarypolicy/mpr_20140211_summary.htm.

The U.S. financial market primarily consists of three sectors: (1) insurance; (2) banking; and (3) securities. As noted in the Introductory Statement, the insurance sector is primarily regulated by the states and the FRB, with FIO having a complementary monitoring and international role. The banking sector is regulated at the federal level by the FRB, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration. The U.S. financial regulatory structure is a system of a variety of federal and state regulators as well as self-regulatory organizations (SROs). Financial products or activities are generally regulated according to their function, no matter who offers the product or participates in the activity, whether considered in the insurance, banking, or securities sectors. At the federal level, the securities industry is regulated under a combination of self-regulation subject to oversight by the Securities and Exchange Commission (SEC). The SEC oversees the securities industry SROs, including securities exchanges, clearing

agencies, and the Financial Industry Regulatory Authority, and the securities industry as a whole, and is responsible for administering federal securities laws and developing regulations for the industry. In addition to these regulatory bodies, the Commodity Futures Trading Commission (CFTC) polices the markets for futures, options on futures, and swaps, and works to ensure the protection of customer funds, including those held by certain financial institutions operating in those markets. In this regard, the CFTC oversees designated contract markets, swap execution facilities, derivative clearing organizations, swap data repositories, swap dealers, major swap participants, futures commission merchants, commodity pool operators, and other intermediaries.

The U.S. financial regulatory framework was enhanced by the enactment of the Dodd-Frank Act, the implementation of which included further strengthening of supervision, capital, and risk-management standards for financial companies and financial market utilities; procedures for periodic supervisory and company-run stress tests; rule-makings related to the orderly liquidation authority; regulation of the derivatives markets to reduce risk and increase transparency; new standards to protect mortgage borrowers and reduce risks in the mortgage market; and other measures to enhance consumer and investor protection.

A well-developed public infrastructure (including accounting, auditing and actuarial standards)

The United States has a well-documented, well-developed public infrastructure, with authorities at both the federal and state levels, as well as an efficient and independent judiciary at both the state and federal levels.

The United States also has a well-established infrastructure for financial reporting by market participants, including insurers. For general-purpose reporting to investors and creditors, U.S. firms follow Generally Accepted Accounting Principles (GAAP) as promulgated by the Financial Accounting Standards Board (FASB). For firms whose shares are traded on exchanges, the SEC provides additional reporting requirements, oversight and enforcement. In 2002, the Sarbanes-Oxley Act created the Public Company Accounting Oversight Board (PCAOB), which establishes auditing and related professional practice standards for registered public accounting firms to follow in the preparation and issuance of audit reports. The PCAOB has standards in place for auditing, attestation, quality control, ethics, and independence.

Insurance legal entity subsidiaries of insurance holding companies are also subject to additional financial reporting requirements by state insurance authorities. Such entities are generally required to file detailed annual and quarterly financial statements with supporting schedules and disclosures, which are made available to the public. Such financial statements are generally prepared on the basis of statutory accounting principles (SAP) as promulgated by the NAIC's Accounting Practices and Procedures Manual (APPM). SAP supports prudential oversight by state regulators with a focus on solvency. Insurance entities are also generally required to file

annual independent audit reports on their SAP-basis financial statements with state insurance regulators.

State insurance regulations require insurers to have an "appointed actuary," who must meet regulatory requirements as a "Qualified Actuary." To be a Qualified Actuary, the individual must meet specific education, experience, and continuing education requirements, as well as various conditions established under the NAIC's Model Actuarial Opinion and Memorandum Regulation. The actuary issues an opinion as a public document that is submitted to the state supervisors, the NAIC, and to the company's Board of Directors. In addition to the public actuarial opinion, the actuary must prepare an Actuarial Memorandum and a Regulatory Asset Adequacy Issues Summary (for life insurance) and an Actuarial Report and Summary (for P&C insurance).

Effective market discipline in the financial sector

In the United States, institutions and marketplaces provide platforms for allowing pricing mechanisms to allocate scarce resources so willing buyers can be matched with willing sellers informed by disclosure regarding financial products. A diversified and large number of U.S. financial institutions comprise a competitive marketplace. Disclosure of financial information by institutions is mandated by rules emanating from prudential regulators such as the SEC, the CFTC, and prudential regulators such as the federal banking agencies, and state insurance departments. Publicly-traded companies are required under federal securities laws to provide annual, quarterly, and periodic disclosures of material information. As noted in the response to Precondition (b), insurers have additional requirements to complete regular disclosures to state insurance regulators. Forward looking market signals are a key aspect of market discipline provided by the financial markets. In addition, the proper pricing of default risk, typically through credit default swaps and other market based products, is now an essential component of market discipline.

In the insurance sector, state insurance regulators took steps to implement the advice of the Financial Stability Board related to reduction of the mechanistic reliance on credit rating agency ratings by engaging two risk modeling firms to assist with evaluation of the mortgage-backed securities (MBS) held by insurers. To ensure further market discipline, insurers writing business in the United States must submit each MBS for a regulatory designation that feeds into the U.S. Risk-Based Capital (RBC) evaluation framework. This approach penalizes the insurer for holding more risky assets. In addition, the NAIC Securities Valuation Office (SVO) performs credit analysis on issues not rated by the credit rating agencies (e.g., private placements) and assigns designations for regulatory use.

Mechanisms for providing an appropriate level of systemic protection (or public safety net)

As noted in the response to Precondition (a), the Dodd-Frank Act includes a number of provisions to strengthen the financial stability of the United States. Among these measures is

the FSOC, which is chaired by the Secretary of the Treasury, and consists of 10 voting members and 5 nonvoting members. The FSOC brings together the expertise of federal financial regulators, state financial regulators, and an independent insurance expert appointed by the President. The FSOC is charged with identifying risks to the financial stability of the United States, promoting market discipline, and responding to emerging risks to the stability of the financial system of the United States. The Dodd-Frank Act also authorizes the FSOC to designate systemically important nonbank financial companies, including insurers, for enhanced prudential standards and supervision by the FRB. The FSOC is also authorized to designate systemically important financial market utilities (FMUs). To support the activities of the FSOC and its member agencies, the Dodd-Frank Act also created the Office of Financial Research (OFR), within Treasury, to collect and improve the quality of financial data and develop tools to evaluate risks to the financial system. The Dodd-Frank Act requires the FSOC to report annually to Congress. These reports are collectively drafted by FSOC members, and highlight significant financial market and regulatory developments and an assessment of the impact of those developments on the stability of the financial system, along with potential emerging threats to the financial stability of the United States. In addition, the reports provide recommendations to enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets; promote market discipline; and maintain investor confidence.

Any member of the FSOC may recommend to the FSOC that it designate an insurer, including the affiliates of such insurer, as a nonbank financial company subject to supervision by the FRB and enhanced prudential standards. Nonbank financial companies designated by the FSOC are assigned to the Large Institution Supervision Coordinating Committee (LISCC) portfolio within the FRB's Division of Banking Supervision and Regulation. The LISCC is a Federal Reserve System-wide committee, chaired by the director of the FRB's Division of Banking Supervision and Regulation, which is tasked with overseeing the supervision of the largest, most systemically important financial institutions in the United States. In addition, under section 165 of Dodd-Frank Act, the FRB is directed to establish enhanced prudential standards for BHCs and FBOs with more than $50 billion in total assets and for nonbank financial companies, including those engaged in insurance activities, with respect to liquidity, risk management, and capital. These standards are required to be more stringent than those standards applicable to other BHCs and nonbank financial companies that do not present similar risks to U.S. financial stability and must increase in stringency based on several factors, including the size and risk characteristics of a company subject to FRB regulations.

Title II of the Dodd-Frank Act provides additional systemic protection through the procedures for orderly liquidation authority set out therein. Under Title II, for an insurer or a holding company for which the largest subsidiary is an insurer, the Secretary of the Treasury (in consultation with the President) may, following a recommendation by the Director of FIO and the FRB made in consultation with the FDIC, make a systemic risk determination, pursuant to statutorily prescribed criteria, to place such company into receivership. Title II provides that the liquidation of an insurer shall be conducted under applicable state law. If the appropriate state

regulator does not act within sixty days to begin orderly liquidation proceedings for the insurer, the FDIC has the authority to "stand in the place of the appropriate regulatory agency and file the appropriate judicial action in the appropriate State court to place such company into orderly liquidation under the laws and requirements of the State."

At the state level, guaranty funds have been established by each state to provide a safety net for policyholders and other claimants and beneficiaries of insurance coverage. Guaranty fund protection is triggered by a judicial finding of an insurance entity's insolvency, and serves to indemnify, up to the limits allowed by state law, policyholders and other claimants and beneficiaries of insurance coverage. Most personal lines insurance products are subject to some guaranty fund protection, the terms of which vary by state; however, some insurance lines, such as residential mortgage and credit insurance written by monoline insurers, are not subject to guaranty fund protection.

Efficient financial markets.

The United States has efficient, deep, liquid, and transparent financial markets. These markets include the New York Stock Exchange, NASDAQ, and futures exchanges, among others. These exchanges support the world's largest economy with significant capitalizations. The United States has a very reliable, effective, efficient, and fair legal and judicial system, where judgments are enforced.

The United States also maintains high standards for financial reporting activities, including actuarial and auditing activities. Publicly-traded U.S. corporations file extensive disclosures with the SEC. The SEC requires public companies to disclose a significant level of financial and other information to the public. This provides a common information source available for all investors to use to judge whether to buy, sell, or hold a particular security. The result of this information flow is an active, efficient, and transparent capital market that facilitates capital formation and economic development.

The insurance sector is an essential participant in the U.S. financial markets. The Introductory Statement lays out metrics showing the magnitude of the U.S. insurance sector. U.S. insurers offer a full range of insurance products in the L/H sector and the P/C sector. Information on U.S. insurers is available through SEC filings (for publicly held insurers) and through additional financial filings made with state insurance authorities.

Summary of Observance of the Insurance Core Principles—ROSCs

Insurance Core Principle (ICP)	Level
ICP1 - Objectives, Powers and Responsibilities of the Supervisor	O
ICP2 - Supervisor	O
ICP3 - Information Exchange and Confidentiality Requirements	O
ICP4 - Licensing	O
ICP5 - Suitability of Persons	O
ICP6 - Changes in Control and Portfolio Transfers	O
ICP7 - Corporate Governance	O
ICP8 - Risk Management and Internal Controls	O
ICP9 - Supervisory Review and Reporting	O
ICP10 - Preventive and Corrective Measures	O
ICP11 - Enforcement	O
ICP12 - Winding-up and Exit from the Market	O
ICP13 - Reinsurance and Other Forms of Risk Transfer	O
ICP14 - Valuation	LO
ICP15 - Investment	O
ICP16 - Enterprise Risk Management for Solvency Purposes	LO
ICP17 - Capital Adequacy	LO[2]
ICP18 - Intermediaries	O
ICP19 - Conduct of Business	O
ICP20 - Public Disclosure	O
ICP21 - Countering Fraud in Insurance	O
ICP22 - Anti-Money Laundering and Combating the Financing of Terrorism	O
ICP23 - Group-wide Supervision	LO
ICP24 - Macroprudential Surveillance and Insurance Supervision	O
ICP25 - Supervisory Cooperation and Coordination	O

[2] The self-assessment team notes that the FRB's rule-making process is not finalized.

ICP26 - Cross-border Cooperation and Coordination on Crisis Management	O
Aggregate Level: Observed (O), largely observed (LO), partly observed (PO), not observed (NO), not applicable (N/A).	

DETAILED ASSESSMENT OF THE ICPS

ICP/Std.	Description
ICP 1	**Objectives, Powers and Responsibilities of the Supervisor**
1	**The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.**
1	The U.S. system of insurance regulation provides complementary, tiered regulation, supervision, and oversight by state and federal agencies. **FIO:** As set forth in Title V of the Dodd-Frank Act (which enacts the Federal Insurance Office Act of 2010), "there is established within the Department of the Treasury the Federal Insurance Office." 31 U.S.C. § 313(a). FIO's authorities and objectives are clearly set out in Title V of the Dodd-Frank Act. Pursuant to Title V, FIO is authorized: (1) to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the U.S. financial system; (2) to monitor the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance; (3) to recommend to the FSOC that it designate an insurer, including the affiliates of such insurer, as an entity subject to regulation as a nonbank financial company supervised by the FRB; (4) to assist the Secretary of the Treasury in administering the Terrorism Risk Insurance Program established in the Department of the Treasury under the Terrorism Risk Insurance Act of 2002; (5) to coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters, including representing the United States, as appropriate, in the IAIS (or a successor entity) and assisting the Secretary in negotiating covered agreements; (6) to determine (in accordance with Title V) whether state insurance measures are preempted by covered agreements; (7) to consult with the states (including state insurance regulators) regarding insurance matters of national importance and prudential insurance matters of international importance; and (8) to perform such other related duties and authorities as may be assigned to FIO by the Secretary. *See* 31 U.S.C. § 313(c)(1). Title II of the Dodd-Frank Act authorizes FIO and the FRB (in consultation

ICP/Std.	Description
	with the FDIC) to recommend that the Secretary of the Treasury (in consultation with the President) make a systemic risk determination, pursuant to statutorily prescribed criteria, to place an insurer or a holding company for which the largest U.S. subsidiary is an insurer into receivership. *See* 12 U.S.C. § 5383(a)(1)(C). **FRB:** As noted in the introduction, the FRB is the consolidated supervisor of BHCs, SLHCs, FBOs, and nonbank financial companies and conducts prudential regulation and supervision of such entities. The FRB's authority to supervise these entities, including conducting examinations, is provided in the BHC Act, HOLA, International Banking Act, and Dodd-Frank Act, respectively. The objective of FRB regulation and supervision of BHCs, SLHCs, and FBOs is to ensure that the entities operate in a safe and sound manner and in compliance with banking laws. The objective of FRB regulation and supervision of nonbank financial companies engaged in the business of insurance is to reduce the threat the insurer may pose to the financial stability of the United States. Consistent with U.S. legal and regulatory framework, the FRB works closely with other relevant state and federal regulators, including through appropriate consultation, and relies to the fullest extent possible on the examinations and other reports made by other federal and state regulators relating to supervised entities. For example, for insurers, the FRB relies significantly on legal entity examinations conducted by state insurance regulators. Certain BHCs, SLHCs, state member banks, FBOs, and nonbank financial companies directly engage in insurance activities or are affiliated with insurance companies or agencies through subsidiary arrangements. The FRB does not directly regulate the insurance activities of its supervised entities. The primary supervisors of the insurance activities are the individual states in which the insurance companies are organized and operate. In carrying out its supervisory activities, the FRB routinely communicates and coordinates supervision with state insurance regulators, including those responsible for licensing, regulating, and supervising the insurance subsidiaries of the BHCs, SLHCs, state member banks, FBOs, and nonbank financial companies. **States:** Each U.S. state, district, and territory has established an executive branch department or division dedicated to the regulation of insurance.[3]

[3] "Regulate" and "supervise" are used interchangeably throughout this document.

ICP/Std.	Description
	Laws enacted by the legislatures in each jurisdiction define the authority of the insurance regulator and govern the conduct of the insurance industry within that jurisdiction.[4] These comprehensive state insurance codes provide the requirements to do business in a state (whether as a domestic, foreign or alien insurer), financial solvency standards, licensing and conduct standards for insurance producers, and market conduct requirements. Laws are supplemented by administrative regulations developed pursuant to legislative authorization, department guidance issued through bulletins and circular letters, and administrative procedures. The insurance regulator is charged with enforcing those laws and generally supervising the conduct of the business of insurance within the jurisdiction. Generally, state insurance departments are organized around two important interrelated central areas of regulation: financial regulation and market regulation. Financial regulation encompasses licensing of companies, reporting and financial analysis, insurance holding company and group supervision, capital and surplus requirements, examinations of companies, regulation of reserves and investments, and insolvencies. Market regulation focuses on prevention of unfair trade practices (including unfair claims settlement practices), analysis and approval of policy rates and forms, producer licensing, prevention of unlicensed insurance activities, antifraud efforts, and consumer complaints and assistance. The NAIC's Accreditation Program verifies that each state has the necessary laws in place to properly and appropriately regulate the financial solvency of its domestic multistate insurers that do business across state borders. In order to be accredited, a state must have in place various requirements via statute, regulation or administrative practice to provide it with adequate power to regulate its domestic and multistate insurers for financial solvency. These requirements relate to 19 topical areas determined by insurance regulators to provide the bulwark for sound financial regulation. The U.S. insurance supervisory framework is designed to meet two principal objectives: the protection of the insurance consumer and the maintenance of solvent insurance companies. The primary function of insurance regulation is to promote stable insurance markets, thereby protecting the public by ensuring

[4] For purposes of the state regulators' response, regulator, insurance regulator, state regulator, state insurance regulator, supervisor, insurance supervisor, commissioner, insurance commissioner, state insurance commissioner, insurance department, state insurance department are used interchangeably throughout the document.

ICP/Std.	Description
	fair contracts at fairly administered prices from financially strong companies.
1.1	**Primary legislation clearly defines the authority (or authorities) responsible for insurance supervision.**
1.1	**FIO:** As set forth in FIO's response to ICP 1, the Dodd-Frank Act establishes the authorities of FIO. **FRB:** The FRB is the top-tier supervisor of the consolidated operations of all BHCs and SLHCs. *See* 12 U.S.C. § 1841, *et seq.*, and 12 U.S.C. § 1467a. The FRB is also the top-tier supervisor of the consolidated operations of nonbank financial companies. *See* 12 U.S.C. § 5333. Congress has made clear that direct supervision of the insurance activities of BHCs, SLHCs, and nonbank financial companies occurs at the state level in the jurisdictions in which the activities are conducted. *See* 15 U.S.C. § § 1012, *et seq.* (McCarran-Ferguson Act); *see also* 12 U.S.C. § 1844(g)(1)(B). **States:** Through legislation enacted by state legislatures, the state insurance departments have legal authority, enforcement powers, legal framework and financial resources to exercise their functions and powers. Each state has the power to supervise any individual or entity that is transacting insurance business as defined by the law, including insurers, reinsurers, captives, health maintenance organizations, and insurance intermediaries. The comprehensive legal and regulatory framework set forth in state statutes gives each state the power to issue and enforce rules and other regulations and regulatory tools by administrative means, take the appropriate actions as and when required, and discharge its supervisory responsibilities effectively. *See* ICP 1 for additional information.
1.2	**Primary legislation clearly defines the objectives of insurance supervision and the mandate and responsibilities of the supervisor and gives the supervisor adequate powers to conduct insurance supervision, including powers to issue and enforce rules by administrative means and take immediate action.**
1.2	**FIO:** The response to ICP 1 sets forth the objectives that Titles I, II and V of the Dodd-Frank Act establish for FIO. In carrying out its functions, FIO is authorized to "receive and collect data and information on and from the insurance industry and insurers; enter into information-sharing agreements; analyze and disseminate data and information; and issue reports regarding all lines of insurance, except health insurance." 31 U.S.C. § 313(c)(1)(b). FIO

ICP/Std.	Description
	"may require an insurer, or any affiliate of an insurer, to submit such data or information as the Office may reasonably require in carrying out the functions," provided that FIO first "coordinate with each relevant Federal agency and State insurance regulator (or other relevant Federal or State regulatory agency, if any, in the case of an affiliate of an insurer) and any publicly available sources to determine if the information to be collected is available from, and may be obtained in a timely manner by, such Federal agency or State insurance regulator, individually or collectively, other regulatory agency, or publicly available sources." 31 U.S.C. § § 313(e)(2), (4). The Director of FIO has the power under Title V of the Dodd-Frank Act to require by subpoena the production of data or information from insurers and affiliates, "but only upon a written finding by the Director that such data or information is required to carry out [FIO's statutory] functions . . . and that the Office has coordinated with [relevant federal agencies, state insurance regulator or other regulatory agencies, individually or collectively, to determine if the information to be collected is available from, and may be obtained in a timely manner from the agencies, regulators or publicly available sources]." 31 U.S.C. § 313(e)(6). **FRB:** The FRB's supervision of banking organizations, including those engaged directly or indirectly in insurance activities, is focused on consolidated risk exposures, financial strength, capital adequacy, and liquidity. One of the primary goals of the FRB's consolidated supervision of banking organizations is to protect the depository institution (DI) subsidiaries from potential risks posed by the holding company and other affiliates. The scope of consolidated supervision for nonbank financial companies is focused on enhancing the resiliency of the firm to lower the probability of its failure or inability to serve as a financial intermediary reducing the impact that the firm's failure or material weakness could have on the financial stability of the United States. The primary supervisor of the insurance activities of BHCs, SLHCs, state member banks, FBOs, and nonbank financial companies are the states in which the activities are conducted. The FRB has authority pursuant to the BHC Act and HOLA to take enforcement actions against a BHC or SLHC, respectively. *See* 12 U.S.C. § 1842(c)(3), 12 U.S.C. §§ 1844(e) and (f), and 12 U.S.C. §§ 1467a(e) and (g). The FRB may take enforcement action against a nonbank financial company and its subsidiaries pursuant to the Dodd-Frank Act. 12 U.S.C. § 5362. **States:** Laws enacted by the legislatures in each jurisdiction govern the conduct of the insurance industry within that jurisdiction. Primary legislation defines the objective of the departments to ensure the continued solvency, safety and soundness of insurers and to ensure fair, timely and equitable fulfillment of the financial obligations of insurers. State statutes

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	are supplemented by administrative rule-making authority, allowing state insurance regulators to apply their expertise in implementing legislatively-granted powers. Through rule-making, state insurance regulators can issue and revise legally binding rules enforceable by administrative and judicial means. Taken together, statutes and administrative regulations allow for comprehensive regulation of all aspects of insurance business.
1.3	**The principal objectives of supervision promote the maintenance of a fair, safe and stable insurance sector for the benefit and protection of policyholders.**
1.3	**FIO:** While FIO does not have general supervisory or regulatory authority, it does have specific statutory authority complementary to the roles of the FRB and the states. In addition to supporting work that promotes national financial stability by serving on and supporting the work of the FSOC, FIO has the authority "to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the United States financial system." 31 U.S.C. § § 313(c)(1)(A). FIO's financial stability role is further clarified through its authority to represent the United States at the IAIS; the IAIS mission is "to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability." FIO also has the authority to "assist[] the Secretary in negotiating covered agreements" and "to determine . . . whether State insurance measures are pre-empted by covered agreements." 31 U.S.C. § 313(c)(1)(E), (F). Covered agreements are discussed further in FIO's response to ICP 13. FIO is also authorized "to monitor the extent to which traditionally underserved communities and consumers, minorities . . . and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance." 31 U.S.C. § 313(c)(1)(B). FIO publishes annual and special reports addressing this information. For example, in December 2013, FIO released a report titled *How to Modernize and Improve the System of Insurance Regulation in the United States* ("Modernization Report"). FIO also publishes annual reports regarding the state of the insurance industry, including national and international regulatory developments and issues of concern. **FRB:** The objective of FRB regulation and supervision of BHCs, SLHCs, and FBOs is to ensure that companies that control depository institutions

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	operate in a safe and sound manner and in compliance with banking laws. This includes an assessment of the organization's risk-management systems, financial condition, and compliance with applicable banking laws and regulations. The primary objectives of the FRB's supervision of nonbank financial companies are two-fold: 1. To enhance resiliency of a firm to lower the probability of its failure or inability to serve as a financial intermediary, and 2. To reduce the impact on the financial system and the broader economy in the event of a firm's failure or material weakness. The primary supervision of insurance activities occurs at the state level. **States:** The state insurance regulatory framework is designed to meet two principal objectives: the protection of the insurance consumer and the maintenance of solvent insurance companies. The primary function of insurance regulation is to promote stable insurance markets, thereby protecting the public by ensuring fair contracts at fairly administered prices from financially strong companies.
1.4	**Where, in the fulfilment of its objectives, the supervisor identifies conflicts between legislation and supervisory objectives, the supervisor initiates or proposes correction in legislation.**
1.4	**FIO:** For the first time, the United States has a federal office explicitly authorized to monitor the insurance sector and its regulations, with particular authorities to identify areas appropriate for improved regulatory treatment. Pursuant to its authorities, FIO has identified conflicts between legislation and supervisory objectives, as detailed in the Modernization Report and FIO's annual reports. In the Modernization Report, FIO has recommended adoption of certain legislation at the state and federal levels. For example, to reform an aspect of the state regulatory system, FIO has recommended that Congress pass the National Association of Registered Agents and Brokers Reform Act of 2013. Another example relates to laws to be adopted by state legislatures: FIO has publicly called for revised state standards, regulations, and/or laws in several areas, including reinsurance captives and special purpose vehicles. **FRB:** The FRB's supervision of BHCs, SLHCs, nonbank financial companies, and other regulated entities is based upon federal statutes. The FRB does not believe there are any material conflicts between the fulfillment of its objectives and any current legislation. The FRB has a number of ways

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	to communicate to the U.S. Congress. FRB members and staff often provide testimony to select committees and subcommittees of the U.S. Congress on a number of relevant issues, including in response to questions relating to proposed legislation or amendments to existing legislation. Speeches to the public and other public fora provide other avenues of communication. **States:** If there are any legislative changes needed to ensure that supervisory objectives can be achieved, state insurance regulators can make specific proposals for changes, including proposed amendments to legislation to address such concerns. Either independently or in consultation with other executive branch officials, state insurance regulators promote legislation designed to correct potential conflicts and address new and emerging issues.
ICP 2	**Supervisor**
2	**The supervisor, in the exercise of its functions and powers:** • **is operationally independent, accountable and transparent;** • **protects confidential information;** • **has appropriate legal protection;** • **has adequate resources;** • **meets high professional standards.**
2	**States:** The state insurance departments, and more specifically the commissioner and their offices, are granted authority under state statutes by their state legislative body(ies) to take various actions which collectively implement the function and powers of state insurance departments. The state insurance department is independent from the state's legislative body. The commissioner is either elected by the general population, appointed by the state governor, or overseen by an intermediate regulatory commission. The commissioner may serve for a fixed term of office or at the pleasure of the governor or appointing body. The commissioner is generally the only employee within the state insurance department whose position is either elected or appointed. Although sources of funding vary among the states, the most common method used by insurance departments is a "dedicated funding system" whereby specific amounts are placed in a separate fund established for the

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	insurance department through the state budgetary process. A "quasi-dedicated" funding system is similar, except that the balance at the end of the year returns to the state's general fund, rather than being carried over to the next fiscal year. In a "general revenue" funding system, all revenue generated by the state insurance department is placed into the state's general fund. The state legislature then allocates an amount to the insurance department in the normal budgetary process. The comprehensive legal and regulatory framework as set forth in statutes, regulations and other regulatory tools gives each state the power to gather and protect confidential information. For example, all states have adopted the NAIC Model Law on Examinations (Model #390), which sets forth these powers as they pertain to most of the financial information that is obtained by states in their function of monitoring the financial condition of insurers. The NAIC Accreditation Program also requires that the state insurance department have the regulatory authority to maintain the confidentiality of the information received from these other parties. In this regard, state insurance departments are required to have a documented policy to cooperate and share confidential information with officials of any state, federal agency or foreign country and the NAIC, as long as the other party has the authority and agrees to maintain the confidentiality of the information. Further information regarding the protection of confidential information is provided under responses related to ICP 3. As verified under the NAIC Accreditation Program, each state must make an appropriate allocation of its available resources to effectively address its regulatory priorities. This requires each state to hire, train and maintain sufficient staff with high professional standards. This also requires each state to consider the need to hire external specialists for oversight of more complex insurers or areas. Part C of the NAIC Accreditation Program specifically addresses the issue of financial and human resources. The three standards in this area address professional development, minimum educational and experience requirements, and the ability to attract and retain qualified personnel. **FRB: Independence** – The FRB is composed of seven governors who are appointed by the President and confirmed by the U.S. Senate. The Chair of the FRB serves a four-year term, as does the governor designated to serve as Vice Chairman. The full term of a Governor is 14 years; appointments are staggered so that one term expires on January 31 of each even-numbered year. The positions are non-partisan, and there is no expectation that a Governor will resign at the conclusion of the term of the President who appointed them. In addition, the FRB is self-funded and, thus, is not subject to

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	the congressional budget process or congressional appropriations. **Accountability –** Members of the FRB can be removed for cause by the President. *See* 12 U.S.C. § 242. The FRB's response to ICP/Std. 2.1 contains additional information on accountability related to regular audits of the FRB and the Reserve Banks. **Transparency –** The FRB complies with the Government Performance and Results Act of 1993, which requires federal agencies, in consultation with Congress and outside stakeholders, to prepare a strategic plan covering a multiyear period and to submit an annual performance plan and performance report. *See* 5 U.S.C. § 306 and 31 U.S.C. § 1115. The performance plans and assessments are incorporated into the FRB's annual report, which is required to be made public. The FRB also is required, by separate statute, to report annually on regulatory and supervisory actions taken during the year. Together, these requirements provide tangible and transparent measures of agency performance against statutory and stated performance targets. **Protection of confidential information** – Unless authorized by law, it is a crime for an employee of the U.S. federal government to divulge, disclose, or make known in any manner trade secrets or other confidential business information collected in the course of employment or official duties. *See* 18 U.S.C. § 1905. The FRB has detailed, clear rules regarding the availability of information and treatment of confidential information. *See* 12 CFR Part 261. These rules set forth the categories of information made available to the public, the procedures for obtaining documents and records, the procedures for limited release of exempt and confidential supervisory information, and the procedures for protecting confidential business information. In addition, the FRB has numerous, public supervisory policy letters (available on the FRB's website) concerning treatment of confidential and sensitive information, among other topics related to information handled by the FRB and its staff. **Appropriate legal protection –** The FRB and its staff are generally protected against lawsuits for actions and omissions made while discharging their duties in good faith. Sovereign immunity bars lawsuits without specific statutory authorization to pursue such litigation. Common law qualified immunity protects federal banking agencies' leadership and staff from liability for the violation of an individual's federal Constitutional rights in connection with employees' performance of discretionary functions, as long as the employees' conduct does not clearly violate established statutory or Constitutional rights. More detail is provided in the FRB's response to ICP/Std. 2.10.

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	Adequate resources – The FRB is self-funded and has adequate resources to carry out its objectives. **Professionalism** – The FRB insists that all staff members maintain high professional standards and exhibit high integrity. Federal laws and regulations, as well as the FRB's conflict-of-interest rules and codes of conduct of, help to ensure that these standards are met. For example, FRB and its staff are subject to statutory restrictions on activities and affiliations that might raise conflicts of interests. *See, e.g.*, 12 U.S.C. §§ 242 and 244 (prohibiting Federal Reserve members from holding office in or stock of a member bank). Senior examination staff members of the FRB generally are subject to a one-year post-employment "cooling off" period with respect to entities they supervised. Violators are subject to civil monetary penalties, can be removed from office, and can be prohibited from participating in the affairs of the depository institution, holding company, or any other company for up to five years. Examiners also are prohibited from accepting loans or gratuities from banks that they examine. *See* 18 USC § 213. These standards are reinforced by a number of criminal statutes, including those prohibiting corruption, bribery, theft, and fraud by agency employees. These laws are actively enforced. The FRB maintains administrative policies to ensure that appropriate codes of conduct are being followed. The policies outline the requirements for examiners and other supervisory staff concerning investment prohibitions, borrowing prohibitions, and recusal requirements based on considerations such as family, debt, or prior employment relationships. *See* Federal Reserve (*Federal Reserve Administrative Manual*, sections 5-041 and 5-035). The FRB has requirements related to the initial appointment of an examiner and promotion to commissioned examiner. In general, the guidance specifies standard information required for initial examiner appointments, such as professional qualifications, citizenship, and potential conflicts with depository institutions, their holding companies, or other affiliates (i.e., the prospective employee's completed conflicts of interest form), and outlines general requirements to be considered for appointment of an assistant examiner to commissioned examiners status, including proficiency tests that must be completed as well as practical supervisory work. The rigorous commissioning process for examiners promotes high standards of performance. *See Federal Reserve Administrative Manual*, section 5-040. **FIO:** Regarding independence, accountability, and transparency, as an office within the Treasury, FIO and its staff are bound by federal laws and

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	regulations regarding the independence of decisions from external influences, including federal conflict of interest statutes, the Executive Branch Standards of Conduct, and Treasury's supplemental ethics regulations. In addition, FIO and its work are subject to the review of the U.S. Department of the Treasury Officer of the Inspector General; the General Accountability Office; and members and committees of Congress. FIO's work often occurs in a public forum or is disclosed to the public through various methods. The FSOC has adopted a transparency policy and promulgated regulations which govern its work, *e.g.* 12 CFR Part 1301 and 12 CFR Part 1310, and FIO's work on the FSOC is subject to these policies and procedures. FIO further informs the public of its work through notices published in the Federal Register, in its annual reports and special reports, through its advisory committee, and through direct engagement with stakeholders, and in public engagement, including through speeches and Congressional testimony. Regarding confidentiality, federal law, including Title V of the Dodd-Frank Act and the Federal Information Security Management Act (FISMA), affords protection of confidential information collected or otherwise obtained by FIO. Further, it is against federal law for FIO's staff members to divulge or disclose confidential business information collected in the course of employment or official duties. *See* 18 U.S.C. § 1905. FIO is also governed by various Treasury policies and procedures that afford protection of confidential information collected or otherwise obtained by FIO. *See*, *e.g.*, Treasury Security Manual – TD P 15-71. Regarding legal protection, FIO and its staff are protected by the sovereign immunity of the U.S. government against lawsuits for actions taken in good faith while discharging duties. Regarding resources, FIO has adequate resources to attract and retain skilled and experienced staff. As an office within Treasury, FIO's staff members have the opportunity to receive training on a variety of subjects. Regarding professional standards, as an office of Treasury, FIO and its staff are held to high standards of integrity and professionalism, and are subject to the Standards of Ethical Conduct for Employees of the Executive Branch.
2.1	**The governance structure of the supervisor is clearly defined. Internal governance procedures, including internal audit arrangements, are in place to ensure the integrity of supervisory actions. There is effective communication and prompt escalation of significant issues to appropriate levels within the supervisor. The decision-making lines of the supervisor are structured in such a way that action can be taken immediately in the**

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	case of an emergency.
2.1	**States:** Official actions of the insurance department typically occur in the name of the insurance commissioner, who is vested with the authority and oversight of the insurance department. Insurance departments are divided into sections with responsibility for direct regulation of certain areas (e.g., financial surveillance, rates and forms, producer licensing). The section heads report to the commissioner or deputy commissioner. Organizational charts define internal reporting and areas of responsibility. When combined with authority granted by law and regulation, subject matter experts can address issues while escalating matters internally that may require the attention of the section head and/or action of the commissioner. The NAIC Accreditation Program provides for a review of an insurance department's policies and procedures regarding regulatory actions and the timeliness and appropriateness of action taken by a department's chain of command. Most states have a state auditor's office which reviews the functions and procedures of state agencies, including the state's insurance department. **FRB:** The FRB is composed of up to seven governors, who are appointed by the President and confirmed by the U.S. Senate. The FRB appoints the directors of each of 14 divisions who supervise and coordinate the staff and activities of their respective divisions. Staff members meet regularly with each of the Governors. When appropriate, significant supervisory issues can be escalated promptly to appropriate levels. As evidenced during the financial crisis when the FRB took swift steps to address various financial system problems, supervisory decision-making lines within the FRB are structured in such a way that action can be taken immediately in the case of an emergency. The FRB is audited annually by a major public accounting firm. The Government Accountability Office (GAO) also generally exercises its authority to conduct a number of reviews each year to look at specific aspects of the FRB's activities. The audit report of the public accounting firm and a complete list of GAO reviews under way are available in the FRB's Annual Report. Finally, the FRB contracts with an accounting firm to conduct an audit of each Reserve Bank every year, and FRB staff members periodically review the operations of the Reserve Banks in key functional areas. **FIO:** FIO and its staff are bound by federal law and regulation regarding the independence of decisions from external influences. As explained in FIO's response to ICP/Std. 2.4, federal laws and Treasury regulations that address

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	conflicts of interest and related ethical issues are intended to ensure the integrity of FIO's actions.
2.2	**There are explicit procedures regarding the appointment and dismissal of the head of the supervisor and members of its governing body, if such a governing body exists. When the head of the supervisor or members of its governing body are removed from office, the reasons are publicly disclosed.**
2.2	**States:** The state insurance departments, and more specifically, the commissioners and their offices, are granted authority under state statutes by the applicable state legislative body to take various actions which collectively implement the function and powers of the state insurance department. The state insurance department is independent from the applicable state legislative body. The commissioner is either elected by the general population, appointed by the state governor, or overseen by an intermediate regulatory commission. The commissioner may serve for a fixed term of office or at the pleasure of the governor or appointing body. The commissioner is generally the only employee within the state insurance department whose position is either elected or appointed. Regardless of the method of attaining office, the insurance commissioner and his or her staff are accountable to the public for their work in office. State statutes generally provide the criteria needed to be eligible to be appointed to the position of commissioner and also provide the general grounds for removal from office. State laws, executive branch ethical codes, and insurance department protocols and procedures govern the official conduct of the commissioner and insurance department employees in discharging official functions. Taken together, these sources provide the means of imposing civil and criminal penalties and internal discipline in the event of wrongdoing, including removal from office or termination of employment. If a public employee is removed from office for a violation of state law they are subject to investigation or potential prosecution and that information is generally in the public domain. **FRB:** Members of the FRB are appointed to a full or to an unexpired portion of a 14-year term. On appointment by the President and with the advice and consent of the Senate, one of the members is designated to serve as Federal Reserve Chair, and another of the members is designated to serve as Vice Chairman, for a four-year term. The positions are non-partisan, and there is no expectation that Governors will resign at the conclusion of the term of the President who appointed them. Members of the FRB can be removed for

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	cause by the President. *See* 12 U.S.C. § 242. **FIO:** By statute, the Director of FIO is appointed by the Secretary of the Treasury and is a career reserved position. Initial career appointments must meet the competitive Senior Executive Service (SES) merit staffing provisions in 5 U.S.C. § 3393 at the time of selection. The individual's executive qualifications must be certified by an Office of Personnel Management (OPM) administered Quality Review Board (QRB) before appointment. The standard for action (removal or suspension) is taken against an executive in accordance with 5 U.S.C. § 7543 for misconduct, neglect of duty, malfeasance, or failure to accept a direct reassignment.
2.3	**The institutional relationships between the supervisor and the executive and judicial authorities are clearly defined and transparent. Circumstances where executive overrides are allowed are specified.**
2.3	**States:** The institutional relationships between the supervisor and the executive and judicial authorities are clearly defined and transparent. The executive and legislative branch of government each has its areas of responsibility. State laws make specific references to the insurance commissioner being charged with carrying out the laws related to the regulation of the insurance business. While the insurance commissioner may have certain accountability to executive and legislative branch officials for his or her official actions, state law clearly vests the insurance commissioner with the official responsibility to regulate the insurance business in that state. **FRB:** Members of the FRB are appointed by the President with the advice and consent of the Senate. The actions taken by the FRB are not subject to executive overrides. U.S. federal courts have authority to review agency actions made reviewable by statute as well as any final agency action for which there is no other adequate remedy in court. 5 U.S.C. § 704. The courts have recognized that this authority does not permit a review of everything done by an administrative agency. Much of what an agency does in anticipation of a final action is not reviewable by the courts. However, final agency enforcement orders are generally subject to judicial review. *See, e.g.*, 12 U.S.C. § 1818(h)(2). **FIO:** As an office within Treasury, FIO is a part of the executive branch of the U.S. government. Federal courts are part of the judicial branch of the U.S. government, which is independent from the executive branch. The relationship between FIO (as part of Treasury) and the judicial branch of the United States, as well as the judicial branches of the governments of the states,

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	are defined by federal law and the U.S. Constitution.
2.4	**The supervisor and its staff are free from undue political, governmental and industry interference in the performance of supervisory responsibilities. The supervisor is financed in a manner that does not undermine its independence. The supervisor has discretion to allocate its resources in accordance with its mandate and objectives and the risks it perceives.**
2.4	**States:** The state insurance commissioner is clearly vested with official responsibility for carrying out and implementing the insurance laws of a state. Although state insurance regulators are subject to appropriate oversight or scrutiny their supervisory functions are defined by law and provide adequate safeguards regarding undue political, governmental, or industry influence. Insurance commissioners possess legally-defined oversight and responsibility, thereby having discretion to allocate resources to address regulatory priorities, which is also assessed as part of the NAIC Accreditation Program. State statutes and department policies restrict gifts and/or require disclosures to prohibit the acceptance of inappropriate gifts and things of value. Insurance department employees may also be subject to post-employment restrictions on contacts between former employees and the insurance department. **FRB:** Members of the FRB are appointed to a full or to an unexpired portion of a 14-year term. On appointment by the President and with the advice and consent of the Senate, one of the members is designated to serve as Federal Reserve Chair, and another of the members is designated to serve as Vice Chairman, for a four-year term. The positions are non-partisan, and there is no expectation that a Governor of the FRB will resign at the conclusion of the term of the President who appointed him or her. *See* 12 U.S.C. § 242. The long-tenured nature of these appointments allows the FRB to be free from undue political interference or pressure. Additionally, the FRB is self-funded and is not Congressionally appropriated. The FRB's income comes primarily from the interest on government securities that it has acquired through open market operations. Other sources of income are the interest on foreign currency investments held by the Federal Reserve System; fees received for services provided to depository institutions, such as check clearing, funds transfers, and automated clearinghouse operations; and interest on loans to depository institutions. The FRB has discretion to allocate its resources in accordance with its mandate and

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	objectives and the risks it perceives. **FIO:** As an office within Treasury, FIO is subject to criminal conflict of interest statutes, the Executive Branch Standards of Conduct, and Treasury's supplemental ethics regulations. These laws, rules, and regulations effectuate two core concepts: (1) employees shall not use public office for private gain; and (2) employees shall act impartially and not give preferential treatment to any private organization or individual. FIO is funded through Treasury's appropriations approved by the U.S. Congress. FIO is not funded by the insurance industry. FIO, subject to Treasury priorities, has discretion to expend the funds allocated to FIO by Treasury.
2.5	**There are clear and transparent regulatory requirements and supervisory procedures which are appropriate for the objectives they are intended to meet. The supervisor applies them consistently and equitably, taking into account the nature, scale and complexity of insurers. These regulatory requirements and supervisory procedures are published.**
2.5	**States:** All laws, regulations and rules operated under or issued by a state insurance regulator go through a public approval process, either at the legislative or administrative level. Where legislation authorizes the insurance regulator to undertake rule-making, state administrative procedure acts govern that process. As a result, state insurance departments publish proposed rules or regulations in the state register and/or on state websites, accept public comments, and may hold public hearings prior to implementation or adoption. Regulatory actions taken by state regulators are typically matters of public record and are subject to administrative appeals processes and judicial review where appropriate. Further, insurance departments maintain industry- and consumer-related information on their websites, which include posting relevant notices and bulletins that may announce new rules or changes in existing regulatory or supervisory procedures and rules. NAIC model laws and regulations, which provide the basis for many state laws on subject's common to all states, are also developed through an open process. Once adopted by the NAIC, state insurance regulators may propose model laws to their state legislative bodies for adoption under an open, legislative process or may initiate rule-making through an open administrative process at the insurance department level. The goal of the development of NAIC model laws and regulations is to promote uniformity among states while recognizing that the authority to implement model laws or regulations rests with the states themselves.

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	FRB: The Dodd-Frank Act added authority for a regulatory and supervisory mandate for nonbank financial companies to the FRB's established authority for regulation and supervision of BHCs and SLHCs. Like its powers over large BHCs, the FRB's authority over nonbank financial companies includes, among others, the power to impose capital, liquidity, and risk management requirements, examine firms and their subsidiaries, require the creation of intermediate holding companies, and take enforcement action. *See* 12 U.S.C. § 5365. The FRB is in the process of further expanding its supervisory program concerning nonbank financial companies. The framework for the supervisory program applicable to large BHCs and nonbank financial companies is set out in SR 12-17. Additional supervisory guidance is expected to be issued to examiners, the industry, and the public through the FRB's existing modes of communication, which include Supervisory and Regulations (SR) letters and other examination material. **FIO:** FIO operates in a transparent manner. For example, FIO's work with the FSOC is done pursuant to the FSOC's transparency policy and promulgated regulations which govern FSOC's work, *e.g.* 12 CFR Part 1301 and 12 CFR Part 1310. The Federal Advisory Committee on Insurance (FACI), which advises FIO, convenes only in public meetings, and all documents related to the FACI are publicly available. Many aspects of FIO's work, including rule-making, interpretations, and the announcement of FACI meetings, are publicized in Federal Register Notices. Finally, FIO informs the public of its mission and procedures through direct engagement and in speeches and Congressional testimony, primarily by the Director of FIO.
2.6	**Regulatory requirements and supervisory procedures are reviewed regularly. All material changes are normally subject to prior public consultation.**
2.6	**States:** Regulatory requirements are subject to review through several channels. NAIC model laws and regulations, which provide the basis for many state laws, are regularly reviewed and updated. This process, which is conducted openly, allows for regulators and stakeholders to consider changes through a deliberative process. For example, the Model Holding Company Act was significantly revised in 2010 in response to the financial crisis and, as of this writing, further revisions are being considered in light of international developments on group supervision. Additionally, state insurance regulators are accountable to the public's elected representatives in the state legislature; legislators may require public testimony or submission of evidence related to

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	the continuing efficacy of regulatory policy as expressed through laws and rule-making. Similarly, the insurance department may initiate rule-making involving new regulations or existing regulations; as noted previously, the rule-making process is subject to a state's administrative procedure act. **FRB:** Material changes to the FRB's regulations and supervisory procedures are publicized. The FRB typically solicits public feedback on material changes to its regulations and material supervisory procedures prior to their implementation. The FRB regularly undertakes an internal evaluation process to ensure its staff meets its supervisory need. This includes evaluation of hiring and retention programs to attract and retain staffs that have the necessary critical skills. In addition, the agencies approve annual training budgets and insist that staff undergo adequate and relevant training. **FIO:** As set forth in the response to ICP 1, FIO's authorities are set forth in the Dodd-Frank Act, and subject to the federal law-making process. Changes to FIO's authorities would be carried out publicly through the federal legislative process. Further, as noted in its response to ICP/Std. 2.5, FIO publishes notices in the Federal Register relating to rule-making, interpretations, and other FIO oversight and policy-making activities. In addition, as set forth in its response to ICP/Std. 2.1, FIO is subject to a wide range of governmental oversight.
2.7	**The supervisor publishes information on the insurance sector, about its own role and how it performs its duties.**
2.7	**States:** All legal information defining the authority, responsibilities and duties of each insurance department is publicly available. Insurance department websites typically link to such information or provide it directly. Insurance departments generally publish relevant financial and statistical information about the state of the insurance industry and the respective state's insurance marketplace annually. Many states issue annual reports based upon information accumulated during the relevant and immediately past fiscal year. In addition to the annual report and website, states may also publish information about their roles and responsibilities in a Strategic Plan or similar publication. Additionally, the NAIC produces an annual publication, the Insurance Department Resources Report, which contains comprehensive state-by-state and national information on the state of the insurance marketplace and the resources available to insurance regulators. **FRB:** The FRB and its staff regularly publish and disseminate information on the U.S. banking system through supervisory guidance, white papers, speeches, testimony, and information posted to its website. These

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	publications cover, among other topics, insurance. These publications often discuss the FRB's supervisory role and how it performs its duties. It is anticipated that additional guidance and related information about the FRB's supervision of nonbank financial companies that are financial companies engaged in the business of insurance will be forthcoming. **FIO:** FIO is required by statute to provide periodic and one-time reports on the U.S. and global insurance industry. *See* 31 U.S.C. § 313(n)-(p). These include: (i) annual reports regarding the insurance industry and other information deemed relevant by the Director of FIO or requested by the relevant Congressional committees; (ii) the Modernization Report; (iii) a report on the U.S. and global reinsurance market; and (iv) a report related to natural catastrophe insurance in the United States. In addition, FIO provides information about the insurance sector, its own role, and how it performs its duties through direct engagement with stakeholders, and in public engagement, including through speeches and Congressional testimony.
2.8	**There are processes to appeal against supervisory decisions, including using judicial review. These processes are specific and balanced to preserve supervisory independence and effectiveness. However, they do not unduly impede the ability of the supervisor to make timely interventions in order to protect policyholders' interests.**
2.8	**States:** There are legal and administrative processes in place to appeal supervisory decisions both to the insurance departments and through judicial review. These processes are outlined in statutes or agency rules. Generally supervisory decisions remain in effect until an appeal has been decided, but if specific conditions have been met, the supervisory decision may potentially be suspended or stayed (while a supervisory decision is on appeal a court could find that specific conditions of a supervisory decision have been met and order all or part of the decision suspended). Administrative safeguards allow for impartial review of such decisions; for example, where the insurance commissioner may be required to serve as a hearing officer in an administrative matter, internal "walls" will be utilized to ensure fairness and impartiality. While the appeals process affords recourse and review for the object of governmental regulatory action, they do not impede the ability of insurance departments to make timely interventions; in fact, many state laws provide specifically for such timely interventions where required by exigent circumstances. **FRB:** Process for internal supervisory review: Since 1995, the FRB has established an independent, intra-agency process to review appeals of material

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	supervisory determinations consistent with Section 309 of the Riegle Community Development and Regulatory Improvement Act of 1994, 12 U.S.C. § 4806. Through this process, supervisory determinations made during the examination and inspection process may be appealed expeditiously to independent FRB personnel. Process for appeals of enforcement orders: As discussed more fully in the FRB's response to ICP 11, in instances where the FRB seeks to compel an institution or individuals within its jurisdiction to take certain action through issuance of a formal order, the subjects may contest the matter in an administrative proceeding before the FRB. If those subjects are dissatisfied with the final decision issued by the FRB in the administrative proceeding, they may pursue an appeal of that decision in the federal courts. **FIO:** FIO has a statutory role in the FSOC designation process and in the resolution process as set forth in Title II of the Dodd-Frank Act. Both of these processes include mechanisms for appeals. FIO has authority to recommend to the FSOC that it designate an insurer, including the affiliates of such insurer, as an entity subject to regulation as a nonbank financial company supervised by the FRB. The FSOC designation process includes a specific process to allow companies under consideration to challenge and appeal a proposed designation. *See* 12 U.S.C. § 5323(e). Under Title II of the Dodd-Frank Act, FIO and the FRB (in consultation with the FDIC) may recommend that the Secretary of the Treasury (in consultation with the President) make a systemic risk determination, pursuant to statutorily prescribed criteria, to place an insurer or a holding company for which the largest U.S. subsidiary is an insurer into receivership. (Title II, and FIO's authority under Title II, is discussed in further detail in FIO's response to ICP 12.) If the board of directors of the insurer does not acquiesce or consent to the Secretary's systemic risk determination, the Secretary shall petition the United States District Court for the District of Columbia for an order authorizing the Secretary's determination. The insurer has an opportunity to oppose the determination in a hearing before this court. If the district court rules in favor of the Secretary, the insurer may appeal to the Court of Appeals for the District of Columbia Circuit, and then to the United States Supreme Court. *See* 12 U.S.C. § 5382.

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2.9	**The supervisor, including its staff and any individual acting on its behalf (presently or in the past), are required by legislation to protect the confidentiality of information in the possession of the supervisor, including confidential information received from other supervisors. The supervisor maintains appropriate safeguards for the protection of confidential information. Wrongful disclosure of confidential information is subject to penalties. The supervisor denies any request for confidential information, other than when required by law, or when requested by another supervisor who has a legitimate supervisory interest and the ability to uphold the confidentiality of the requested information.**
2.9	**States:** Confidentiality rules are specified in legislation and may be reinforced in other ways. It should be noted that insurance departments maintain internal protocols and procedures governing the protection of information, including requirements that confidential information may be accessed only by those with a "need to know," information technology protocols governing access and security, and processes for the handling and safe storage of confidential information. Responses to ICP 3 provide detailed confirmation about the ability of insurance regulators to protect from disclosure confidential information, including confidential information from other regulators; professional secrecy requirements, including penalties for breaches of such requirements; and processes for protecting confidential information from attempts at disclosure by third parties. **FRB:** Unless authorized by law, it is a crime for an employee of the U.S. federal government to divulge, disclose, or make known in any manner trade secrets or other confidential business information collected in the course of employment or official duties. *See* 18 U.S.C. § 1905. To ensure that appropriate safeguards exist, the FRB has adopted detailed, clear rules regarding the treatment of confidential information. *See* 12 CFR Part 261. These rules set forth, among other things, the procedures for limited release of exempt and confidential supervisory information and the procedures for protecting confidential business information. In addition, the FRB has numerous, public, supervisory policy letters concerning treatment of confidential and sensitive information, among other topics related to information handled by the FRB and its staff. **FIO:** Federal law, including Title V of the Dodd-Frank Act, affords protection of confidential information collected or otherwise obtained by FIO. *See* 31 U.S.C. § 303(e)(5). Similarly, FIO, as an office within Treasury, is subject to FISMA, which requires that a federal agency review information and determine appropriate security controls over that information

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	commensurate with risk. Further, it is against the law for FIO's staff members to divulge or disclose confidential business information collected in the course of employment or official duties. *See* 18 U.S.C. § 1905. In addition, as an office of Treasury, FIO is subject to Treasury policies and procedures regarding the treatment and protection of protected information. *See*, *e.g.*, Treasury Security Manual – TD P 15-71. Inappropriate disclosure of confidential information may be subject to sanctions, depending on the circumstances. In addition, members of FIO's staff have entered into confidentiality agreements with the Bank for International Settlements (BIS) for ongoing work with the IAIS to perform field testing of proposals for enhanced requirements, including international capital standards, that would apply to Internationally Active Insurance Groups (IAIGs), as well as work involving the assessment of confidential insurer information in connection with the identification of Global Systemically Important Insurers (G-SIIs). Finally, FIO is also subject to the confidentiality rules of the FSOC, which are set out in the Dodd-Frank Act, the Rules of Organization of the Financial Stability Oversight Council (known as the Bylaws), a Memorandum of Understanding regarding the treatment of non-public information shared among its member agencies, and the FSOC Transparency Policy.
2.10	**The supervisor and its staff have the necessary legal protection against lawsuits for actions taken in good faith while discharging their duties, provided they have not acted illegally. They are adequately protected against the costs of defending their actions while discharging their duties.**
2.10	**States:** There are necessary legal protections for the insurance department and its staff protecting them against lawsuits for actions taken in good faith while discharging duties. Any administrative or legal challenges to official actions are made in the name of the insurance commissioner in his or her official capacity, and such challenges are defended by insurance department counsel, the state's attorney general office, or a combination of the two. Costs incurred for actions taken in good faith while discharging duties are generally recoverable but may have to be repaid if it is subsequently found that such person was guilty of wilful intent or gross negligence or was found by a court not to be acting in good faith. In the United States, the traditional doctrine of "sovereign immunity" limits claims that can be brought against state governments and employees acting as agents of the state. Although states have amended their laws over the years to provide avenues of redress for plaintiffs, many states still prescribe particular procedures for claims against the state and limit damages. **FRB:** The FRB and its staff are protected against lawsuits for actions and

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	omissions made while discharging their duties in good faith. Sovereign immunity bars lawsuits without specific statutory authorization to pursue such litigation. Common law qualified immunity protects federal banking agencies' heads and staff from liability for the violation of an individual's federal Constitutional rights in connection with employees' performance of discretionary functions, as long as the employees' conduct does not clearly violate established statutory or Constitutional rights. Lawsuits are permitted against federal banking agencies' employees for acts and/or omissions that cause injuries while acting within the scope of their employment pursuant to the Federal Tort Claims Act, 28 U.S.C. § 2679. In such a case, the United States would substitute itself as the defendant upon the Attorney General's certification that an employee was acting within the scope of his office or employment at the time of the incident giving rise to the tort claim. *See* 28 U.S.C. § 2679(d)(2). Moreover, an exception to the act protects employees from lawsuits involving the execution of a statute or regulation or the exercise or performance or the failure to exercise or perform a discretionary function or duty, whether or not the employee abused the discretion involved. *See* 28 U.S.C. § 2680(a). **FIO:** FIO and its staff are protected against lawsuits by the sovereign immunity of the U.S. government for actions taken in good faith while discharging duties.
2.11	**The supervisor has adequate resources, financial or otherwise, sufficient to enable it to conduct effective supervision. Its staffing policies enable it to attract and retain highly skilled, competent and experienced staff. The supervisor provides adequate training for its staff. The supervisor has the ability to hire or contract the services of outside experts when necessary.**
2.11	**States:** Insurance department revenues are derived primarily from taxes (premium, retaliatory, franchise and income-based); fees (filing, examination, licensing); and fines and penalties. These revenues are sufficient to fund the insurance departments and return additional revenues typically to the general fund of each state. The NAIC Accreditation Program assesses and verifies whether each state insurance department can make an appropriate allocation of its available resources to effectively address its regulatory priorities. This requires the state insurance department to hire, train and maintain sufficient staff with high professional standards. This also requires the state insurance department to consider the need to hire external specialists when appropriate. The three standards in this area address professional development, minimum educational, and experience requirements, and the ability to attract and retain

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	qualified personnel. Where needed, insurance departments are specifically authorized by law to retain outside experts (e.g., evaluation of complex financial transactions or actuarial reserve levels) with the costs to be borne by the insurer. Insurance departments have training programs in place and the NAIC offers regular regulator training. Many states also leverage resources available to them through the NAIC, such as staff to offer financial examination and analysis support. State regulators, through the NAIC, have also established an Examination Peer Review program to assess and improve examination practices. A similar program is under development for Own Risk Solvency Assessment (ORSA) filings. **FRB:** The FRB is self-funded and is not subject to the Congressional budget process or Congressional appropriations. The FRB undertakes an internal evaluation process to ensure its staff meets its supervisory responsibilities. This includes evaluation of hiring and retention programs to attract and retain staffs that have the necessary critical skills. The FRB has annual training budgets and insists that staff undergo adequate and relevant training. On occasion, the FRB hires or contracts with outside experts to provide services that assist the FRB in carrying out its supervisory objectives. **FIO:** FIO has adequate resources and staffing policies to attract and retain skilled, competent, and experienced staff members. As an office within Treasury, FIO's staff members have the opportunity to receive adequate training on a variety of subjects. The Director of FIO has the ability to hire or contract the services of outside experts when necessary.
2.12	**The supervisor and its staff act with integrity and observe the highest professional standards, including observing conflict of interest rules.**
2.12	**States:** State laws define the authority of the insurance commissioner and his or her staff to act. This is supplemented by state ethics laws and codes of conduct, which ensure compliance with standards of professional conduct. Further, insurance department staff may be subject to internal conflict of interest rules and may be required to acknowledge the ethical codes in writing when hired and sign a statement of compliance annually. Additionally, insurance department employees who are members of certain professions (e.g., lawyers, actuaries) may be subject to relevant codes of conduct and disciplinary procedures specific to that profession.

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	FRB: The FRB insists that all staff, including the staff of the Federal Reserve Banks (discussed in more detail in the response to ICP/Std. 2.13 below), maintain high professional standards and exhibit high integrity. Federal laws and regulations, as well as individual conflict-of-interest rules and codes of conduct, help to ensure that these standards are met. **FIO:** As an office of Treasury, FIO and its staff are held to high standards of integrity and professionalism, and are subject to the Standards of Ethical Conduct for Employees of the Executive Branch, which include rules regarding conflicts of interest, gifts from outside sources, impartiality, misuse of position, seeking other employment, and outside activities. *See* 5 C.F.R. Part 2635.
2.13	**Where the supervisor outsources supervisory functions to third parties, the supervisor sets expectations, assesses their competence and experience, monitors their performance, and ensures their independence from the insurer or any other related party. Outside experts hired by the supervisor are subject to the same confidentiality rules and professional standards as the staff of the supervisor.**
2.13	**States:** The use of third-party contractors may occur where and to the extent authorized by statute. In such cases, the insurance regulator controls the relationship, manages contacts, and oversees the work of the contractor. The contract between the insurance department and the contractor requires the contractor to confirm the lack of conflicts of interest and to meet certain performance expectations, including adhering to state rules on ethics and government procurement. As a result, contractors are generally bound by the same rules or codes of professional standards as if that contractor was an insurance department employee. **FRB:** The FRB delegates certain supervisory functions to twelve Federal Reserve Banks (Reserve Banks) and their branches located throughout the United States. This system of coordinated supervision is not traditional outsourcing, but Reserve Bank employees are not FRB or federal government employees. The FRB sets expectations for the Reserve Banks' supervision of entities subject to FRB supervision, regularly assesses the competence and experience of Reserve Bank staff, monitors the performance of Reserve Bank staff, and ensures the independence of the Reserve Bank from supervised entities by, among other things, prohibiting the Reserve Bank from acting on applications and notices filed by supervised entities whose directors are also directors of the Reserve Bank.

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	FIO: FIO has not outsourced, and does not currently envision outsourcing, any of its authorities.
ICP 3	**Information Exchange and Confidentiality Requirements**
3	**The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.**
3	**States:** State insurance laws generally provide for the commissioner to share confidential information pursuant to statutory authorization. In some instances, state insurance laws will provide general authorization for the commissioner to share with other governmental entities; in more common instances, state insurance laws will provide for specific authorization to share certain types of information (e.g., examination information and holding company information) with other governmental entities. The range of governmental entities with which the commissioner may be authorized to share information include other state, federal and international regulators and state, federal and international law enforcement authorities. **FRB:** The FRB has in place a number of formal and informal mechanisms for information sharing, which, among other things, are an integral part of supervisory programs providing for the comprehensive consolidated supervision of banks, holding companies and nonbank financial companies. FRB staff regularly exchanges information with other U.S. federal banking regulators, state banking regulators, certain foreign regulators, FIO, state insurance regulators, the NAIC, and other federal agencies on issues related to its supervision, including insurance capital requirements and stress testing. As a member of FSOC, FRB is a signatory to the FSOC's multi-lateral memorandum of understanding regarding the treatment of non-public information shared among its member agencies. Further, the FSOC has entered into MOUs with approximately 19 state insurance regulators. Unless authorized by law, it is a crime for an employee of the U.S. federal government to divulge, disclose, or make known in any manner trade secrets or other confidential business information collected in the course of employment or official duties. *See* 18 U.S.C. § 1905. However, the FRB has statutory powers that allow it to share information with appropriate parties. The importance and necessity of maintaining the confidentiality of the information is highlighted in several statutory and regulatory provisions, as is the requirement that the information be used for lawful supervisory purposes. The FRB has promulgated rules and policies implementing the civil and criminal statutes relating to the treatment of confidential supervisory and bank

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	information. *See* 12 CFR Part 261. **FIO:** In general, federal regulatory agencies and offices within Treasury, including FIO, exchange information and coordinate efforts with one another and with state regulators. Pursuant to its authority under Title V of the Dodd-Frank Act, "in carrying out the functions required under [Title V], [FIO] may receive and collect data and information on and from the insurance industry and insurers; enter into information-sharing agreements; analyze and disseminate data and information; and issue reports regarding all lines of insurance, except health insurance." 31 U.S.C. § 313(e)(1). "Any data or information obtained by [FIO] may be made available to State insurance regulators, individually or collectively, through an information-sharing agreement that (i) shall comply with applicable Federal law; and (ii) shall not constitute a waiver of, or otherwise affect, any privilege under Federal or State law (including the rules of any Federal or State court) to which the data or information is otherwise subject." 31 U.S.C. § 313(e)(5)(C). FIO has entered into an information-sharing agreement with the NAIC. FIO will continue to develop data collection, analysis, and sharing arrangements with other federal agencies and state regulators. As a member of the FSOC, FIO is a signatory to the FSOC's multi-lateral memorandum of understanding regarding the treatment of non-public information shared among its member agencies. Further, the FSOC has entered into MOUs with approximately 19 state insurance regulators. In addition, members of FIO's staff have entered into confidentiality agreements with BIS for ongoing work with the IAIS to perform field testing of proposals for enhanced requirements, including international capital standards that would apply to IAIGs, as well as work involving the assessment of confidential insurer information in connection with the identification of G-SIIs. Pursuant to Title V, the confidential status of information provided to FIO, whether by operation of law or by agreement, continues after that information is provided to FIO: "Any requirement under Federal or State law to the extent otherwise applicable, or any requirement pursuant to a written agreement in effect between the original source of any non-publicly available data or information and the source of such data or information to [FIO], regarding the privacy or confidentiality of any data or information in the possession of the source to [FIO], shall continue to apply to such data or information after the data or information has been provided pursuant to this subsection to [FIO]." 31 U.S.C. § 313(e)(5)(B).

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3.1	**The supervisor has the legal authority and power to obtain and exchange supervisory information in respect of legal entities and groups, including the relevant non-regulated entities of such groups.**
3.1	**FRB:** The FRB has authority pursuant to section 161(a)(1) of the Dodd-Frank Act, 12 U.S.C. § 5361(a)(1), to require nonbank financial companies to submit reports concerning the financial condition of the company and subsidiaries, among other items. The FRB may require a nonbank financial company to supply copies of reports and supervisory information the firm has provided to other federal or state regulators. *See* 12 U.S.C. § 5361(a)(3). The FRB may also request information that facilitates the FRB's examination of any nonbank financial company. *See* 12 U.S.C. § 5361(b). The FRB has authority pursuant to the BHC Act, HOLA, and the FRA to require BHCs, SLHCs, and state member banks, respectively, to submit a broad range of information, including annual and quarterly reports. *See* U.S.C. § 1844(c), 12 U.S.C. § 1467a(b), and 12 U.S.C. § 324, respectively. Where necessary and appropriate, the FRB may request supervisory information concerning non-regulated subsidiaries of regulated entities. The response to ICP/Std. 3.2 addresses the FRB's authority to exchange supervisory information. **States:** State insurance regulators have broad authority to obtain information from regulated insurers upon request or at specific times; hold hearings and compel the attendance of witnesses; command the production of documents; and examine the insurer at any time and at designated intervals. Insurers must regularly submit certain information related to the financial condition and business operations of the entity and its affiliates, whether regulated or non-regulated, including but not limited to annual and quarterly financial statements, risk-based capital reports, enterprise risk reports (new), ORSA summary reports (new as of 2015), and various holding company system filings. State insurance laws generally provide for the commissioner to share confidential information pursuant to statutory authorization. State insurance laws generally include explicit protections from disclosure for confidential information received from other state, federal and international regulators and law enforcement officials where such information is confidential under the laws of the providing jurisdiction and is received with the notice and understanding that it is confidential. **FIO:** *See* response to ICP 3.

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3.2	**The supervisor has the legal authority and power, at its sole discretion and subject to appropriate safeguards, to exchange information with other relevant supervisors. The existence of an agreement or understanding on information exchange is not a prerequisite for information exchange.**
3.2	**FRB:** The FRB has broad legal authority to share information with other banking and financial system supervisors. *See, e.g.*, 12 U.S.C. §§ 1817(a)(2)(A) and (C); 12 U.S.C. § 3412(e). The importance and necessity of maintaining the confidentiality of the information is highlighted in several statutory and regulatory provisions, as is the requirement that the information be used for lawful supervisory purposes. The FRB has promulgated rules and policies implementing the civil and criminal statutes relating to the treatment of confidential supervisory and bank information. *See* 12 CFR Part 261. In general, prior to engaging in information sharing, the FRB requires assurances that the information will be used only for lawful supervisory purposes and will be kept confidential. The existence of an agreement or memorandum of understanding is not a prerequisite for information sharing; however, it often expedites the information sharing because the parties have documented their agreement to information sharing terms. If there is no agreement or memorandum of understanding the FRB can still share information with other regulators but will need to confirm that it meets the statutory and regulatory requirements (e.g., purpose/use, need for information, agreement to keep confidential to extent possible). **States:** State insurance laws generally provide for the commissioner to share confidential information pursuant to statutory authorization. In some instances, state insurance laws will provide general authorization for the commissioner to share with other governmental entities; in more common instances, state insurance laws will provide for specific authorization to share certain types of information (e.g., examination information and holding company information) with other governmental entities. The range of governmental entities with which the commissioner may be authorized to share information include other state, federal and international regulators and state, federal, and international law enforcement authorities. These laws do not generally mandate that information be shared; rather, state insurance laws allow for sharing of confidential information at the state insurance commissioner's discretion provided the recipient is able to maintain the confidentiality of the information.

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	FIO: *See* response to ICP 3. Moreover, FIO is not required to have an information-sharing agreement in place with a supervisor in order to disclose information to that supervisor, as FIO may be permitted to do so under applicable law (depending on the information and/or the supervisor).
3.3	**The supervisor proactively exchanges material and relevant information with other supervisors. The supervisor informs any other supervisor in its jurisdiction and the supervisors of insurance group entities in other jurisdictions or sectors in advance of taking any action that might reasonably be considered to affect those group entities. Where prior notification is not possible, the supervisor informs other relevant supervisors as soon as possible after taking action.**
3.3	**States:** State insurance laws generally provide for the commissioner to share confidential information pursuant to statutory authorization. In some instances, state insurance laws will provide general authorization for the commissioner to share with other governmental entities; in more common instances, state insurance laws will provide for specific authorization to share certain types of information (e.g., examination information and holding company information) with other governmental entities. The range of governmental entities with which the commissioner may be authorized to share information include other state, federal, and international regulators and state, federal, and international law enforcement authorities. Recent amendments to state insurance holding company laws expanded and clarified the authority of state insurance regulators to participate in supervisory colleges (38 states have now adopted these amendments). Under these amendments, the state insurance commissioner is empowered to establish and/or participate in colleges; clarify the participation and functions of college members, including the establishment of a group-wide supervisor; and coordinate ongoing college activities. Therefore, supervisory colleges provide an additional forum for state insurance regulators to work with other supervisors with respect to actions that may affect the insurance group. **FRB:** The FRB has formal arrangements, including formal information-sharing agreements, with state insurance supervisors to coordinate and plan supervisory activities, both on a routine and an emergency basis, with respect to supervised entities having significant insurance operations. The FRB makes available relevant information to other banking agencies and functional regulators regarding the financial condition, risk-management policies, and operations of a holding company that may have a material impact on an individual regulated subsidiary. The other banking agencies make

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	information about bank subsidiaries of holding companies available to the FRB and to each other. Other functional regulators also provide information to the banking agencies concerning regulated entities within supervised entities that may have an adverse effect on the organization supervised by the FRB. Such sharing is an integral part of the U.S. supervisory process. **FIO:** Where appropriate within its statutory authorities, FIO proactively works with other authorities. For example, as per 12 CFR Part 1310, the FSOC, on which FIO serves, consults with any applicable primary financial regulatory agency(ies), state authority(ies) and/or home country authority(ies) for each nonbank financial company being considered for designation. In addition, FIO proactively works and exchanges information with other international authorities bilaterally and through the IAIS.
3.4	**The supervisor has a legitimate interest and a valid purpose related to the fulfilment of supervisory functions in seeking information from another supervisor.**
3.4	**States:** Using the Master Information Sharing and Confidentiality Agreement as an example (*see* response to ICP/Std. 3.5), state insurance regulators are required to demonstrate a proper regulatory purpose in requesting information from another regulator and that they possess legal authority to maintain the confidentiality of information being requested. Information sharing agreements with other regulatory bodies, including federal and international supervisors, may impose similar requirements. **FRB:** Formal and informal information sharing is an integral part of the FRB's supervisory programs providing for the comprehensive consolidated supervision of the entities for whom it is charged with supervising. **FIO:** FIO may seek information from other authorities "in carrying out the functions required under [Title V of the Dodd-Frank Act]." 31 U.S.C. § § 313(e)(1).
3.5	**The supervisor assesses each request for information from another supervisor on a case by case basis.**
3.5	**States:** State insurance regulators assess requests for confidential information on a case-by-case basis and according to the terms of an information sharing agreement with another supervisor. The Master Information Sharing and Confidentiality Agreement, to which all 50 U.S. states, the District of

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	Columbia, Puerto Rico and Guam are signatories, generally prescribes the protocols and procedures for information sharing among U.S. state insurance regulators. The Agreement facilitates ongoing sharing of information among the signatory parties. In this manner, the Agreement operates similarly to the IAIS Multilateral Memorandum of Understanding (IAIS MMoU). The Agreement satisfies requirements in state laws that the receiving party of confidential information agree in writing to keep information confidential and demonstrate that they possess the statutory authority to maintain the confidentiality of such information. The Agreement establishes procedures for the request and safekeeping of confidential information. In sum, the Agreement operates as follows: The Requesting Department makes a written request for information and the Responding Department agrees to reply as soon as practicable. In receiving confidential information from the Responding Department, the Requesting Department agrees to limit use of confidential information to exercise of regulatory functions; protect confidential information from disclosure and preserve any privileges; inform Responding Department of any third-party or judicial requests for the information; consent to the intervention of Responding Department in any action to protect confidential information; and return confidential information upon request and destroy any copies. Similar agreements are in place between states and federal and international regulators. Such agreements often include provisions similar to those described above. For example the IAIS MMoU (five states are signatories and many more have applications pending and/or are considering applying) imposes many similar requirements (i.e., valid purpose/prior explicit consent requirements). **FRB:** The FRB assesses each request for information from another supervisor on a case-by-case basis. **FIO:** FIO evaluates each request for information on a case-by-case basis.
3.6	**The supervisor responds in a timely and comprehensive manner when exchanging relevant information and in responding to requests from supervisors seeking information.**
3.6	**States:** As noted in the preceding answer, the terms of the Master Information Sharing and Confidentiality Agreement obligate the supervisor to respond to requests for confidential information as soon as practicable. Other similar information sharing and confidentiality agreements may prescribe similar requirements to respond as timely and comprehensively as possible.

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	FRB: The FRB responds in a timely and comprehensive manner to each request for information from another supervisor. The FRB has formal arrangements, including formal information-sharing agreements, with state insurance supervisors to coordinate and plan supervisory activities, both on a routine and an emergency basis, with respect to supervised entities having significant insurance operations. In addition, the FRB has entered into bilateral formal information-sharing and cooperation agreements with 24 foreign supervisors, including certain foreign supervisors with responsibilities for insurance supervision, and additional arrangements are in process. These memoranda of understanding and statements of cooperation have facilitated timely information sharing between the U.S. federal banking agencies and their foreign counterparts. **FIO:** FIO responds in a timely and comprehensive manner when exchanging relevant information and in responding to requests from authorities seeking information.
3.7	**Strict reciprocity in terms of the level, format and detailed characteristics of information exchanged is not required by the supervisor.**
3.7	**States:** Such terms are not prescribed by state law and are not typical elements of information sharing and confidentiality agreements among supervisors. As noted above, state insurance laws authorize state insurance regulators to share confidential information with other supervisors provided the supervisor can demonstrate the ability to maintain the confidentiality of the information shared. **FRB:** Strict reciprocity in terms of the level, format, and detailed characteristics of the information exchanged is not a prerequisite to information exchange. **FIO:** FIO is not subject to any laws, regulations or rules that would demand strict reciprocity in terms of exchanged information.
3.8	**Before exchanging confidential information, the supervisor ensures that the party receiving the information is bound by confidentiality requirements.**
3.8	**States:** Using the Master Information Sharing and Confidentiality Agreement as an example, state insurance regulators are required to demonstrate that they possess legal authority to maintain the confidentiality of information being

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	requested. State insurance regulators will consider the law pursuant to which the information is being requested and the confidentiality protections that "follow" confidential information prior to exchanging information with another supervisor. State insurance laws generally provide that, as a condition to sharing confidential information with other governmental entities, the state insurance regulator may be required to enter into a written agreement for that purpose and the receiving party must have the authority to maintain the confidentiality of the information provided. **FRB:** In general, prior to engaging in information sharing, the FRB requires assurances that the information will be used only for lawful supervisory purposes and will be kept confidential. **FIO:** As noted in FIO's response to ICP 3, the confidential status of information provided to FIO, whether by operation of law or by agreement, continues after that information is provided to FIO. *See* 31 U.S.C. § 313(e)(5)(B). In general, FIO would require assurances from any authority requesting confidential information that the requesting authority will only use the information for lawful purposes and will keep the information confidential.
3.9	**The supervisor generally permits the information it exchanges with another supervisor to be passed on to other relevant supervisors or other bodies in that jurisdiction, provided that the necessary confidentiality requirements are in place.**
3.9	**States:** State insurance laws generally require that confidential information may be shared with other supervisors who can demonstrate their ability to maintain the confidentiality of such information. State laws typically do not address the question of the passing along of information. This issue is typically governed by the terms of the information sharing and confidentiality agreement pursuant to which the information was exchanged. The providing regulator may require their consent before the passing along of such information, but such consent is unlikely to be withheld if the providing regulator is authorized to share the information directly with the third-party entity seeking such information. **FRB:** In accordance with relevant statutory and regulatory provisions, before the FRB discloses confidential supervisory information to a domestic or foreign supervisor it obtains that supervisor's agreement to maintain the confidentiality of the received information to the extent possible under applicable law. Generally, FRB requires that domestic and foreign supervisors obtain the consent of FRB before sharing received information

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	with a third party. **FIO:** As noted in FIO's response to ICP 3, the confidential status of information provided to FIO, whether by operation of law or by agreement, continues after that information is provided to FIO. *See* 31 U.S.C. § 313(e)(5)(B). FIO would require that necessary confidentiality requirements be in place before consenting to a requesting authority passing on information FIO had provided to other authorities.
3.10	**The supervisor receiving confidential information from another supervisor uses it only for the purposes specified when the information was requested. Before using the information for another purpose, including exchanging it with other parties, the supervisor obtains agreement of the originating supervisor.**
3.10	**States:** The receiving supervisor will generally be required to demonstrate a proper regulatory purpose prior to the responding supervisor providing the information. Using the Master Information Sharing and Confidentiality Agreement as an example, the state insurance regulator expressly agrees to use such information for a proper regulatory purpose and the purposes for which the information is requested is evaluated by the responding regulator in deciding whether to release the information to the requesting regulator. **FRB:** Obtained confidential material would be used by the FRB to carry out its supervisory responsibilities, which include ensuring the safety and soundness of the institutions subject to its supervision and conducting enforcement actions and investigations. In carrying out its lawful supervisory responsibilities, the FRB shares information with other agencies as discussed above, including appropriate enforcement authorities. **FIO:** In general, to the extent FIO requests confidential information, it does so "in carrying out the functions required under [Title V]." 31 U.S.C. § 313(e)(1). Any information received in response to such a request would only be used in furtherance of those functions, and would be shared with other authorities as necessary to perform FIO's statutory authority.
3.11	**In the event that the supervisor is legally compelled to disclose confidential information it received from another supervisor, the supervisor promptly notifies the originating supervisor, indicating what information it is compelled to release and the circumstances surrounding the release. Where consent to passing this information on is not given, the**

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	supervisor uses all reasonable means to resist the demand and to protect the confidentiality of the information.
3.11	**States:** Using the Master Information Sharing and Confidentiality Agreement as an example, state insurance regulators are generally required to protect confidential information from disclosure and preserve any privileges; inform the provider of any third-party or judicial requests for the information; and consent to the intervention of the providing party in any action to protect confidential information. Even in cases where there are no outside or third-party attempts to compel the production of confidential information, state insurance regulators are bound by the Agreement to seek the consent of the providing party before passing along such information. **FRB:** In circumstances in which the FRB is legally compelled to disclose confidential information it has received from another supervisor, the FRB notifies the originating supervisor indicating what information it has been compelled to produce and the circumstances surrounding the release. Where consent to passing this information on is not given, the FRB would use all reasonable means to resist the demand and to protect the confidentiality of the information. **FIO:** If FIO were to be legally compelled to disclose confidential information received from another authority, FIO would notify that originating authority and identify the information it had been compelled to produce and the circumstances of that release. If the originating authority opposed the passing on of the information, FIO would use all reasonable means to resist the demand and protect the confidentiality of the information.
ICP 4	**Licensing**
4	**A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.**
4	**FIO:** FIO is directly involved in the issues raised by ICPs 4 – 10, 13 – 18, 20 – 21, and 23 through its representation of the United States at the IAIS and through its authority to monitor all aspects of the insurance industry, including its regulation. **States:** States have statutes that require an entity to be licensed before

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	operating in its jurisdiction. The NAIC has accreditation standards related to a state insurance department's review of an application for initial licensure which require the department to have documented licensing procedures that include a review and/or analysis of key pieces of information included in a primary licensure application. To create a national uniform application, the Uniform Certificate of Authority Application (UCAA) was created by the NAIC, and all states (and Puerto Rico) are accepting the UCAA with minor variations based on state laws. The application can be used for all lines of insurance except the Health Maintenance Organization (HMO). A company may need additional authorizations beyond receiving a Certificate of Authority to actually operate a business in some states. These additional state licensing requirements are based on either statutory or state specific requirements developed by the individual state. Specific state licensing requirements are generally available on the NAIC/UCAA web site, the state web sites or can be readily ascertained by contacting the state insurance department. **FRB:** The FRB is not a licensing authority for insurance companies.
4.1	**To protect the interests of policyholders, a jurisdiction controls through licensing which entities are allowed to conduct insurance activities within its jurisdiction.**
4.1	**States:** All insurance activities (except those exempted under legislation) must be conducted by entities either licensed by the state or, subject to legislation, licensed in another jurisdiction. **FRB:** The FRB is not a licensing authority for insurance companies.
4.2	**The insurance legislation:** • **includes a definition of regulated insurance activities which are subject to licensing;** • **prohibits unauthorised insurance activities;** • **defines the permissible legal forms of domestic insurers;**

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	• **allocates the responsibility for issuing licences; and** • **sets out the procedure and form of establishment by which foreign insurers are allowed to conduct insurance activities within the jurisdiction.**
4.2	**States:** Regulated insurance activities are fully defined in legislation; the lines of business that are permitted to be licensed in a state are defined in each state's statutes. Unauthorized insurance activities are explicitly prohibited and subject to specified sanctions (the level and type of sanction depends on the severity of the violation). The permissible legal forms of domestic insurers and procedures and form for establishment of foreign insurers are defined through a combination of insurance legislation and other legislation, such as state corporate law. In general, the state's responsibility for issuing licenses is explicitly specified in legislation. **FRB:** The FRB does not implement or carry out state insurance law with respect to licensing or otherwise.
4.3	**Licensing requirements and procedures are clear, objective and public, and are consistently applied, requiring: the applicant's Board Members, Senior Management, both individually and collectively, Significant Owners and Key Persons in Control Functions to be suitable; the applicant to satisfy capital requirements; the applicant to have a sound corporate or group structure and governance framework that does not hinder effective supervision; and the applicant to have sound business and financial plans.**
4.3	**States:** Licensing requirements are printed in the UCAA Manual and posted on the NAIC/UCAA web site or state sites, which are publicly available. The UCAA application is the most universal licensing form currently being used by the majority of the states; the application information can be used as a basis for all general company licensing requirements in the United States. The following forms shall be included with a UCAA application: an original executed application form identifying all lines of insurance the applicant is requesting authority to transact and is currently licensed to transact and is transacting in all jurisdictions. The UCAA application includes a business profile of the applicant. Any other management offices that exercise control over insurance operations in any

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	state in which an applicant is applying for admission must also be included. Additional charts should be provided to depict any operation that is delegated to an affiliate or third party, and any situation where resources are pooled among affiliates. The plan of operation portion of the business profile presents, in detail, the product lines currently sold and planned by the applicant, the applicant's marketing plan, a description of the applicant's current and expected competition (both regionally and nationally), and a discussion of how each state in which admission has been requested fits into that plan. A verification form and brief questionnaire should accompany the applicant's plan of operation. The UCAA also requires that the applicant show it meets each state's statutory minimum paid-in capital and surplus requirements. The level of surplus required is determined after considering the applicant's product line, operating record and financial condition. Compliance with the statutorily prescribed minimum surplus requirement may not be sufficient for all applicants. The UCAA application shall include a copy of the applicant's most recent Annual Statement. A copy of the applicant's actuarial opinion certification must also be included. The UCAA application includes an audited report, performed by a Certified Public Accountant (CPA) who is not an employee of the applicant. The application shall include the applicant's most recent Report of Examination from the insurance supervisor. If the applicant, its parent or its ultimate holding company, is not publicly traded, the application will also need to include a copy of the applicant's most recent audited consolidated financial statements, prepared in accordance with U.S. GAAP. The UCAA application requires the applicant to submit an NAIC Management Discussion Analysis and a Risk-Based Capital Report. Applicants who are members of a holding company system will need to include a comprehensive debt-to-equity ratio statement. A summary of the applicant's reinsurance program, listing all reinsurance agreements and providing a basic explanation of each agreement shall also be included with the application. The suitability of the applicant's Board members and Senior Management is considered at the individual level and collective level. Suitability of Significant Owners and Key Persons in Control Functions is considered when assessing applications. Applications are reviewed to ensure applicants satisfy

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	capital requirements; have a sound corporate or group structure and governance framework, and that the applicant has sound business and financial plans. The application review process is described in detail in the NAIC Company Licensing Best Practices Handbook, which is publicly available. **FRB:** The FRB is not a licensing authority for insurance companies.
4.4	**Where an insurer is seeking to establish a branch or subsidiary in a foreign jurisdiction, the host supervisor concerned consults the home supervisor as appropriate before the issuance of a licence.**
4.4	**States:** The state insurance departments generally consult with a relevant supervisor as appropriate before the issuance of a license. This process is described in the Company Licensing Best Practices Handbook which is publicly available. **FRB:** The FRB is not a licensing authority for insurance companies.
4.5	**Where an insurer is seeking to conduct cross border insurance activities without a physical presence in the jurisdiction of the host supervisor, the host supervisor concerned consults the home supervisor as appropriate before allowing such activities.**
4.5	**States:** If an insurer is seeking to conduct cross border insurance activities without a physical presence in a state, the state insurance department would consult the home supervisor on licensing matters as appropriate. **FRB:** The FRB does not implement or carry out state insurance law with respect to licensing of cross border insurance activities.
4.6	**The supervisor assesses applications, makes decisions and informs applicants of the decision within a reasonable time which is clearly specified.**
4.6	**States:** The NAIC adopted accreditation standards related to company licensing, which became effective January 1, 2012. The standards relate to a state insurance department's review of an application for initial licensure. The standards verify that license applications are reviewed in a timely manner and that the insurance department has sufficient, qualified staff to perform this review. Further, the standards require that the state have appropriate and

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	sufficient procedures to perform this review, including an analysis of many of the items discussed above. The time period typically required is publicly communicated; this timeframe is contained in the Company Licensing Best Practices Handbook and in the UCAA Manual. **FRB:** The FRB is not a licensing authority for insurance companies.
4.7	**The supervisor refuses to issue a licence where the applicant does not meet the licensing requirements. The supervisor has the authority to impose additional requirements, conditions or restrictions on an applicant where appropriate.**
4.7	**States:** State insurance departments will not issue a license if the licensing requirements are not met; however, state insurance departments have the power to impose additional requirements, conditions or restrictions on the applicant, as necessary to ensure the consistent application of licensing requirements; these powers are broadly addressed by legislation and further elaborated by supervisory guidelines. **FRB:** The FRB is not a licensing authority for insurance companies.
4.8	**If the licence is denied, conditional or restricted, the applicant is provided with an explanation.**
4.8	**States:** In cases of denial or conditional or restricted approval, the applicant is informed of the decision and provided with an explanation by the state insurance department. **FRB:** The FRB is not a licensing authority for insurance companies.
4.9	**A licence clearly states its scope.**
4.9	**States:** The license provides sufficient information to identify the types and classes of insurance business that may be underwritten and describes any conditions or restrictions. **FRB:** The FRB is not a licensing authority for insurance companies.
ICP 5	**Suitability of Persons**

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5	**The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles.**
5	**States:** This requirement is met through a number of model laws, regulations and practices in U.S. insurance regulation. The primary processes to ensure the suitability of persons include the company licensing, off-site monitoring and on-site inspection processes. Recently, the NAIC has developed additional guidance for regulator use in these areas. The new Corporate Governance Annual Disclosure Model Act and accompanying Corporate Governance Annual Disclosure Model Regulation (adopted at the NAIC Corporate Governance Working Group at the Summer 2014 National Meeting) will require insurers to report detailed information on governance practices including suitability of persons on an annual basis. As this information is intended to be reported to regulators starting as early as 2016, additional guidance will be added into regulatory handbooks and manuals to explain how this information may be used in the assessment process. **FRB:** With respect to the formation of BHCs and SLHCs, the BHC Act and HOLA, respectively, require the FRB to consider the managerial resources of any company that proposes to become a BHC or SLHC, which may include insurance companies, and the management of any bank or savings association subsidiary, including "the competence, experience, and integrity of the officers, directors, and principal shareholders of the [BHC/SLHC] or [bank/savings association]." 12 U.S.C. § 1842(c)(5); 12 U.S.C. § 1467a(e)(2). Subsequently, pursuant to the BHC Act, HOLA, and the Federal Deposit Insurance Act, the FRB requires BHCs, SLHCs, and other supervised entities to submit reports under oath that allow the FRB to assess the entity's financial condition, systems for monitoring and controlling financial and operating risks, and management, among other items. *See* 12 U.S.C. § 1844(c), 12 U.S.C. § 1467a(b), and 12 U.S.C. § 1831i, respectively. With respect to change-in-control notices filed with the FRB pursuant to the Change in Bank Control Act (CIBC Act), the FRB's review includes an analysis of whether the competence, experience, and integrity of the acquiring person(s) or proposed management personnel of the proposal would be contrary to interests of depositors or the public. *See* 12 U.S.C. § 1817(j)(7)(D). The FRB has the authority to assess the suitability of management of a nonbank financial company and its subsidiaries pursuant to section 161(b) of the Dodd-Frank Act, 12 U.S.C. § 5361(b).

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5.1	**Legislation identifies which persons meet suitability requirements.**
5.1	**States:** The license application process, uniform in all states, requires a business character report to be submitted for all officers, directors, key managerial personnel and individuals with a 10 percent or more beneficial ownership in the applicant and the applicant's ultimate controlling parent. Regardless of their source, the report must verify employment, education and military service for the past 10 years. Further, litigation, criminal, Uniform Commercial Code and bankruptcy records must be searched for the past 7 years. Typically, at least one business character reference must be obtained for each individual, such as from an attorney, partner or other business associate familiar with the business dealings of the individual. Title 18 § 1033 of the U.S. Code addresses crimes by or affecting persons engaged in the business of insurance. This law bars those convicted of various activities from working for an insurer. **FRB:** With respect to BHCs and SLHCs, the BHC Act and HOLA, respectively, require the FRB to consider the managerial resources of any company that proposes to become a BHC or SLHC and the management of any bank or savings association subsidiary, including "the competence, experience, and integrity of the officers, directors, and principal shareholders of the [BHC/SLHC] or [bank/savings association]." 12 U.S.C. § 1842(c)(5); 12 U.S.C. § 1467a(e)(2). With respect to change-in-control notices filed with the FRB, the CIBC Act requires that the competence, experience, and integrity of the acquiring person(s) or proposed management personnel of the proposal not be contrary to interests of depositors or the public. *See* 12 U.S.C. § 1817(j)(7)(D).
5.2	**The supervisor requires that in order to be suitable, Board Members, Senior Management and Key Persons in Control Functions possess competence and integrity to fulfil their roles. Significant Owners are required to have the financial soundness and integrity necessary to fulfil their roles.**
5.2	**States:** A number of requirements relate to the integrity of Board Members and Senior Management. These include: • There is a requirement for a business character report to be submitted through the license application process. States utilize this report to verify employment, education and military service for the past (10) years. Litigation,

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	criminal, Uniform Commercial Code and bankruptcy records must be searched for seven (7) years. At least one business character reference must be obtained for each individual. • Title 18 § 1033 of the U.S. Code addresses crimes by or affecting persons engaged in the business of insurance. This law bars those convicted of various crimes from working for an insurer. • SEC requirements holding the Board and senior management of publicly-held insurers accountable for ethical behavior were implemented under the Sarbanes-Oxley Act of 2002. The Act also requires the disclosure of the entity's code of ethics and waivers that have been granted or violations that have occurred. Additionally, for publicly-held insurers, the SEC requires the disclosure of details relating to the election of Board Members and the background and experience qualifying them for such a role. The experience and qualifications of key persons in control functions are spelled out in legislation and also reviewed during the exam/analysis processes. Business character reports described above are also required for Significant Owners. Also, the Model Holding Company Act and accompanying Regulation (#440 & 450) require the characteristics of a potential acquiring person or entity to be evaluated for compliance with certain requirements. The commissioner can disapprove of the acquisition if the financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interest of its policyholders. **FRB:** Pursuant to the BHC Act and HOLA, the FRB requires management and principal shareholders to have the competence and integrity to fulfil their roles. *See* 12 U.S.C. § 1842(c)(5); 12 U.S.C. § 1467a(e)(2). With respect to change-in-control notices filed with the FRB pursuant to the CIBC Act, the FRB's review includes an analysis of whether the competence, experience, and integrity of the acquiring person(s) or proposed management personnel of the proposal would be contrary to interests of depositors or the public. *See* 12 U.S.C. § 1817(j)(7)(D). With respect to management of insurance company subsidiaries of nonbank financial companies, BHCs, and SLHCs, the FRB coordinates with state insurance supervisors concerning suitability of management.

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5.3	**The supervisor requires the insurer to demonstrate initially and thereafter, when requested by the supervisor, the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners. The suitability requirements and the extent of review required depend on the person's position and responsibility.**
5.3	**States:** Supervisors initially require the filing of biographical affidavits, which the supervisor reviews to assess suitability. On an ongoing basis, the suitability of persons is reviewed during the financial examination with the focus being on the background and experience of individuals. This is typically done through the performance of Senior Management and Board Member interviews, which results in a suitability assessment. For publicly-held insurers, the SEC requires the disclosure of details regarding the election of Board Members and the background and experience qualifying them for such a role. Significant Owner applicants are reviewed for compliance with suitability requirements before the proposed acquisition is approved by the domestic supervisor. On an ongoing basis, information regarding the financial condition of owners is filed with the department as part of the Form B filing requirements outlined in the Model Holding Company Regulation (#450) and subject to review and analysis. **FRB:** With respect to management of insurance company subsidiaries of nonbank financial companies, BHCs, and SLHCs, the FRB coordinates with state insurance supervisors concerning suitability of management.
5.4	**The supervisor requires to be notified by insurers of any changes in Board Members, Senior Management, Key persons in Control Functions and Significant Owners, and of any circumstances that may materially adversely affect the suitability of its Board Members, Senior Management, Key Persons in Control Functions and Significant Owners.**
5.4	**States:** Insurers must notify the regulator of changes in officers or directors and file new biographical affidavits upon request. The Corporate Governance Annual Disclosure Model Act provides that insurers be required to provide information regarding internal suitability standards that the insurer has developed and disclose changes in the suitability status of those listed above. For publicly-held insurers, the SEC requires the disclosure of details relating to the election of new Board Members and the background and experience

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	qualifying them for such a role. In addition, changes in the suitability status of owners are required to be reported through the holding company filings on an annual basis. **FRB:** With respect to management of insurance company subsidiaries of nonbank financial companies, BHCs, and SLHCs, the FRB coordinates with state insurance supervisors concerning changes to management where appropriate. For BHCs and SLHCs, the FRB requires notice of changes to certain management positions for entities that are not, for example, in compliance with minimum capital requirements. *See, e.g.,* 12 CFR Part 225.72 and 238.73.
5.5	**The supervisor takes appropriate action to rectify the situation when Board Members, Senior Management and Key Persons in Control Functions or Significant Owners no longer meet suitability requirements.**
5.5	**States:** The NAIC Model Regulation to Define Standards and Commissioners Authority for Companies Deemed to be in Hazardous Financial Condition (Hazardous Financial Condition Model Regulation #385) includes a suitability standard that can be enforced by requiring the insurer to "correct corporate governance practice deficiencies, and adopt and utilize governance practices acceptable to the commissioner." This particular standard has been adopted by a majority of state insurance departments and is currently under consideration to be adopted as a required element of the NAIC Accreditation Program. Title 18 § 1033 of the U.S. Code addresses crimes by or affecting persons engaged in the business of insurance. This law bars those convicted of various activities from working for an insurer. **FRB:** The FRB may remove an officer, director, or employee from an entity supervised by the FRB and prohibit the individual from further participation in the banking industry. An individual may be subject to a removal and prohibition order, if the individual has: (i) engaged in a violation of law or certain other specified misconduct; (ii) the misconduct caused a loss to the bank or holding company, or resulted in gain to the individual; and (iii) the individual has demonstrated continuing or wilful disregard for the safety and soundness of the bank or holding company, or the individual's action involved personal dishonesty. *See, e.g.,* 12 U.S.C. § 1818(e). The Dodd-Frank Act extended to the FRB direct enforcement authority over nonbank financial companies, except for those activities of the nonbank financial company that are regulated by another regulatory agency. In the event a perceived problem

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	involves a nonbank financial company primarily regulated by another agency, the FRB may refer the matter to that agency and, if no action is taken, may thereafter initiate its own action. 12 U.S.C. § 5362.
5.6	**The supervisor exchanges information with other authorities inside and outside its jurisdiction where necessary to check the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer.**
5.6	**States:** The NAIC's Form A Database allows the states to share information with each other on a potential acquiring person. Accreditation standards require states to have the ability to share confidential information with each other. Various states have entered into MOUs to allow communication with other jurisdictions. Communication between states also occurs regularly through the Financial Analysis Working Group (FAWG) process in relation to suitability matters. States are responsive to suitability inquiries from non-U.S. jurisdictions when received. **FRB:** The FRB exchanges information with other state and federal agencies concerning the competence and integrity of management and principal shareholders of supervised entities or companies or individuals that propose to control a supervised entity and its subsidiaries.
ICP 6	**Changes in Control and Portfolio Transfers**
6	**Supervisory approval is required for proposals to acquire significant ownership or an interest in an insurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer. The same applies to portfolio transfers or mergers of insurers.**
6	**States:** All states and the District of Columbia have adopted substantially similar language found within the Model Holding Company Act and its related Regulation regarding change of control for any licensed insurer. The Model Holding Company Act clearly defines "control" and requires potential controlling owners to receive regulatory approval for changes in control. The Form A Statement of the aforementioned related regulation provides for extensive disclosure and attestation regarding the acquiring party's intention to control and ability to meet regulatory standards for acquiring such control.

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	The Model Holding Company Act requires that the domestic state insurance department must be notified of major transactions with affiliated entities which could include material portfolio transfers between related parties. Assumption reinsurance and bulk reinsurance statutes establish thresholds by which material transfers of all or most of an insurer's business either in total or within a specific line of business are subject to review and approval. **FRB:** As discussed in the response to ICP 1 (above), the FRB has supervisory authority over BHCs, SLHCs, state member banks, certain FBOs, and nonbank financial companies. The FRB is the consolidated supervisor of BHCs, SLHCs, FBOs, and nonbank financial companies and regulates their operations and activities, including, in most cases, their acquisition of insurance companies or agencies. In some cases, an SLHC or BHC, for example, must obtain the FRB's prior approval before it may acquire an insurance company. *See, e.g.*, 12 U.S.C. §§ 1843 and 1467a(c). With respect to the control of BHCs and SLHCs, four federal statutes (and their implementing regulations) define significant ownership and controlling interest. They address proposed changes in ownership, control, or structure of banks. In each instance, the circumstances triggering the need for authorization are clear. The U.S. federal banking agencies have statutory authority under the CIBC Act, 12 U.S.C. § 1817(j), to review, reject, and impose conditions on proposals involving significant changes in ownership or control of banks or savings associations. In general, prior authorization by the appropriate federal banking agency is required for any person to acquire "control" of a bank or savings association. "Control" for this purpose is defined as "the power, directly or indirectly, to direct the management or policies of an insured depository institution or to vote 25 per centum or more of any class of voting securities of an insured depository institution." 12 U.S.C. § 1817(j)(8)(B). A "person" for purposes of the CIBC Act includes an individual, a group of individuals acting in concert, or certain entities (e.g., corporations, partnerships, trusts) that own shares of banks or savings associations but that does not meet the definition of a BHC or SLHC. The agencies have authority to reject, or impose conditions on, proposed acquisitions based upon criteria enumerated in the CIBC Act. In general, prior authorization of the FRB is required under section 3 of the BHC Act for a company to directly or indirectly acquire control of a bank or BHC. 12 U.S.C. § 1842(a). "Control" for this purpose generally includes direct or indirect ownership, control, or the power to vote 25 percent or more of any class of voting securities of a bank or BHC. "Control" is further defined to include (a) control over the election of a majority of directors (or

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	persons exercising similar functions) or (b) the power to exercise directly or indirectly a controlling influence over the management or policies of the bank or BHC. *See* 12 CFR 225.2(e)(1). For existing BHCs, FRB authorization is required before the BHC can acquire, directly or indirectly, 5 percent or more of any class of voting shares of another bank. *See* 12 U.S.C. § 1842(a)(3). The acquisition of control of a nonbank financial company is also subject to section 3 of the BHC Act as if the nonbank financial company were a BHC. *See* 12 U.S.C. § 5363(a). Prior authorization of the Federal Reserve is required under HOLA for a company directly or indirectly to acquire control of a savings association or an SLHC. *See* 12 U.S.C. § 1467a(e). The definition of "control" under HOLA is similar to the BHC Act definition of control. In addition, subject to statutorily enumerated exceptions, FRB approval is required before an SLHC can acquire, directly or indirectly, more than 5 percent of a class of voting securities of another savings association or SLHC. *See* 12 U.S.C. § 1467a(e)(1)(A)(iii). Under section 163(b) of the Dodd-Frank Act, certain BHCs and any nonbank financial company must provide prior notice to the Board for approval before acquiring the shares of entities engaged in the activities described in section 4(k) of the BHC Act—such as insurance and providing investment advisory services—and that have total consolidated assets of $10 billion or more. 12 U.S.C. § 5363(b).
6.1	**The term "control" over an insurer is defined in legislation and it addresses, at a minimum:** • **holding of a defined number or percentage of issued shares or financial instruments (such as compulsory convertible debentures) above a designated threshold in an insurer or its intermediate or ultimate beneficial owner;** • **voting rights attached to the aforementioned shares or financial instruments;** • **power to appoint directors to the board and other executive committees or remove them.**
6.1	**States:** The Model Holding Company Act includes a broad definition of control encompassing the three bullet points of the standard. Control shall be presumed to exist if any person directly or indirectly owns, controls, holds with the power to vote, or holds proxies representing 10 percent or more of the

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	voting securities of any other person. **FRB:** As is discussed in ICP 6 (above), the term "control" is defined under the CIBC Act, BHC Act, HOLA, and the related implementing regulations and includes provisions concerning limits on equity ownership before control is formed, voting and nonvoting equity interests, and the power to appoint directors (and other indicia of controlling influence).
6.2	**The supervisor requires the insurer to provide notification of any proposed acquisitions or changes in control of the insurer. The supervisor grants or denies approval to person(s) (legal or natural) that want(s) to acquire significant ownership or a controlling interest in an insurer, whether directly or indirectly, alone or with an associate.**
6.2	**States:** The language in the Model Holding Company Act requires the acquiring person to file a pre-acquisition notification with the insurance commissioner. The supervisor grants or denies approval to persons seeking to acquire significant ownership or a controlling interest. **FRB:** As is discussed in ICP 6 (above), in certain instances U.S. federal banking statutes and the related regulations require the FRB's prior approval or notice before a BHC, SLHC, nonbank financial company, or state member bank acquires control of an insurance company. *See, e.g.,* 12 U.S.C. §§ 1843 and 1467a(c). The FRB is also involved in the change in control of an insurance company that owns or controls a depository institution such as a bank. *See, e.g.*, 12 U.S.C. §§ 1842 and 1467a(e). The FRB is not otherwise involved in the acquisition of control an insurance company.
6.3	**The supervisor approves any significant increase above the predetermined control levels in an insurer by person(s) (legal or natural), whether obtained individually or in association with others. This also applies to any other interest in that insurer or its intermediate or ultimate beneficial owners. The supervisor requires appropriate notification from insurers in the case of a significant decrease below the predetermined control levels.**
6.3	**States:** The supervisor approves any significant increase above the predetermined control levels, whether obtained individually or in association with others. Pursuant to the Model Holding Company Act, any controlling person seeking to divest its controlling interest in the insurer must file a confidential notice of its proposed divestiture at least 30 days prior to the

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	cessation of control. **FRB:** As is discussed in ICP 6 (above), in certain instances U.S. federal banking statutes and the related regulations implementing them require the FRB's prior approval or notice before a BHC, SLHC, nonbank financial company, or state member bank acquires control of an insurance company. *See, e.g.*, 12 U.S.C. §§ 1843 and 1467a(c). Once a BHC, SLHC, state member bank, or nonbank financial company has received FRB approval or non-objection to acquire control of an insurance company, it may acquire any additional amount of the securities of that entity without prior approval, unless the FRB has otherwise conditioned past approvals or non-objections on the future notice or approval of subsequent further acquisitions. The FRB is also involved in the change in control or any significant increase above the predetermined control levels of an insurance company that owns or controls a depository institution such as a bank. *See, e.g.*, 12 U.S.C. §§ 1842 and 1467a(e).
6.4	**The requirements in Standards 6.2 and 6.3 above also refer to the acquisition or change of control where the intermediate or ultimate beneficial owner(s) of an insurer is (are) outside the jurisdiction where the insurer is incorporated. In such cases, the supervisor coordinates, where relevant and necessary, with corresponding supervisors of those entities.**
6.4	**States:** In cases where outside jurisdictions are involved, the domestic supervisor collaborates and coordinates, where relevant and necessary, with corresponding supervisors of those persons/entities. **FRB:** The FRB coordinates with the primary foreign supervisor(s) of the entities it supervises, as necessary.
6.5	**The supervisor is satisfied that those seeking control meet the same criteria as they would be required to meet if they sought a new licence.**
6.5	**States:** The supervisor will not approve the acquisition of control if the applicant (after the change of control) would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is seeking approval. *See* Section 3D(1)(a) of Model Holding Company Act. **FRB:** The FRB is not a licensing authority for insurance companies.

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	Licensing of insurance companies occurs at the state level.
6.6	**The supervisor requires insurers to provide appropriate information on their shareholders and any other person directly or indirectly exercising control.**
6.6	**States:** The Model Holding Company Act requires the acquiring party to provide significant information, provided under oath or affirmation, including but not limited to listing all offices and positions held during the past 5 years, any conviction of crimes, source nature and amount of the consideration used, and other pertinent information. *See* Section 3B of the Model Holding Company Act. **FRB:** The FRB may require a BHC, SLHC, state member bank, nonbank financial company, and other supervised entities to provide appropriate information on its shareholders and others exercising control.
6.7	**The supervisor rejects applications of proposed owners to control insurers if facts exist from which it can be reasonably deduced that their ownership will be unduly prejudicial to policyholders. The supervisor is able to identify the intended beneficial owner.**
6.7	**States:** The supervisor will not approve the acquisition of control if the financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interest of its policyholders. *See* Section 3D(1)(c) of the Model Holding Company Act. **FRB:** The FRB's review of applications and notices to acquire control of an insurance company or of an entity that controls an insurance company—such as a BHC, SLHC, or state member bank—is based on certain factors prescribed by federal statutes. *See, e.g.,* 12 U.S.C. §§ 1843 and 1467a(c). Generally speaking, the FRB's review is focused on the safety and soundness of the banking organization and the impact that the acquisition may have on the future prospects of the organization as a whole. The FRB will often seek comment from or coordinate review of a proposal with state insurance regulators who may review whether an acquisition will be unduly prejudicial to policyholders. In any application or notice to acquire control of an entity supervised by the FRB—such as a BHC, SLHC, or state member bank—the FRB closely reviews the proposed ownership structure including the identity of all owners, including beneficial owners. In the case of an acquisition by a BHC, SLHC,

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	state member bank, or nonbank financial company of an insurance company, the FRB is already informed of the ownership of the supervised entity, but may inquire further as necessary.
6.8	**To assess applications for proposed acquisitions or changes in control of insurers the supervisor establishes requirements for financial and non-financial resources.**
6.8	**States:** As part of the evaluation of any application for a change in control, the supervisor establishes requirements for financial and non-financial resources dependent on the business plan submitted and ultimately accepted by the supervisor. **FRB:** The FRB's review of applications and notices to acquire control of an insurance company or of an entity that controls an insurance company—such as a BHC, SLHC, or state member bank—is based on certain factors prescribed by federal statutes. *See, e.g.*, 12 U.S.C. §§ 1843 and 1467a(c). Generally speaking, the FRB's review is focused on the safety and soundness of the banking organization and the impact that the acquisition may have on the future prospects of the organization as a whole. The statutory factors the FRB is required to consider typically include an assessment of the financial and non-financial resources of the supervised entity that proposes to acquire an insurance company (*see, e.g.*, 12 U.S.C. §§ 1843 and 1467a(c)). In any application or notice to acquire control of an entity supervised by the FRB—such as a BHC, SLHC, state member bank—the FRB closely reviews the financial and non-financial resources—such as managerial resources—of the entity that proposes to acquire the BHC, SLHC, or state member bank. *See, e.g.*, 12 U.S.C. §§ 1842 and 1467a(e).
6.9	**A change of a mutual company to a stock company, or vice versa, is subject to the supervisor's approval. The supervisor satisfies itself with the new constitution or governing organisational document of the company before giving approval.**
6.9	**States:** Pursuant to state laws that permit demutualization, a change of a mutual company to a stock company is subject to the supervisor's approval, and is subject to a comprehensive review of its proposed legal structure, including organizational documents, and financial projections. **FRB:** The conversion from mutual-to-stock form of a mutual BHC or SLHC

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	is subject to the prior approval of the FRB (and may also be subject to approval by state regulators). *See, e.g.,* 12 CFR Part 239, subpart E. The formation of a new, stock-based holding company would require the prior approval of the FRB, as that newly-formed holding company would be a BHC or SLHC.
6.10	**The transfer of all or a part of an insurer's business is subject to approval by the supervisor, taking into account, amongst other things, the financial position of the transferee and the transferor. The supervisor satisfies itself that the interests of the policyholders of both the transferee and transferor will be protected.**
6.10	**States:** The transfer of all or a part of an insurer's business is subject to supervisor approval. As part of the review process, the supervisor will ensure that the interests of the policyholders of both parties are not adversely impacted. **FRB:** As is discussed in ICP 6 (above), in certain instances U.S. federal banking statutes and the related regulations require the FRB's prior approval or notice before a BHC, SLHC, nonbank financial company, or state member bank acquires control of an insurance company. *See, e.g.,* 12 U.S.C. §§ 1843 and 1467a(c). Under section 163(b) of the Dodd-Frank Act, certain BHCs and any nonbank financial company must provide prior notice to the Board for approval before acquiring the shares of entities engaged in the activities described in section 4(k) of the BHC Act—including insurance—and that have total consolidated assets of $10 billion or more. 12 U.S.C. § 5363(b). Unless the acquiring entity is an entity supervised by the FRB, the transfer of all or part of an insurance company's business would otherwise only be subject to approval at the state level.
ICP 7	**Corporate Governance**
7	**The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognises and protects the interests of policyholders.**
7	**States:** Criteria regarding corporate governance issues are dispersed throughout state insurance and commercial codes through statute, regulation and administrative orders. In general, the U.S. insurance supervisory approach for corporate governance of insurers is based upon a proportionality

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	principle. Under this principle, larger and more complex entities are subject to more stringent requirements in the application of corporate governance standards. U.S. insurance supervisors review compliance with many of the corporate governance criteria at the licensing stage for new insurers and producers, in requiring and reviewing annual statements, in conducting periodic financial and market condition reviews, in approving mergers or other changes of control involving domestic insurers, and in applying solvency oversight. Another way that U.S. insurance supervisors address many of the corporate governance criteria is through conducting on-site inspections. The NAIC Financial Condition Examiners Handbook recognizes corporate governance assessment as a critical step in planning an effective financial examination. In order to complete an examination under the risk-focused surveillance approach, examiners must consider and evaluate the insurer's corporate governance and established risk management processes. By understanding the corporate governance structure the examiner will obtain information on the quality of guidance and oversight provided by the Board and the effectiveness of management. Recently, as a result of Solvency Modernization Initiative efforts, the United States has developed additional guidance for regulator use in these areas. In addition, as aforementioned the Corporate Governance Annual Disclosure Model Act and accompanying Corporate Governance Annual Disclosure Model Regulation was adopted at the NAIC Corporate Governance Working Group at the Summer 2014 National Meeting. This model law and supporting regulation will require insurers to report detailed information on governance practices on an annual basis. As this information is intended to be reported to regulators starting in 2016, additional regulatory guidance will be added into the analysis and examination handbooks and manuals to explain how this information may be used in the regulatory assessment process. **FRB:** The FRB has a supervisory program that establishes and implements a corporate governance framework for institutions under its jurisdiction and continues to adapt an existing framework to account for the unique characteristics of insurance companies. Corporate governance expectations for all Federal Reserve-supervised firms with assets over $50 billion were detailed as part of consolidated supervision framework guidance issued in 2012. *See* SR 12-17, *available at* http://www.federalreserve.gov/bankinforeg/srletters/sr1217.htm. This guidance supports a tailored approach that accounts for the unique risk characteristics of each firm. The guidance embodied in SR 12-17 covers core

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	areas of supervisory focus. The guidance specifies the Federal Reserve's expectations around two main areas: 1) enhancing the resiliency of a firm that includes guidance on capital and liquidity planning and positions; corporate governance; recovery planning; and management of core business lines, and 2) reducing the impact of a firm's failure that includes guidance on management of critical operations; support for banking offices; resolution planning; and additional macroprudential supervisory approaches to address risk to financial stability. The FRB has conducted targeted reviews of corporate governance at supervised entities.
7.1	**The supervisor requires the insurer's Board to set and oversee the implementation of the insurer's business objectives and strategies for achieving those objectives, including its risk strategy and risk appetite, in line with the insurer's long term interests and viability.**
7.1	**States:** Current law sets requirements for the legal duties of individual Board members (e.g., duty of care, duty of loyalty, etc.); there are additional expectations for Board involvement as outlined in the Examiners Handbook. In relation to the Board's role in overseeing risk strategy and risk appetite, the NAIC adopted the Risk Management and Own Risk and Solvency Assessment Model Act (RMORSA Model Act #505) in 2013 to outline expectations for insurers in this area. As a result of these new developments, large insurers will be required to provide detailed information regarding Board oversight of risk management practices through the filing of an ORSA Summary Report as early as 2015. Also, it is anticipated that all insurers will be required to disclose the Board's role in risk management oversight through a Corporate Governance Annual Disclosure beginning as early as 2016. In addition, publicly-held insurers are subject to SEC requirements holding the Board accountable for internal control within the company to assure that legal compliance is achieved as set forth under the Sarbanes-Oxley Act of 2002. **FRB:** Please see the FRB's publicly available guidance contained in SR 12-17, December 17, 2012 (2.a: Corporate Governance), which states, in part: In order for a firm to be sustainable under a broad range of economic, operational, legal or other stresses, its board of directors…should provide effective corporate governance with support of senior management. The board is expected to establish and maintain the firm's culture, incentives, structure, and processes that promote its

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	compliance with laws, regulations, and supervisory guidance. Each firm's board of directors and committees, with support from senior management, should: a) Maintain a clearly articulated corporate strategy and institutional risk appetite. The board should set direction and oversight for revenue and profit generation, risk management and control functions, and other areas essential to sustaining the consolidated organization.
7.2	**The supervisor requires the insurer's Board to:** • **ensure that the roles and responsibilities allocated to the Board, Senior Management and Key Persons in Control Functions are clearly defined so as to promote an appropriate separation of the oversight function from the management responsibilities; and** • **provide adequate oversight of the Senior Management.**
7.2	**States:** State corporate law broadly defines the roles and responsibilities of the Board. Guidance in the analysis and examination handbooks provides an overview of appropriate roles and responsibilities in these areas. There are also some requirements included in legislation in this area, including a requirement for the appointed actuary to present results to the Board (P&C) and for the external auditor to present results to the audit committee. An assessment of how roles and responsibilities have been allocated is regularly performed during on-site examinations, even if there are no supervisory concerns, and concerns are referred to off-site monitoring (analysis) for review and follow-up. **FRB:** The primary supervisors of insurance companies are the individual states in which insurance companies are licensed or operate. With certain limited exceptions, the direct regulation of activities and operations of insurance companies, including corporate governance, is conducted at the state level. The FRB may, however, play a more active role in the supervision of management of an insurance company that also controls a bank or savings association (i.e., a BHC or SLHC that also is an insurance company). As noted in ICP 7, above, the expectations outlined in SR 12-17 apply to all Federal Reserve supervised firms that meet the relevant size threshold.

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7.3	**The supervisor requires the insurer's Board to have, on an on-going basis:** • **an appropriate number and mix of individuals to ensure that there is an overall adequate level of knowledge, skills and expertise at the Board level commensurate with the governance structure and the nature, scale and complexity of the insurer's business;** • **appropriate internal governance practices and procedures to support the work of the Board in a manner that promotes the efficient, objective and independent judgment and decision making by the Board; and** • **adequate powers and resources to be able to discharge its duties fully and effectively.**
7.3	**States:** Existing legislation with regard to Boards focuses on an individual board member's legal duties. There is some high-level guidance included in the handbooks which communicate expectations of the Board as a whole. Some of the areas outlined in the NAIC Financial Condition Examiners Handbook to be considered in the assessment of the Board include: • Membership criteria and terms; • Knowledge and experience of directors; • Independence from management; • Extent of monitoring and oversight of management activities; • Sufficiency of Board committees, in subject matter and membership; • Oversight in determining the compensation of executive officers and the appointment and termination of those individuals; • Sufficiency and timeliness of information provided to the Board; and • The Board's role in establishing the appropriate "tone at the top" including the development and enforcement of a code of conduct. **FRB:** The guidance embodied in SR 12-17 (2.b: Corporate Governance) states, in part: "Ensure that the firm's senior management has the expertise and level of involvement required to manage the firm's core business lines, critical operations, banking [insurance] offices, and other material entities. These areas should receive sufficient operational support to remain in a safe

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	and sound condition under a broad range of stressed conditions."
7.4	**The supervisor requires the individual members of the Board to:** • **act in good faith, honestly and reasonably;** • **exercise due care and diligence;** • **act in the best interests of the insurer and policyholders, putting those interests of the insurer and policyholders ahead of his/her own interests;** • **exercise independent judgment and objectivity in his/her decision making, taking due account of the interests of the insurer and policyholders; and** • **not use his/her position to gain undue personal advantage or cause any detriment to the insurer.**
7.4	**States:** These requirements are generally spelled out in state corporate law and further interpreted through case law. Disclosures are required to be included in the annual reports regarding whether the board and management are maintaining the appropriate ethical standards and properly managing conflicts of interest. In addition, beginning in 2016, insurers will be required to provide additional information regarding how directors fulfill their oversight obligations through the completion of the Corporate Governance Annual Disclosure. Publicly-held insurers are subject to SEC requirements holding board members accountable for their actions under the Sarbanes-Oxley Act of 2002. Directors are responsible for their behavior in meeting the ethics standards set forth in the Act. **FRB:** The guidance embodied in SR 12-17 (2.c: Corporate Governance) states in part: "Maintain a corporate culture that emphasizes the importance of compliance with laws and regulations and consumer protection, as well as the avoidance of conflicts of interest and the management of reputational and legal risks."
7.5	**The supervisor requires the insurer's Board to provide oversight in respect of the design and implementation of sound risk management and internal control systems and functions.**

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7.5	**States:** Assessment of the Board's oversight in respect of the design and implementation of sound risk management and internal control systems and functions is a standard part of on-site financial exams and may be extended to follow-up during financial analysis if required. Once ORSA reports are available, the review in this area will be even more extensive. Additionally, the Model Holding Company Act provides some general coverage in this respect, and there is guidance in the handbooks addressing best practices in these areas. In addition to a review of the governance structure during the financial examination, the Model Holding Company Act requires entities to disclose in their annual Form B filing a statement with respect to the board of directors oversight over governance and controls. *See also* States' response to ICP 8 (regarding Model Audit Rule). **FRB:** The guidance embodied in SR 12-17 (2.d: Corporate Governance) states in part: "Ensure the organization's internal audit, corporate compliance, and risk management and internal control functions are effective and independent, with demonstrated influence over business-line decision making that is not marginalized by a focus on short-term revenue generation over long-term sustainability."
7.6	**The supervisor requires the insurer's Board to:** • **adopt and oversee the effective implementation of a remuneration policy, which does not induce excessive or inappropriate risk taking, is in line with the identified risk appetite and long term interests of the insurer, and has proper regard to the interests of its stakeholders; and** • **ensure that such a remuneration policy, at a minimum, covers those individuals who are members of the Board, Senior Management, Key Persons in Control Functions and other employees whose actions may have a material impact on the risk exposure of the insurer (major risk–taking staff).**
7.6	**States:** Insurers are required to disclose annual compensation information on the most highly compensated executives to regulators through the Supplemental Compensation Exhibit. Additionally, compensation may be reviewed during the financial examination process. As early as 2016, the Corporate Governance Annual Disclosure will require insurers to describe the general objectives of significant compensation programs and what the programs are designed to reward. The description shall include sufficient detail to allow the commissioner to understand how the organization ensures that compensation programs do not encourage and/or reward excessive risk taking.

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	For publicly-held insurers, the SEC mandates a number of disclosure requirements including information on executive salaries, information on stock awards, information on how compensation relates to risk and the Board's role in overseeing executive compensation. Additional rules to be applied to publicly-held insurers under the Dodd-Frank Act require a shareholder vote on compensation, a fully independent compensation committee, additional executive compensation disclosures and the recovery of improperly awarded compensation. **FRB:** The guidance embodied in SR 12-17 (2.e: Corporate Governance) states, in part: "Assign senior managers with the responsibility for ensuring that investments across business lines and operations align with corporate strategies, and that compensation arrangements and other incentives are consistent with corporate culture and institutional risk appetite."
7.7	**The supervisor requires the insurer's Board to ensure there is a reliable financial reporting process for both public and supervisory purposes which is supported by clearly defined roles and responsibilities of the Board, Senior Management and the external auditor.**
7.7	**States:** Extensive financial reporting is required under U.S. insurance regulation through a process that provides information to the public and regulator based on applicability. Additional reporting standards are placed on publicly-traded companies by the SEC. The Annual Financial Reporting Model Regulation (Model Audit Rule #205) outlines requirements for companies relating to internal controls over financial reporting. Additionally, reporting requirements in this area are reviewed by financial analysis; supporting work is reviewed and utilized during onsite exams. The Model Holding Company Act and its accompanying Regulation require an annual Form B and Form F filing which require, among other things, financial statements of the ultimate controlling entity and information on group-wide enterprise/contagion risk (including an annual group business plan) respectively. The NAIC adopted the RMORSA Model Act in 2013. As of June 2014, 18 states have adopted such legislation. As a result, an annual Own Risk and Solvency Assessment Summary Report will be required annually for companies and groups domiciled in those states with annual premium greater

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	than $500 million and $1 billion respectively. **FRB:** The guidance embodied in SR 12-17 (2.d: Corporate Governance) states, in part: "Ensure the organization's internal audit, corporate compliance, and risk management and internal control functions are effective and independent, with demonstrated influence over business-line decision making that is not marginalized by a focus on short-term revenue generation over long-term sustainability."
7.8	**The supervisor requires the insurer's Board to have systems and controls to ensure the promotion of appropriate, timely and effective communications with the supervisor and relevant stakeholders on the governance of the insurer.**
7.8	**States:** Information on corporate governance and the role of the board is subject to review during an onsite examination. Financial information is subject to an annual audit that is made available to the public. Some information on insurer governance is made publicly available through the Annual Statement and through Exam Reports. The requirement to report on governance practices through the Corporate Governance Annual Disclosure may begin as early as 2016 for insurers in states that have adopted the Corporate Governance Annual Disclosure Model Act, which will provide additional information to regulators in these areas. In addition, publicly held insurers are required by the SEC to file a public proxy statement providing detailed information on the corporate governance practices of these insurers. **FRB:** The guidance embodied in SR 12-17 (2.f: Corporate Governance) which states, in part: "Ensure that management information systems (MIS) support the responsibilities of the board of directors to oversee the firm's core business lines, critical operations, and other core areas of supervisory focus."
7.9	**The supervisor requires the insurer's Board to have appropriate policies and procedures to ensure that Senior Management:** • **carries out the day-to-day operations of the insurer effectively and in accordance with the insurer's strategies, policies and procedures;** • **promotes a culture of sound risk management, compliance and fair treatment of customers;** • **provides the Board adequate and timely information to enable the Board to carry out its duties and functions including the monitoring**

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	and review of the performance and risk exposures of the insurer, and the performance of Senior Management; and • **provides to the relevant stakeholders and the supervisor the information required to satisfy the legal and other obligations applicable to the insurer or Senior Management.**
7.9	**States:** The Model Holding Company Act requires entities to disclose in their annual Form B filing a statement with respect to the board of directors oversight over governance and controls. State corporate law generally outlines responsibilities of the Board, but allows the Board to delegate certain activities to Senior Management. Additional guidance/expectations in this area are outlined in the handbooks. The role of Senior Management is typically reviewed extensively on each examination, with concerns targeted for follow-up review during the analysis process. An assessment of Senior Management may be determined through discussions with management and by reviewing the organizational structure, assignment of authority and adherence to internal controls in place at the company. Some of the areas outlined in the Examiners Handbook to be considered in the assessment of Senior Management include: • Knowledge and experience of management; • Turnover in key management positions; • The nature of business risks accepted and the company's risk assessment processes; • Access to adequate financial and operating information to identify trends or variations from budgets; • Attitudes and actions towards financial reporting and internal controls; and • Management's role in developing, communicating and enforcing a code of conduct. Disclosures are required to be included in the annual reports regarding whether the board and management are maintaining the appropriate ethical standards and properly managing conflicts of interest. The requirement to

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	report on governance practices through the Corporate Governance Annual Disclosure Model Act may begin as early as 2016 for insurers domiciled in states that have adopted the Corporate Governance Annual Disclosure Model Act, which will provide additional information to regulators in these areas. Publicly-held insurers are subject to SEC requirements holding senior management accountable for their actions under the Sarbanes-Oxley Act of 2002. Officers are responsible for their behavior in meeting the ethics standards set forth in the Act and disclosures relating to the entity's Code of Ethics are required. **FRB:** As is discussed in ICP/Std. 7.2 (above), the primary supervisors of insurance companies are the individual states in which insurance companies are licensed or operate. The direct regulation of activities and operations of insurance companies, including corporate governance, is conducted at the state level. The FRB may, however, play a more active role in the supervision of management of an insurance company that also controls a bank or savings association (i.e., a BHC or SLHC that is also an insurance company). As noted in ICP 7, above, the expectations outlined in SR 12-17 apply to all Federal Reserve supervised firms that meet the relevant size threshold.
7.10	**The supervisor has the power to require the insurer to demonstrate the adequacy and effectiveness of its corporate governance framework.**
7.10	**States:** Corporate governance practices of insurers are reviewed during on-site examinations and off-site analysis work. If deficiencies are identified, the regulator may adjust its ongoing monitoring plan and recommend that the insurer take steps to correct the problems identified. The NAIC's Hazardous Financial Condition Model Regulation (#385) lists standards (mostly financial in nature) that can be utilized in determining whether a company is in a hazardous financial condition. If a company is determined to be in such a condition, the insurer can be required to "correct corporate governance practice deficiencies, and adopt and utilize governance practices acceptable to the commissioner." This particular standard has been adopted by a majority of state insurance departments and is currently under consideration to be adopted as a required element of the NAIC Accreditation Program. **FRB:** As is discussed in ICP/Std. 7.2 (above), the primary supervisors of insurance companies are the individual states in which insurance companies are licensed or operate. With certain limited exceptions, the direct regulation of activities and operations of insurance companies, including corporate

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	governance, is conducted at the state level. The FRB may, however, play a more active role in the supervision of management of an insurance company that also controls a bank or savings association (i.e., a BHC or SLHC that is also an insurance company). As noted in ICP 7, above, the expectations outlined in SR 12-17 apply to all Federal Reserve supervised firms that meet the relevant size threshold.
ICP 8	**Risk Management and Internal Controls**
8	**The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters, and internal audit.**
8	**States:** Internal control standards and requirements are dispersed throughout state insurance codes through statutes, regulations and administrative orders. SEC rules for public companies and similar regulatory requirements for all insurers exceeding an annual premium threshold are required to provide a report on internal controls. Additionally, all insurance entities are required to receive an annual audit in accordance with the Model Audit Rule #205. An important aspect of each audit, as required by the American Institute of Certified Public Accountants and Public Company Accounting Oversight Board (PCAOB) as related to public registrants, is to understand and assess an entity's internal controls. When material weaknesses in an insurers internal control processes are identified during an audit, this model regulation requires the weaknesses to be reported to the insurance supervisor for further review. In addition to requiring annual statutory audits, the on-site inspection process is critical in evaluating the internal control processes in place. The NAIC Financial Condition Examiners Handbook (Examiners Handbook) states that risk mitigation strategies/controls are generally based on five overarching principles, which are applicable to all critical activities of an insurer. Compliance with the Examiners Handbook is required under the Accreditation Program. These principles include: 1. An active board and senior management oversight; 2. Adequate risk management, monitoring and management information systems;

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	3. Adequate and clear policies, authorization limits and procedures; 4. Comprehensive internal controls; and 5. Processes to assure compliance with laws and regulations. After risks have been identified through the examination process, the examiner is required to identify and assess the internal control processes that can mitigate each identified risk. Controls are assessed by considering both their design and operating effectiveness. When weaknesses in the company's internal controls are identified during the assessment process, the company is asked to make corrections to its processes and the supervisor adjusts its ongoing solvency monitoring of the insurer accordingly. Through increasing reporting requirements, increasing the frequency of examinations, and other means, the regulator can provide a strong incentive for the insurer to improve internal control weaknesses. In situations where an insurer is deemed to be in a hazardous financial condition, the insurer can be ordered to correct the situation as outlined in the Hazardous Financial Condition Model Regulation (#385), which is a required model regulation under the Accreditation Program. Recently, as a result of Solvency Modernization Initiative efforts, the United States has developed additional guidance for regulator use in these areas. As aforementioned, the NAIC has adopted a new model law and supporting regulation that will require insurers to report detailed information on governance practices relating to internal controls and risk management on an annual basis (*see* Corporate Governance Annual Disclosure Model Act). As this information may be reported to regulators as early as 2016 for insurers domiciled in states that have adopted the model, additional guidance will be added into regulatory handbooks and manuals to explain how this information may be used in the assessment process. In relation to effective systems of risk management, the NAIC adopted the Risk Management and Own Risk and Solvency Assessment Model Act (RMORSA Model Act #505) in 2013 to outline requirements and expectations for large insurers in this area. As of June 2014, 18 states have adopted such legislation. As a result of these new developments, large insurers domiciled in states that have adopted the model may be required to provide detailed information regarding practices in this area through the filing of an ORSA Summary Report beginning as early as 2015. In addition, the risk management systems of insurers not subject to Model Act #505 are subject to review and assessment during onsite examination activities to ensure a minimum level of effectiveness in this area. **FRB:** The FRB has a supervisory program that establishes and implements a

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	framework for assessing risk management and internal controls at institutions under its jurisdiction. Supervisory guidance with respect to corporate governance at the largest BHCs, SLHCs, and nonbank financial companies is set out in SR 12-17. The FRB assesses the condition, performance, and activities of all SLHCs and nonbank financial companies on a consolidated basis in a manner that is consistent with the Board's established risk-based approach regarding BHC supervision to the greatest extent possible taking into account any unique characteristics of insurance SLHCs, nonbank financial companies, and the requirements of HOLA and the Dodd-Frank Act, respectively. *See, e.g.*, SR Letter 11-11, July 21, 2011. As with BHCs, the FRB's objective is to ensure that an SLHC and its non-depository subsidiaries are effectively supervised and can serve as a source of strength for, and do not threaten the safety and soundness of, its subsidiary depository institution(s).
8.1	**The supervisor requires the insurer to establish, and operate within, effective systems of risk management and internal controls.**
8.1	**States:** Insurers must comply with risk management standards required through actuarial and risk-based capital requirements and the insurer's risk management function is subject to review during the financial examination process. The NAIC adopted the Risk Management and Own Risk and Solvency Assessment Model Act (RMORSA Model Act #505) in 2013. As of June 2014, 18 states have adopted such legislation. As a result, larger insurers (legal entities exceeding $500 million or groups exceeding $1 billion in annual premiums) domiciled in such states will be required to maintain a risk management framework to assist the insurer with identifying, assessing, monitoring, managing, and reporting on its material and relevant risks. Internal controls over financial reporting are subject to extensive reporting requirements under the Model Audit Rule #205 for companies exceeding $500 Million in annual premium. For publicly-held insurers, the SEC requires that information be disclosed on the issuer's leadership structure, risk management practices and the Board's role in overseeing risk management. In addition, internal controls over financial reporting are subject to extensive reporting requirements under Sarbanes-Oxley for all but the smallest public issuers.

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	FRB: As is discussed in ICP 7, the primary supervisors of insurance companies are the individual states in which insurance companies are licensed or operate. With certain limited exceptions, the regulation and supervision of the operations of insurance companies, including risk management and other internal controls, is conducted at the state level. The FRB may, however, play a more active role in the supervision of management of an insurance company that also controls a bank or savings association (i.e., a BHC or SLHC that is also an insurance company).
8.2	**The supervisor requires the insurer to have effective control functions with the necessary authority, independence, and resources.**
8.2	**States:** The insurer's overall control functions are reviewed and evaluated during the financial examination process and recommendations for improvements are made when deficiencies are identified. Recently, as a result of Solvency Modernization Initiative efforts, the United States has developed additional guidance for regulator use in these areas. The requirement to report on governance practices through the Corporate Governance Annual Disclosure may begin as early as 2016 for insurers domiciled in states that have adopted the Corporate Governance Annual Disclosure Model Act. Insurers are required to receive financial statement audits on an annual basis. A required element of a financial statement audit is a general review of the entity's internal controls over financial reporting. If material weaknesses in internal controls are identified during the audit, they are required to be reported to the regulator. Significant deficiencies in internal controls are required to be reported to the insurer's audit committee. All publicly-held firms that are subject to Sarbanes-Oxley requirements, including those that are insurers, and larger private insurers (generally those with over $500 million of direct and assumed premium pursuant to the NAIC's Model Audit Rule, which is an accreditation standard) are required to provide an attestation regarding the effectiveness of their internal controls over financial reporting. For publicly-held insurers, this attestation is subject to external auditor review. For publicly-held as well as large private insurers, this attestation and supporting documentation is subject to regulatory review during an onsite examination.**FRB:** With certain limited exceptions, the regulation and supervision of the operations of insurance companies, including internal controls, is conducted at the state level. The FRB may, however, play a more active role in the supervision of management of an insurance company that also controls a bank or savings association (i.e., a

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	BHC or SLHC that is also an insurance company).
8.3	**The supervisor requires the insurer to have an effective risk management function capable of assisting the insurer to identify, assess, monitor, manage and report on its key risks in a timely way.**
8.3	**States:** The NAIC Financial Condition Examiners Handbook provides guidance in this area to be considered in assessing the risk management practices of insurers (Exhibit M). The effectiveness of the risk management function is reviewed during each exam with concerns followed-up on through the analysis process. The NAIC adopted the Risk Management and Own Risk and Solvency Assessment Model Act (RMORSA Model Act #505) in 2013 to outline expectations for insurers in this area. As a result, large insurers domiciled in states that have adopted the model may be required as early as 2015 to maintain a risk management framework to assist the insurer with identifying, assessing, monitoring, managing and reporting on its material and relevant risks. For publicly-held insurers, the SEC requires that information be disclosed on the issuer's leadership structure, risk management practices and the Board's role in overseeing risk management. **FRB:** With certain limited exceptions, the regulation and supervision of the operations of insurance companies, including risk management, is conducted at the state level. The FRB may, however, play a more active role in the supervision of management of an insurance company that also controls a bank or savings association (i.e., a BHC or SLHC that is also an insurance company).
8.4	**The supervisor requires the insurer to have an effective compliance function capable of assisting the insurer to meet its legal and regulatory obligations and promote and sustain a corporate culture of compliance and integrity.**
8.4	**States:** The Examination Handbook provides guidance in this area to be considered in assessing the compliance function of insurers – both compliance with laws and regulations as well as internal policies and limits. The effectiveness of the compliance function is reviewed during each exam with concerns followed-up on through the analysis process. An element of the

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	Corporate Governance Annual Disclosure process may require insurers domiciled in states that have adopted the model to report as early as 2016 on how the compliance function is effectively overseen by directors and senior management. **FRB:** With certain limited exceptions, the regulation and supervision of the operations of insurance companies, including a compliance function, is conducted at the state level. The FRB may, however, play a more active role in the supervision of management of an insurance company that also controls a bank or savings association (i.e., a BHC or SLHC that is also an insurance company).
8.5	**The supervisor requires that there is an effective actuarial function capable of evaluating and providing advice to the insurer regarding, at a minimum, technical provisions, premium and pricing activities, and compliance with related statutory and regulatory requirements.**
8.5	**States:** Regulators require companies to appoint a qualified actuary (appointed actuary) to opine on the reasonability or appropriateness of company reserves on an annual basis through the NAIC's Standard Valuation Law (#820) and Actuarial Opinion and Memorandum Regulation (#822) for life insurers and through the NAIC's Annual Statement Instructions for property/casualty and health insurers. Minimum qualifications for the appointed actuary are outlined within the regulation/instructions and supported by additional detail in U.S. actuarial professional standards. Each state insurance department is required to have actuarial resources (either internal or external) to review the actuarial functions of its domestic insurers, including technical provisions, premium and pricing activities and compliance matters, during financial analysis and examination. NAIC accreditation standards require states to utilize the services of a credentialed actuary when examining a property and casualty insurer with long-tailed lines of business or a life insurer with large amounts of interest sensitive business. **FRB:** The regulation and supervision of insurance actuarial functions is conducted at the state level.
8.6	**The supervisor requires the insurer to have an effective internal audit function capable of providing the Board with independent assurance in respect of the insurer's governance, including its risk management and internal controls.**

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8.6	**States:** Internal audit functions are reviewed during the financial examination and recommendations for improvement in the internal audit function are made when deemed appropriate. NAIC Financial Condition Examiners Handbook outlines the appropriate role for an internal audit function. In addition, as a result of recent Solvency Modernization Initiative efforts, the NAIC adopted revisions to its Model Audit Rule in 2014 that, when adopted by states, will require all large insurers domiciled in such states to maintain an internal audit function capable of providing independent, objective and reasonable assurance to the Audit committee and insurer management regarding the insurer's governance, risk management, and internal controls. **FRB:** With certain limited exceptions, the regulation and supervision of the operations of insurance companies, including internal audit functions, is conducted at the state level (and in certain instances at the federal level with the SEC). The FRB may, however, play a more active role in the supervision of management of an insurance company that also controls a bank or savings association (i.e., a BHC or SLHC that is also an insurance company).
8.7	**The supervisor requires the insurer to retain at least the same degree of oversight of, and accountability for, any outsourced material activity or function (such as a control function) as applies to non-outsourced activities or functions.**
8.7	**States:** The Model Holding Company Act and Regulation (#440 & 450) include requirements relating to outsourcing functions to affiliates. All material outsourced functions are subject to review during examination. A number of NAIC Model Laws address the outsourcing of critical functions including services provided by MGAs (#225), Producers (#218), Controlling Producers (#325), Investment Custodians (#295 & 298) and other Third-Party Administrators (#90); the MGA (#225) and Controlling Producer (#325) models are required for Accreditation. **FRB:** With certain limited exceptions, the regulation and supervision of the operations of insurance companies, including a review of any outsourced material function, is conducted at the state level (and in certain instances at the federal level with the SEC). The FRB may, however, play a more active role in the supervision of management of an insurance company that also controls a bank or savings association (i.e., a BHC or SLHC that is also an insurance company).

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ICP 9	**Supervisory Review and Reporting**[5]
9	**The supervisor takes a risk-based approach to supervision that uses both off-site monitoring and on-site inspections to examine the business of each insurer, evaluate its condition, risk profile and conduct, the quality and effectiveness of its corporate governance and its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.**
9	**States:** The system of financial surveillance advocated by the NAIC's Risk-Focused Surveillance Framework is designed to provide continuous regulatory oversight. The risk-focused approach requires fully coordinated efforts between the financial examination function (on-site - at the insurer) and the financial analysis function (off-site - at the department of insurance). State insurance regulators utilize many prioritization and analysis tools that are built from an insurer's annual, quarterly, and supplemental public filings to identify those legal entities with the most concerning risks. Confidential and proprietary data are accessed through regulator only filings and via specific requests from the analysis and examination processes. The regulators use these results to schedule the order of off-site quarterly reviews as well as on-site reviews performed at least once every 3 to 5 years. Within a particular legal entity's review, attention is focused on the key risk areas of all insurers plus those specific to the legal entity under review. These reviews typically include all risk areas of an insurer including, financial position and solvency assessment, quality of underwriting results and investment returns, an assessment of risks and management's responses to them, as well as compliance concerns with state and federal statutes. **FRB:** The main objective of the supervisory process is to evaluate the overall safety and soundness of the banking and nonbanking organizations and includes evaluation of a broad range of risks. This evaluation includes an assessment of the organization's risk management systems, financial condition, and compliance with applicable banking laws and regulations. The FRB may conduct both off-site monitoring and on-site examinations of designated nonbank financial companies and their subsidiaries pursuant to section 161(b) of Dodd-Frank Act. 12 U.S.C. § 5361(b). The FRB also has

[5] The ICP 9 Supervisory Review and Reporting was revised in 2011-2012 and adopted at the IAIS Annual General Meeting on 12 October 2012.

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	authority pursuant to the BHC Act and HOLA to conduct both off-site monitoring and on-site inspections of BHCs and SLHCs, respectively, including their non-regulated subsidiaries. *See* 12 U.S.C. § 1844(c)(2) and 12 U.S.C. § 1467a(b)(4). Effective consolidated supervision requires strong, cooperative relationships between the FRB and other supervisors and functional regulators. The FRB generally relies to the fullest extent possible on the information and assessments provided by other supervisors and regulators to support effective supervision.
9.1	**The supervisor has the necessary legal authority, powers and resources to perform off-site monitoring and conduct on-site inspections of insurers, including monitoring and inspecting services and activities outsourced by the insurer[6]. The supervisor also has the power to require insurers to submit information necessary for supervision.**
9.1	**States:** The NAIC Part A Accreditation standards include the requirement that the state insurance departments "should have the authority to examine companies whenever it is deemed necessary, including complete access to the company's books and records and, if necessary, the records of any affiliated company, agent, and/or managing general agent. Such authority should extend not only to inspect books and records but also to examine officers, employees and agents of the company under oath when deemed necessary with respect to transactions directly or indirectly related to the company under examination. The NAIC Model Law on Examinations or substantially similar provisions shall be part of state law." All states and the District of Columbia are currently accredited. Regarding the group, the Model Holding Company Act and Regulation is also an Accreditation Part A standard and Section 4B provides additional authority for the regulator to obtain: financial statements (including audited) from the entire group or any entity in the group, capital structure information, statements regarding corporate governance, etc. The Act includes a provision regarding Information of Insurers that must be obtained from other entities within the holding company structure: "Any person within an insurance holding company system subject to registration shall be required to provide

[6] For information on the powers required of the supervisor in general, see ICP 1 Objectives, Powers and Responsibilities of the Supervisor and ICP 2 Supervisor.

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	complete and accurate information to an insurer, where the information is reasonably necessary to enable the insurer to comply with the provisions of this Act." Further, the NAIC Financial Condition Examiners Handbook provides state insurance departments with guidance for monitoring and inspecting services and activities outsourced by insurers. **FRB:** The FRB may conduct both off-site monitoring and on-site examinations of nonbank financial companies and their subsidiaries pursuant to section 161(b) of Dodd-Frank Act. 12 U.S.C. § 5361(b). The FRB also has authority pursuant to the BHC Act and HOLA to conduct both off-site monitoring and on-site inspections of BHCs and SLHCs, respectively. *See* 12 U.S.C. § 1844(c)(2) and 12 U.S.C. § 1467a(b)(4). The FRB has authority to conduct off-site monitoring and on-site inspections of any operations of the supervised holding company including non-regulated subsidiaries and activities outsourced by the insurance company, to the extent the activities relate to the control of a bank or savings association (in the case of a BHC or SLHC). Effective consolidated supervision requires strong, cooperative relationships between the FRB and other bank supervisors and functional regulators. The FRB generally relies to the fullest extent possible on the information and assessments provided by other supervisors and regulators to support effective supervision. However, the FRB has the authority to require an insurance company that is also an SLHC, BHC, or nonbank financial company to submit information necessary for supervision.
9.2	**The supervisor has a documented framework for supervisory review and reporting which takes into account the nature, scale and complexity of insurers. The framework encompasses a supervisory plan[7] that sets priorities and determines the appropriate depth and level of off-site monitoring and on-site inspection activity.**
9.2	**States:** In the Risk-Focused Surveillance Cycle, the regulator in the state of domicile develops the ongoing supervisory plan that includes the frequency of exams, scope of exams, meetings with company management, follow up on recommendations from prior regulatory reviews, and financial analysis

[7] A Supervisory Plan is a tool for supervisors to determine the frequency, scope and depth of supervisory review. It could be generic (e.g., addressing categories or groups of insurers) or specific (addressing individual insurers).

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	monitoring. These items will of course be impacted by the prioritization system described in ICP/Std. 9.1. This is all documented in the NAIC Financial Condition Examiners Handbook. **FRB:** The supervisory approach is tailored to the size, complexity and risks of the firm. For the largest BHCs and FBOs and for the nonbank financial companies, the FRB uses a range of supervisory activities to maintain a comprehensive understanding and assessment of each firm. These include coordinated horizontal reviews involving the examination of several institutions simultaneously, encompassing firm-specific supervision and the development of cross-firm perspectives. Firm-specific examination and continuous monitoring activities are undertaken to maintain an understanding and assessment across the core areas of supervisory focus for each firm. The Federal Reserve recently created the Large Institution Supervision Coordinating Committee (LISCC) framework. The LISCC is a Federal Reserve System-wide committee, which is tasked with overseeing the supervision of the largest, most systemically important financial institutions in the United States. LISCC is comprised of senior officers representing various functions at the FRB and Reserve Banks, bringing an interdisciplinary and cross-firm perspective to the supervision of large systemically important financial institutions, including nonbank insurance holding companies designated by FSOC. This new approach to supervision fosters rigorous supervision of individual firms while formalizing the use of horizontal reviews and analyses of activities and risks across the portfolio. The approach promotes the evaluation of systemic risks posed by the firms through the evaluation of macroeconomic and financial risks, and how those risks could affect individual firms and the financial system collectively. The focus of LISCC supervision is on four priority areas: capital adequacy and capital planning; liquidity sufficiency and resiliency; corporate governance; and recovery and resolution planning.
9.3	**The supervisor has a mechanism to check periodically that its supervisory framework pays due attention to the evolving nature, scale and complexity of risks which may be posed by insurers and of risks to which insurers may be exposed.**
9.3	**States:** The NAIC committee system provides multiple opportunities for this type of feedback and modification to incorporate changes to risks, companies, etc. The highly interactive process between the state of domicile regulator and the other regulators allows ground level dissemination of information about emerging risks to occur. The Financial Analysis (E) Working Group peer

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	review process fosters this type of dynamic as well, bringing in a variety of regulatory experts to discuss specific companies considered nationally significant. The Group also discusses trends in the industry, national issues, and reporting concerns. Also, at least three times a year, the chief financial regulators of the various states come together to discuss various concerns and national issues in a Chief Financial Regulators Forum. Issues that arise from all of these forums are brought to the various NAIC committee groups with the appropriate subject matter areas for investigation, for example the Financial Analysis Handbook (E) Working Group. **FRB:** Supervisory plans for the largest BHCs, SLHCs, state member banks, and nonbank financial companies are generally prepared at least annually and sometimes more frequently. The plans are vetted at the respective Reserve Bank and Federal Reserve System management committees so that emerging or growing risks are properly addressed.
9.4	**The Supervisor:** • **establishes documented requirements for the submission of regular qualitative and quantitative information on a timely basis from all insurers licensed in its jurisdiction;** • **defines the scope, content and frequency of those reports and information;** • **requires more frequent and/or more detailed additional information on a timely basis whenever there is a need;** • **sets out the relevant principles and norms for supervisory reporting, in particular the accounting standards to be used;** • **requires that inaccurate reporting is corrected as soon as possible; and** • **requires that an external audit opinion is provided on annual financial statements.**
9.4	**States:** Each state publishes a checklist regarding filings to submit to the state insurance department as well as to the NAIC, including whether in hard copy (and if so, how many copies) and/or electronic. Established deadlines exist in the checklist as well as in the statutory annual and quarterly statement for supplemental filings. The NAIC maintains a map that establishes links to the

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	various state checklists to streamline the process of accessing this information. The scope and content of the filings are highly structured and formatted through the NAIC Blanks (E) Working Group process. The blank page serves as the template, and then instructions are adopted to help insurers provide the information the regulators seek. This occurs even for confidential and proprietary information that is filed with the state and not actually received and stored by the NAIC. For ad hoc requests by regulators, the request will specify the information needed and any format requirements. Structured deadlines exist for all companies without regard to solvency concerns. For those insurers considered potentially troubled, modifications to filing deadlines and frequencies are often made. For example, companies file an annual Risk-Based Capital (RBC) report; however, troubled companies often file quarterly RBC filings with the state of domicile. Similarly, while most companies file quarterly statutory financial statements, a troubled company may be required to file monthly financials. The financial reporting process is very structured, and the accounting baseline required to be used for all traditional insurers is the NAIC Accounting Practices and Procedures Manual (AP&P Manual). This is an entire codified body of accounting designed to meet the regulators' needs for conservatism in the financial position and consistency in operating results. Individual state insurance regulators may nonetheless prescribe or permit alternative accounting practices, although such variances from the AP&P Manual must be disclosed to other regulators. Annual and quarterly statement filings are reviewed by NAIC staff for consistency and reasonability errors. Additionally, financial solvency reviews by NAIC analysts as well as state analysts highlight errors in reporting as well. When errors occur, the company and regulators (if applicable) are notified. If the company does not voluntarily respond with corrections to the NAIC, the state of domicile regulator makes the ultimate decision of whether to require a correction currently or to allow the company to fix the issue in a future filing. A specific Statement of Statutory Accounting Principles covers changes to errors vs. changes to estimates. The NAIC Accreditation Part A standards includes the following: "State statute or regulation should contain a requirement for annual audits of domestic insurance companies by independent certified public accountants that is substantially similar to the NAIC Annual Financial Reporting Model Regulation."

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	FRB: Off-site surveillance is a key component of the U.S. federal banking agencies' risk-focused supervisory approach. A major part of this surveillance consists of the collection, review, and analysis of regulatory reports required to be submitted to the agencies on a periodic basis by banks and savings associations (collectively, "banks") and BHCs and SLHCs (collectively, "holding companies"). These reports capture an array of data, including financial, operational, prudential, activities, and structural information. As previously noted, the agencies' authority to require the submission of information is broad, extending to affiliates of a bank or holding company and including information on a bank's and holding company's domestic and foreign activities and operations. The authority includes an ability to require the submission of reports necessary for the effective supervision of the particular bank or holding company or groups of organizations with similar operations or risks. *See* 12 U.S.C. §§ 161 (national banks), 324 (state member banks), 1464(v) (savings associations), 1467a(b) (SLHCs), 1817 (state nonmember banks), and 1844 (BHCs). The authority to collect information from banks and holding companies is limited by the Paperwork Reduction Act (PRA), which requires federal agencies to obtain approval from the Office of Management and Budget (OMB) prior to collecting certain information. Information may be collected: from fewer than 10 banks or holding companies in any manner; from any number of banks or holding companies within the framework of an examination, as a result of an action regarding a particular bank, or holding company; and through a public hearing or meeting, or as a brief certification without obtaining OMB approval. The approval process for new collections of information and changes to existing collections of information, such as the Consolidated Reports of Condition and Income (Call Report), requires publication of two Federal Register Notices and a submission to OMB. *See* 44 U.S.C. § 3501, *et seq.* Title III of the Dodd-Frank Act transferred all former Office of Thrift Supervision (OTS) authorities (including rule-making) related to SLHCs and their non-depository subsidiaries to the FRB on July 21, 2011. *See* 12 U.S.C. § 5412(b). Consequently, the FRB became responsible for the consolidated supervision of SLHCs beginning July 21, 2011. Among the information collections transferred to the Federal Reserve was the Savings Association Holding Company Report (H-(b)11), known as the Annual/Current Report. In connection with this transfer, the FRB proposed for public comment and subsequently adopted regulatory reporting requirements for SLHCs. The Dodd-Frank Act provides authority to the FRB to require comprehensive reporting by nonbank financial companies. *See* 12 U.S.C. § 5361(a). Specific

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	regulatory reporting requirements are under development.
9.5	**In particular, the supervisor requires insurers to report:** **• off-balance sheet exposures;** **• material outsourced functions and activities; and** **• any significant changes to their corporate governance.** **The supervisor also requires insurers to promptly report any material changes or incidents that could affect their condition or customers.**
9.5	**States:** Insurers must report off-balance sheet items in the Notes to Financial Statements included in the legal entity statutory annual and quarterly filings. For example, there is a specific note for contingencies. Additionally, various off-balance sheet asset items are assessed capital charges in the confidential RBC filings. The first phase of the Risk-Focused Examination process is to gain an understanding of the company and identify key functional activities to be reviewed. Background information on the company will be gathered from various sources, including the company itself in particular. In understanding the company as well as the second phase, identifying and assessing inherent risk in activities, knowledge of the material outsourced functions and activities is critical. The ongoing analysis process reviews the findings from the examination and asks for any changes to the company. Corporate governance concerns are included in these examination phases as well. Regulators currently utilize disclosures in the annual and quarterly statutory statements and more importantly the information they obtain from the company as part of the information request for the examination process to obtain the understanding of the company's governance. It will be used in establishing the rest of the examination process for all key functional activities. Similarly, the analysis process asks for any changes to this information. However, as aforementioned, the NAIC Corporate Governance (E) Working Group finalized a Model Act and supporting Regulation that will require insurers to disclose additional information on their corporate governance practices to regulators in a confidential filing on an annual basis (*see* Corporate Governance Annual Disclosure Model Act and accompanying Regulation). When finalized and adopted by states, this additional information will serve as additional input for monitoring and reviewing

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	governance practices from an analysis perspective and serve as a starting point for future examinations. Significant transactions must be disclosed as part of the Material Transactions Model Regulation. The Model Holding Company Act also requires significant disclosures surrounding intercompany transactions. Changes must be promptly filed with the domiciliary regulator. The analyst also seeks quarterly (or more frequently for potentially troubled insurers) input on any changes to the company for things that are not reported in the standardized reports. **FRB:** The collection of financial information and other data from off-site surveillance referred to in the response above includes off-balance sheet exposures, material outsourced functions and activities, and reporting of any significant changes in corporate governance, as well as any material changes or incidents that could affect their condition or customers.
9.6	**The supervisor periodically reviews its reporting requirements to ascertain that they still serve their intended objectives and to identify any gaps which need to be filled. The supervisor sets any additional requirements that it considers necessary for certain insurers based on their nature, scale and complexity.**
9.6	**States:** The NAIC Blanks (E) Working Group considers modifications to the standardized templates for the annual and quarterly statutory financial statements as well as the supplemental filings. Changes to the instructions supporting those filings are also considered; and as some of those filings are confidential and proprietary, they are filed with the state only and not the NAIC. This Working Group receives recommendations from all of the various subject matter expert groups in the NAIC committee structure, as well as directly from individual regulators or state insurance departments as well as consumers, other government agencies, academics and even insurers. Regarding standardized reporting from other groups, they also have regular review and maintenance of the reports. In many of the reporting requirements, the nature, scale and complexity of the insurer is considered. For example, the Own Risk and Solvency Assessment (ORSA) Summary Report will not be required of entities under a certain size unless the commissioner indicates otherwise. **FRB:** The FRB reviews its reporting requirements on a periodic basis to ascertain whether they continue to serve the intended purpose and periodically

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	sets additional requirements as appropriate.
9.7	**The supervisor monitors and supervises insurers on an on-going basis, based on regular communication with the insurer, information obtained through supervisory reporting and analysis of market and other relevant information.**
9.7	**States:** *See also* prior responses. The NAIC Financial Condition Examiners Handbook and the NAIC Financial Analysis Handbook both contain explicit procedures as part of the Risk-Focused Solvency Surveillance process. Specific to insurance groups, the lead state is encouraged to coordinate examinations of all types of insurers if they share processes, controls and decision-making that may be more efficiently reviewed through a coordinated group examination. The lead state performs at least an annual financial analysis of the insurance group. **FRB:** Supervisory plans for the largest BHCs, SLHCs, state member banks, and nonbank financial companies are generally prepared at least annually and sometimes more frequently. The plans are vetted at the respective Reserve Bank and System management committees so that emerging or growing risks are properly addressed.
9.8	**The supervisor sets the objective and scope for on-site inspections, develops corresponding work programs and conducts such inspections.**
9.8	**States:** The NAIC Financial Condition Examiners Handbook contains an explicit procedure for the entire examination cycle, from pre-planning to the findings letter to the company, and including follow up. Detailed procedures for control and detail testing, guidance for sampling, etc., are all resources provided to the regulators for use in their examination work. **FRB:** Supervisory plans for the largest BHCs, SLHCs, state member banks, and nonbank financial companies are generally prepared at least annually and sometimes more frequently. The plans are vetted at the respective Reserve Bank and System management committees so that emerging or growing risks are properly addressed.
9.9	**The supervisor discusses with the insurer any relevant findings of the supervisory review and the need for any preventive or corrective action.**

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	The supervisor follows up to check that required actions have been taken by the insurer.
9.9	**States:** As indicated in ICP/Std. 9.8, the NAIC Financial Condition Examiners Handbook contains an explicit procedure to follow up on any actions taken by the insurer in response to current and/or prior examination findings. **FRB:** The results of an on-site examination or inspection are reported to the board of directors and management of the organization in a report of examination or inspection, which generally includes a confidential supervisory rating of the financial condition of the organization. The supervisory rating system is a supervisory tool that all of the federal and state banking agencies use to communicate to organizations the agency's assessment of the organization and to identify institutions that raise concern or require special attention.
ICP 10	**Preventive and Corrective Measures**
10	**The supervisor takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.**
10	**States:** The supervisor has broad powers to take preventive and corrective measures that are timely, suitable, and necessary to achieve the objective of protection of policyholders. Preventive and corrective measures can emanate from a variety of places including, but not limited to, a corrective action plan related to the triggering of an RBC event, a corrective action plan related to an on-site examination of an insurer, or corrective actions taken based on hazardous financial condition. NAIC Accreditation Program review ensures the states have certain minimum standards and resources in place. **FRB:** As discussed in its response to ICP 1 (above), the FRB has supervisory authority over BHCs, SLHCs, state member banks, certain FBOs, and nonbank financial companies. The FRB is the consolidated supervisor of BHCs, SLHCs, FBOs, and nonbank financial companies and regulates their operations, activities, and capital (to varying degrees), among other things. The FRB is the primary federal banking regulator of state member banks. The FRB has the power to take action against the entities it supervises, including taking timely and suitable preventive and corrective measures. In carrying out its supervisory activities, the FRB routinely communicates and coordinates supervision with state insurance regulatory authorities, including

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	those responsible for licensing and regulating the insurance subsidiaries of the BHCs, SLHCs, state member banks, FBOs, and nonbank financial companies.
10.1	**The supervisor has the power to take action against individuals or entities that conduct insurance activities without the necessary licence.**
10.1	**States:** The supervisor has broad powers to take enforcement action against individuals or entities that operate without a license. In cases where there is the potential for immediate harm to policyholders, the supervisor can take immediate steps to effectuate a cease and desist action. **FRB:** State laws provide for the licensing of insurance companies and insurance activities. The FRB, as supervisor of BHCs, SLHCs, nonbank financial companies, and state member banks, among others, has the power to take action against the entities it supervises that may engage in activities, including insurance activities, for which the entity has not received prior regulatory approval. *See, e.g.*, 12 U.S.C. § 1844(b) and 1467a(g).
10.2	**The supervisor has sufficient authority and ability, including the availability of adequate instruments, to take timely preventive and corrective measures if the insurer fails to operate in a manner that is consistent with sound business practices or regulatory requirements. There is a range of actions or remedial measures which include allowing for early intervention when necessary. Preventive and corrective measures are applied commensurate with the severity of the insurer's problems.**
10.2	**States:** As mentioned earlier, the supervisor has broad authority and the ability, including the availability of adequate instruments (including the issuance of a notice of cease and desist), if the insurer fails to operate in a manner that is consistent with sound business practices or regulatory requirements. The range of actions or remedial measures can be tailored to the specific concerns noted including, but not limited to divestiture of particular investments, mandating additional capital infusions, and modifying certain market conduct practices. According to the Model Holding Company Act, every officer or director of an insurance holding company system who knowingly violates, participates in, or assents to, or permits transactions or investments that have not been properly reported or submitted shall be subject to civil fines. Any officer, director, or employee of an insurance holding

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	company system who willfully and knowingly subscribes to or makes or causes false statements or reports to be made with the intent to deceive the commissioner shall be subject to imprisonment, civil fines, or both. Whenever it appears to the commissioner that any person has committed a violation of Section 3 of the Model Holding Company Act and which prevents the full understanding of enterprise risk to the insurer, the violation may serve as an independent basis for disapproving dividends and placing the insurer under an order of supervision. Whenever it appears any person has committed a violation of the insurance holding company law that so impairs the financial condition of the insurer as to threaten insolvency or make further transaction of business hazardous to policyholders, creditors, shareholders or the public, then the commissioner may act under the receivership law to take possession of the insurer and conduct its business. Subject to conditions, if an order of liquidation or rehabilitation has been entered, the receiver shall have a right to recover from any parent or affiliate who controlled the insurer the amount of distributions paid or any payments where the distribution or payment was made during the year preceding the order. Any person who was a parent or other controlling person or affiliate at the time the distributions were paid shall be liable up to the amount of the distributions or payments. Whenever it appears that any person has committed a violation of the holding company law that makes continued operation of an insurer contrary to the interests of policyholders or public, the commissioner may, after notice and opportunity to be heard, suspend or revoke the insurer's license to do business. **FRB:** As discussed in the response to ICP 1 (above), under U.S. law, supervision of the insurance activities of BHCs, SLHCs, FBOs, state member banks, and nonbank financial companies occurs at the state level in the jurisdictions in which the insurance activities are conducted. Remedial action regarding insurance activities for which the entity has received prior regulatory approval, therefore, is solely within the authority of the state insurance regulators. The FRB, as the consolidated supervisor of BHCs, SLHCs, and FBOs, may take a number of actions or remedial measures regarding the capital and operations of the consolidated organization but may not take direct action regarding approved insurance activities of those institutions. The FRB may take (or require a supervised entity to take) remedial measures, except for insurance activities, when, in the FRB's judgment, a BHC or SLHC, for example, is not complying with laws or regulations or is likely to be engaged or is engaged in an unsafe or unsound practice. In general, these authorities provide the FRB with both a range of proactive and remedial measures to address matters of concern and the

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	discretion to determine when to employ them. The measures include restricting the current activities and operations of the organization, requiring new remedial activities, withholding or conditioning approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from banking, replacing or restricting the powers of managers, board directors or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, revoking or recommending the revocation of the banking license, and issuing monetary fines against institutions and individuals. In general, remedial measures are imposed according to the extent and severity of the problem being addressed. The same supervisory principles and authorities apply to state member banks that engage in approved insurance activities. Similarly, the FRB may take a number of actions against a nonbank financial company, including issuing cease and desist orders and removing certain individuals from office in the company. *See* 12 U.S.C. § 5362.
10.3	**There is a progressive escalation in actions or remedial measures that can be taken if the problems become worse or the insurer ignores requests from the supervisor to take preventive and corrective action.**
10.3	**States:** There is a progressive escalation in actions or remedial measures that can be taken if the problems become worse or the insurer ignores requests from the supervisor. For example, in the area of risk-based capital, there are four levels of supervisory intervention with each level becoming progressively more challenging and demanding on the insurer. **FRB:** See the FRB response to ICP/Std. 10.2. The FRB has no direct authority over insurance activities of the entities that it supervises. The primary supervisors of the insurance activities are the individual states in which the insurance companies operate, each of which has its own authorities to take remedial measures.
10.4	**If necessary, the supervisor requires the insurer to develop an acceptable plan for prevention and correction of problems. Preventive and corrective plans include agreed and acceptable steps to be taken to resolve the issues raised within an acceptable timeframe. Once preventive and corrective plans have been agreed to or imposed, the supervisor periodically checks to determine that the insurer is complying with the measures.**

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10.4	**States:** The supervisor has broad discretion in determining an acceptable plan and in establishing acceptable time frames. In the case of capital deficiencies associated with risk-based capital requirements, the statute provides fixed time frames for submitting an acceptable company action plan and the supervisory review of the company action plan. The supervisor can use a variety of approaches to check on compliance including on-site inspections to verify that company actions have taken place. **FRB:** With respect to BHCs, SLHCs, state member banks, and nonbank financial companies, including those that control insurance companies, the FRB may require such companies to develop appropriate plans for the prevention and correction of problems. If a U.S. federal banking agency determines that a supervised entity has problems that may affect safety and soundness or is not in compliance with laws and regulations, it may take supervisory action to ensure that the supervised entity undertakes corrective measures. Typically, weaknesses and deficiencies are communicated to the management and directors of a depository institution, BHC, SLHC, or nonbank financial company through the examination process and in a written report. Management and directors are then asked to address all identified problems and to take measures to ensure that the problems are corrected and will not recur. While most problems are resolved promptly after they are brought to the attention of a depository institution's or its holding company's management and directors, in some situations, the appropriate agency may need to take supervisory action, requesting that the supervised entity adopt an informal or formal enforcement action to address the problem, including the adoption of board resolutions or entering into a memorandum of understanding. In practice, the type of enforcement action pursued should be commensurate with the severity of weaknesses and deficiencies identified at the entity, with informal enforcement actions being the least severe and revocation of banking charter, revocation of membership in the Federal Reserve System, or termination of deposit insurance being more severe.
10.5	**The supervisor communicates with the Board and Senior Management and Key Persons in Control Functions and brings to their attention any material concern in a timely manner to ensure that preventive and corrective measures are taken and the outstanding issues are followed through to a satisfactory resolution.**
10.5	**States:** Largely dependent on the nature of the regulatory concerns, the supervisor may communicate with the board and senior management and key

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	persons in control functions. The supervisor is regularly engaged in communication with senior officers and may include communications with the board to the extent deemed necessary and appropriate. In cases where an on-site inspection has resulted in regulatory findings of a serious nature, these must be communicated to the board and require senior management to respond to key findings and recommendations included within the Report of Examination. **FRB:** With respect to BHCs, SLHCs, state member banks, and nonbank financial companies, FRB supervisory staff members routinely communicate supervisory concerns to the appropriate parties at the supervised firms and monitor the extent to which the firm remediates the identified weaknesses.
10.6	**The supervisor initiates measures designed to prevent a breach of the legislation from occurring, and promptly and effectively deals with noncompliance that could put policyholders at risk or impinge on any other supervisory objectives.**
10.6	**States:** Supervisors use discretion in establishing measures that are designed to prevent a breach of the legislation from occurring, including regular or interim reporting (by insurers) of certain legislative requirements and/or regular compliance reviews conducted by the supervisor. Supervisors promptly and effectively address noncompliance issues including actions which may result in fines and penalties levied on the insurer. **FRB:** The FRB has no direct authority over the insurance activities of the entities that it supervises. The protection of policyholders is under the jurisdiction of the states in which the insurance activities occur. As described in the FRB's response to ICP/Std. 10.2, the FRB, as the consolidated supervisor of BHCs, SLHCs, FBOs, and nonbank financial companies, may take a number of actions or remedial measures regarding the capital and operations of the consolidated organization but may not take direct action regarding approved insurance activities of those institutions. Such actions or remedial measures may, however, help strengthen the consolidated entity indirectly the entity's insurance activities.
ICP 11	**Enforcement**
11	**The supervisor enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.**

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11	**States:** Relevant state statutes provide for sanctions in certain cases where violations or noncompliance have occurred. These sanctions are clearly delineated in the relevant insurance codes and are publicly disclosed. **FRB:** As stated in the FRB's response to ICP 1, the FRB does not directly regulate the insurance activities of its supervised entities. The primary supervisors of insurance activities are the individual states in which the insurance companies operate. The FRB relies on the appropriate state supervisor to monitor and enforce corrective measures taken regarding insurance activities. In carrying out its supervisory activities, the FRB routinely communicates and coordinates supervision with state insurance regulatory authorities, including those responsible for licensing and regulating the insurance subsidiaries of the BHCs, SLHCs, state member banks, FBOs, and nonbank financial companies. Section 162 of the Dodd-Frank Act (12 U.S.C. § 5362) extends to the FRB direct enforcement authority over a nonbank financial company, except for those activities of the nonbank financial company that are regulated by another financial regulatory agency. The FRB's enforcement authority over regulated entities and individuals includes both measures to correct behavior and to sanction misconduct in specified circumstances. Remedial and corrective measures available to the FRB are described in the response to ICP/Std. 10.2. The FRB may issue cease and desist orders requiring prospective action to correct violations of any law or regulation or unsafe and unsound practice, and to ensure future compliance by the parties involved. 12 U.S.C. § 1818(b). The FRB may also order regulated entities and their responsible individuals to pay civil money penalties as sanctions for specified misconduct. The amount of the penalty the FRB may order is based on the severity of the misconduct as measured by aggravating and mitigating factors set forth by statute. 12 U.S.C. § 1818(i)(2). In addition, the FRB may remove and prohibit an individual from further employment or participation in the control or operation of various types of entities if the FRB finds that the individual's misconduct satisfies specific statutory standards. 12 U.S.C. § 1818(e). In the event a perceived problem involves a nonbank financial company for which another governmental agency is the primary regulator, the FRB may first refer the matter to that agency and, if no action is taken within 60 days, may thereafter initiate its own action. 12 U.S.C. § 5362(b).
11.1	**The supervisor has the power to enforce corrective action in a timely manner where problems involving insurers are identified. The supervisor issues formal directions to insurers to take particular actions or to desist from taking particular actions. The directions are appropriate to address**

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	the problems identified.
11.1	**States:** The supervisor has the power to enforce corrective action in a timely manner where problems involving insurers are identified. The supervisor issues formal directions to insurers to take particular actions; the corrective measures are commensurate to the nature and scale of issues identified. **FRB:** Certain BHCs, SLHCs, state member banks, FBOs, and nonbank financial companies directly engage in insurance activities or are affiliated with insurance companies through subsidiary arrangements. The FRB does not directly regulate the insurance activities of its supervised entities. The primary supervisors of the insurance activities are the individual states in which the insurance companies operate. In carrying out its supervisory activities, the FRB routinely communicates and coordinates supervision with state insurance regulatory authorities, including those responsible for licensing and regulating the insurance subsidiaries of the BHCs, SLHCs, state member banks, FBOs, and nonbank financial companies.
11.2	**The supervisor has a range of actions available in order to apply appropriate enforcement where problems are encountered. Powers set out in legislation should at a minimum include restrictions on business activities and measures to reinforce the financial position of an insurer.**
11.2	**States:** The supervisor has broad discretion and powers to apply appropriate enforcement where problems are encountered. These powers include restrictions on business activities, requirements to increase loss reserves, requirements to increase capital, RBC corrective actions, measures to retain expert help in addressing complex areas and in certain circumstances fining individual directors and senior managers of insurers and suspending licensure. **FRB:** As discussed in the FRB's response to ICP/Std. 10.2, the FRB, as the consolidated supervisor of BHCs, SLHCs, and FBOs, may take a number of actions or remedial measures regarding the capital and operations of the consolidated organization, but may not take direct action regarding approved insurance activities of those institutions. Please see ICP/Std. 10.2 for a comprehensive list of proactive and remedial measures available to address matters of concern.
11.3	**After corrective action has been taken or remedial measures, directions or sanctions have been imposed, the supervisor checks compliance by the**

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	insurer and assesses their effectiveness.
11.3	**States:** The supervisor checks compliance by the insurer in a variety of ways, including the submission of reports to the supervisor, face-to-face meetings with the supervisor, and on-site inspections focused on compliance and verification of actions taken by the insurer. **FRB:** The FRB uses various means to monitor compliance with its remedial measures and orders and to ensure their effectiveness, including examinations and inspections, where applicable. The FRB may require a regulated entity to submit detailed reports regarding progress in remediating deficiencies identified by FRB examiners.
11.4	**The supervisor has effective means to address management and governance problems, including the power to require the insurer to replace or restrict the power of Board Members, Senior Management, Key Persons in Control Functions, significant owners and external auditors.**
11.4	**States:** The supervisor has effective means to address management and governance problems. Under the Hazardous Financial Condition Model Regulation (#385), the supervisor has the authority to correct corporate governance practice deficiencies, and adopt and utilize governance practices acceptable to the supervisor. Under the same model regulation, the supervisor can consider whether the management of an insurer, including officers, directors, or any other person who directly or indirectly controls the operation of the insurer, fails to possess and demonstrate the competence, fitness and reputation deemed necessary to service the insurer in such position. The states' receivership laws include authority for the conservator or rehabilitator to possess all the powers of directors, officers and managers of an insurer, whose authority may be suspended, and such authority may include the power to discharge employees. **FRB:** As discussed in the FRB's response to ICP 11, the FRB has broad authority to remove and prohibit directors, officers, employees, agents, and controlling shareholders with regard to entities it supervises. However, with regard to insurance activities, this authority rests with the state regulatory agencies of the states in which the insurance activities occur. In the event a perceived problem involves a nonbank financial company, the FRB may first refer the matter to that agency and, if no action is taken within 60 days, may

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	thereafter initiate its own action. 12 U.S.C. § 5362(b).
11.5	**Where necessary and in extreme cases, the supervisor imposes conservatorship over an insurer that is failing to meet prudential or other requirements. The supervisor has the power to take control of the insurer, or to appoint other specified officials or receivers for the task, and to make other arrangements for the benefit of the policyholders.**
11.5	**States:** Subject to a court of competent jurisdiction, the supervisor may be appointed as conservator of an insurance company if the insurer is failing to meet prudential or other requirements. The supervisor has broad discretion in retaining experts and other individuals in the court oversight of insurance companies in conservatorship/receivership. **FRB:** The authority to impose conservatorship or similar actions on insurance companies is vested in the state regulatory authorities of those states in which the insurance activities occur.
11.6	**There are sanctions by way of fines and other penalties against insurers and individuals where the provisions of the legislation are breached. The sanctions are proportionate to the identified breach.**
11.6	**States:** Generally speaking, there are sanctions by way of fines and other penalties against insurers, and in some cases, against individuals depending on the legislation. The specified fines or other penalties are generally prescribed in law. **FRB:** See the FRB's response to ICP 11. The FRB has no direct authority over insurance activities of the entities it supervises. The state regulatory authorities of the states in which the insurance companies operate have the authority to impose sanctions on insurers.
11.7	**The legislation provides for sanctions against insurers and individuals who fail to provide information to the supervisor in a timely fashion, withhold information from the supervisor, provide information that is intended to mislead the supervisor or deliberately misreport to the supervisor.**
11.7	**States:** Legislation does provide for sanctions against insurers and individuals who fail to provide information to the supervisor in a timely

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	fashion, withhold information from the supervisor, or provide information that is intended to mislead the supervisor or deliberately misreport to the supervisor. To illustrate, the Model Holding Company Act states, in part, that "Any officer, director or employee of an insurance holding company system who willfully and knowingly subscribes to or makes or causes to be made any false statements or false reports or false filings with the intent to deceive the commissioner in the performance of his or her duties under this Act, upon conviction shall be imprisoned for not more than [insert amount] years, or fined $[insert amount] or both. Any fines imposed shall be paid by the officer, director or employee in his or her individual capacity." **FRB:** See the FRB's response to ICP 11. The FRB has no direct authority over insurance activities of the entities it supervises. The state regulatory authorities of the states in which the insurance companies operate have the authority to impose sanctions on insurers.
11.8	**The process of applying sanctions does not delay necessary preventive and corrective measures and enforcement.**
11.8	**States:** The process of applying sanctions does not delay necessary preventive and corrective measures and enforcement. Depending on the nature of the preventive and corrective measures, the supervisor can act immediately to remedy the situation. **FRB:** See the FRB's response to ICP 11. The FRB has no direct authority over insurance activities of the entities it supervises. The state regulatory authorities of the states in which the insurance companies operate have the authority to impose sanctions on insurers.
11.9	**The supervisor, or another responsible body in the jurisdiction, takes action to enforce all the sanctions that have been imposed.**
11.9	**States:** The supervisor is generally responsible for taking action to enforce all of the sanctions which have been imposed. **FRB:** See the FRB's response to ICP 11. The FRB has no direct authority over insurance activities of the entities it supervises. The state regulatory authorities of the states in which the insurance companies operate have the authority to impose sanctions on insurers.

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11.10	**The supervisor ensures consistency in the way insurers and individuals are sanctioned, so that similar violations and weaknesses attract similar sanctions.**
11.10	**States:** The supervisor ensures consistency in the way insurers and individuals are sanctioned. A number of factors have to be considered in ensuring consistency, such as past compliance issues, change in personnel, etc. **FRB:** The FRB enforces the laws and regulations under its jurisdiction so that they are enforced in a uniform and consistent manner against individuals and entities. Designated senior staff members of the FRB review referrals or recommendations for enforcement actions from the Reserve Banks or from other sources to ensure such consistency and to bring previous agency precedent to the attention of the FRB before it initiates enforcement actions and before a final agency decision is rendered after the adjudication of a case. However, as discussed in the FRB's response to ICP 11, since the FRB has no direct authority over insurance activities of the entities it supervises, it is within the jurisdiction of the state regulatory authorities to impose sanctions against insurers and ensure consistency in the way insurers and individuals are sanctioned.
ICP 12	**Winding-up and Exit from the Market**
12	**The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with insolvency of insurance legal entities. In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimising disruption to provision of benefits to policyholders.**
12	**States:** State legislation provides for insurance companies to exit the market. There is comprehensive state legislation governing insolvencies including criteria and procedures as well as the prioritization of claim payments during insolvency proceedings. The legal framework gives priority to the protection of policyholders and subordinates the claims of general creditors to those of policyholders. Guaranty Funds work in tandem with the insolvency laws and are established throughout the United States (on a state-by-state basis) to provide an essential safety net for policyholders and other claimants and beneficiaries of the

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	insurance coverage. Guaranty fund protection is triggered by the legal finding of insolvency and serves to indemnify policyholders, up to stated limits, that have suffered a claim. **FIO and FRB:** Pursuant to Title I and Title II of the Dodd-Frank Act, FIO, the FRB, and the FDIC have responsibilities relating to the resolution of insurers under certain circumstances, as described below. Under Title I of the Dodd-Frank Act, the Director of FIO and the Chair of the FRB (among others) serves on and supports the work of the FSOC, 12 U.S.C. § 5321, and Title V of the Dodd-Frank Act authorizes FIO to recommend that the FSOC designate an insurer. 31 U.S.C. § 313(c)(1)(C). Insurers designated by the FSOC are subject to enhanced prudential standards and consolidated supervision by the FRB. The FRB, together with the FDIC, has issued regulations requiring certain BHCs and nonbank financial companies (including those insurers that have been designated by the FSOC), to develop a "plan for rapid and orderly resolution in the event of material financial distress or failure" (i.e., a "living will") for how the companies would be resolved in a rapid and orderly manner under the U.S. Bankruptcy Code (or other applicable insolvency regime) in the event of material financial distress or failure. 12 CFR Parts 243 and 381. The FRB and FDIC's joint resolution plan regulations contain mechanisms through which the agencies can address weaknesses and inadequacies within any resolution plan, including requiring changes to the plan that would remediate such weaknesses. *See, e.g.*, 12 CFR 243.5 and 381.5; 12 U.S.C. § 5365(d)(5)(B). Under Title II of the Dodd-Frank Act, a proceeding under the U.S. Bankruptcy Code or otherwise applicable insolvency law is the preferred method for resolving a U.S. financial company. For insurers, that means conservatorship, rehabilitation, or liquidation under state insurance insolvency laws. Title II allows for a separate process when systemic risk is potentially at issue. For an insurer or a holding company for which the largest subsidiary is an insurer, following a recommendation by the Director of FIO and the FRB (in consultation with the FDIC), the Secretary of the Treasury (in consultation with the President) may make a systemic risk determination, pursuant to statutorily prescribed criteria, to place such company into receivership. Title II provides that the liquidation of an insurer shall be conducted under applicable state law. If the appropriate state regulator does not act within sixty days to begin orderly liquidation proceedings for the insurer, the FDIC has the authority to "stand in the place of the appropriate regulatory agency and file the appropriate judicial action in the appropriate State court to place such company into orderly liquidation under the laws and requirements of the State." 12 U.S.C. § 5383(e)(3).

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12.1	**The procedures for the winding-up and exit of an insurer from the market are clearly set out in legislation. A high legal priority is given to the protection of the rights and entitlements of policyholders. The procedures aim at minimising the disruption to the timely provision of benefits to policyholders.**
12.1	**States:** General procedures are set out in state legislation. The review conducted by the supervisor sets the highest priority on the protection of the rights and entitlements of policyholders without creating any disruption on the timely provision of benefits to policyholders. Guaranty Funds work in tandem with the insolvency laws and are established throughout the United States (on a state-by-state basis) to provide an essential safety net for policyholders, and other claimants and beneficiaries of the insurance coverage. Guaranty fund protection is triggered by the legal finding of insolvency and serves to indemnify policyholders, up to stated limits, that have suffered a claim. **FIO and FRB:** Under Title II, a proceeding under the U.S. Bankruptcy Code or otherwise applicable insolvency law is the preferred method for resolving a U.S. financial company. For insurers, that means conservatorship, rehabilitation, or liquidation under state insurance insolvency laws. Title II allows for a separate process when systemic risk is potentially at issue. For an insurer or a holding company for which the largest subsidiary is an insurer, following a recommendation by the Director of FIO and the FRB (in consultation with the FDIC), the Secretary of the Treasury (in consultation with the President) may make a systemic risk determination, pursuant to statutorily prescribed criteria, to place such company into receivership. Title II provides that the liquidation of an insurer shall be conducted under applicable state law. If the appropriate state regulator does not act within 60 days to begin orderly liquidation proceedings for the insurer, the FDIC has the authority to "stand in the place of the appropriate regulatory agency and file the appropriate judicial action in the appropriate State court to place such company into orderly liquidation under the laws and requirements of the State." 12 U.S.C. § 5383(e)(3).
12.2	**The legislation provides for the determination of the point at which it is no longer permissible for an insurer to continue its business.**
12.2	**States:** The legislation defines the point at which it is no longer permissible for an insurer to continue its business. The NAIC Risk-Based Capital (RBC)

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	For Insurers Model Act (RBC Model Act) defines a level of regulatory capital where it is no longer permissible for an insurer to continue its business ("Mandatory Control Level"). **FIO and FRB:** In making a recommendation to the Secretary of the Treasury under Title II of the Dodd-Frank Act regarding an insurer or a holding company for which the largest U.S. subsidiary is an insurer, the FIO and FRB (in consultation with the FDIC) must evaluate various statutorily prescribed criteria, including whether the company under consideration is in default or danger of default. The Secretary of the Treasury (in consultation with the President) must also make a determination based on statutorily prescribed criteria, including that the financial company is in default or in danger of default. The Dodd-Frank Act provides that a financial company shall be considered to be in default or in danger of default if (1) a case has been, or likely will promptly be, commenced under the Bankruptcy Code; (2) the company has incurred, or is likely to incur, losses that will deplete all or substantially all of its capital, and there is no reasonable prospect for the company to avoid such depletion; (3) the assets of the company are, or are likely to be, less than its obligations to creditors and others; or (4) the company is, or is likely to be, unable to pay its obligations (other than those subject to a bona fide dispute) in the normal course of business.
ICP 13	**Reinsurance and Other Forms of Risk Transfer**
13	**The supervisor sets standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programmes. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.**
13	**FIO:** FIO, jointly with the United States Trade Representative, may negotiate a covered agreement with a foreign insurance authority that, as a practical matter, would be designed to establish national standards relating to reinsurance, including by pre-empting contrary state laws relating to aspects of the supervision of the reinsurance industry that conflict with the covered agreement. *See* 31 U.S.C. § 314. **FRB:** When looking at the consolidated risk profile of the entities it supervises, the FRB takes into account the use of reinsurance or other forms of risk transfer, but it does not directly regulate or supervise the use of reinsurance. The FRB's supervision of nonbank financial companies may include a review of the use of any third-party and affiliated reinsurance

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	(including captives), but the specific standards concerning the use of reinsurance and the form it takes are set at the state level. The FRB has and will continue to consult with state insurance regulators on matters such as reinsurance used by entities supervised by the FRB. Because the FRB does not play a direct role in the supervision of reinsurance, the FRB is not providing any further detail to the responses in this ICP. **States:** Reinsurers domiciled and licensed in the United States are regulated through financial regulation similar to, if not the same as, financial regulation for primary insurers. For market regulation, reinsurers are comparatively less impacted than primary insurers, largely because of differences in consumer knowledge. Reinsurers and insurers have relative equality in negotiating leverage and extensive knowledge of the reinsurance product. Thus, market regulation is not as extensive as it is in the primary market where consumers have less leverage and knowledge of the product. With respect to the use of reinsurance, the Credit for Reinsurance laws, statutory accounting requirements and procedures applicable to reinsurance transactions serve to provide regulators with an effective method of monitoring the reinsurance activities of U.S. companies. U.S. primary insurance companies may be given statutory credit on their balance sheet for insurance risk they transfer via reinsurance. While there is nothing to prevent a U.S. insurance company from transacting reinsurance business with any other company anywhere in the world, a U.S. ceding company is not permitted to take statutory credit for the reinsurance ceded unless the reinsurer meets certain requirements. The following NAIC model laws, regulations or other guidelines relate to the regulation of credit for reinsurance transactions with respect to U.S-domiciled and non-U.S. domiciled reinsurers: • NAIC Credit for Reinsurance Model Law (#785) • NAIC Credit for Reinsurance Model Regulation (#786) • NAIC Life and Health Reinsurance Agreements Model Regulation (#791) • NAIC Insurance Holding Company System Regulatory Act and Regulation (#440 and #450) • Statement of Statutory Accounting Principle (SSAP) No. 61 Life,

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	Deposit-Type and Accident and Health Reinsurance • SSAP No. 62R Property and Casualty Reinsurance • Appendix A-785 Credit for Reinsurance • Appendix A-791 Life and Health Reinsurance Agreements Models #785 and #786 provide the legal framework under which U.S. domiciled insurers are allowed credit for reinsurance ceded. Model #791 provides additional requirements with respect to life and health reinsurance agreements. These models are part of the NAIC accreditation standards, and all accredited states have adopted laws which are substantially similar to these models. SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance (SSAP No. 61), SSAP No. 62R—Property and Casualty Reinsurance (SSAP No. 62R), and Appendices A-785–Credit for Reinsurance and A-791–Life and Health Reinsurance Agreements are included as part of the codified statutory accounting guidance within the NAIC Accounting Practices and Procedures Manual. These SSAP's provide statutory accounting guidance with respect to reinsurance transactions. The Accounting Practices and Procedures Manual is required to be adopted by all accredited states under the NAIC accreditation program. The NAIC Life and Health Reinsurance Agreements Model Regulation (#791), as well as SSAP No. 61 and Appendix A-791, provide risk transfer requirements with respect to life and health reinsurance agreements. SSAP No. 61 provides that reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive reinsurance accounting treatment. If the terms of the agreement violate the risk transfer criteria contained within SSAP No. 61, it is required that the reporting entity follow the guidance for Deposit Accounting with respect to the agreement. Any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting. For non-proportional life and health reinsurance agreements such as stop loss and catastrophe reinsurance, contract terms must be evaluated to assess whether they transfer significant risk to the reinsurer. Transfer of insurance risk requires that the reinsurer's payment to the ceding entity depend on and directly vary with the amount and timing of claims settled under the reinsured contracts. Contractual features that can delay timely reimbursement prevent this condition from being met. Appendix A-791 includes relevant excerpts from Model #791, and incorporates this guidance in to SSAP No. 61 by reference. SSAP No. 62R provides risk transfer requirements with respect to property and casualty reinsurance agreements. SSAP No. 62R provides that the

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	essential element of every true reinsurance agreement is the undertaking by the reinsurer to indemnify the ceding entity, i.e., reinsured entity, not only in form but in fact, against loss or liability by reason of the original insurance. Unless the agreement contains this essential element of risk transfer, no credit is allowed to be recorded. Insurance risk involves uncertainties about both (a) the ultimate amount of net cash flows from premiums, commissions, claims, and claims settlement expenses (underwriting risk) and (b) the timing of the receipt and payment of those cash flows (timing risk). Actual or imputed investment returns are not an element of insurance risk. Insurance risk is fortuitous—the possibility of adverse events occurring is outside the control of the insured. Indemnification of the ceding entity against loss or liability relating to insurance risk in reinsurance requires both of the following: • The reinsurer assumes significant insurance risk under the reinsured portions of the underlying insurance agreements; and • It is reasonably possible that the reinsurer may realize a significant loss from the transaction. The Model Holding Company Act (#440) and its related Regulation (#450) allow states to regulate transactions between insurers and other affiliated entities. The models include provisions relating to reinsurance between affiliated companies with common ownership or control. Both models are included in the NAIC accreditation program, and all accredited states have adopted laws which are substantially similar to these models. The NAIC adopted revisions to Model #785 and Model #786 in 2011, which reduce reinsurance collateral requirements for certified reinsurers licensed and domiciled in qualified jurisdictions. These revisions also include new notification requirements for U.S. ceding insurers for the purpose of disclosing concentration risk with respect to reinsurance ceded when certain thresholds are met or are anticipated to be met. Under the reinsurance concentration risk notification requirements, ceding insurers must notify the Commissioner within 30-days if (1) recoverables from any single reinsurer or group exceed 50% of the ceding insurer's surplus; or (2) more than 20% of the ceding insurer's gross written premium is ceded to a single reinsurer or group. These requirements apply to reinsurance ceded to foreign and domestic reinsurers alike. These revisions are currently an optional standard within the NAIC accreditation program. As of June 2014, 21 states have adopted the revisions to the credit for reinsurance models. Insurers domiciled in these 21 states write nearly 60% of the primary insurance premium in the United States. The NAIC is aware of seven additional states that have or will potentially introduce similar proposals in 2014 or 2015. These additional

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	seven states would raise the market share to approximately 80%.
13.1	**The supervisor requires that cedants have reinsurance and risk transfer strategies appropriate to the nature, scale and complexity of their business, and which are part of their wider underwriting and risk and capital management strategies. The supervisor also requires that cedants have systems and procedures for ensuring that such strategies are implemented and complied with, and that cedants have in place appropriate systems and controls over their risk transfer transactions.**
13.1	**States:** The process in the United States for considering the risk that the insurer is undertaking begins with the licensing of the insurer. All companies that wish to engage in the practice of insurance, as defined by state statute, must submit an application for a certificate of authority to conduct business in that state. The application must include information on the insurer's proposed management team and proposed board, business plan and projected financial information on the insurer. The application must also include, *inter alia*, a summary of the applicant's reinsurance program, listing all reinsurance agreements and providing a basic explanation of each agreement. The level of detail within the business plan would be expected to be commensurate with the complexity and amount of risk proposed to be undertaken by the insurer. The plan would be expected to address the risk limitation requirements and the minimum capital and surplus requirements for both the first year of operations as well as the near term. The regulator will consider the overall ability for the plan to succeed based upon the assumptions and factors, as well as the ability to mitigate risks and initial capital requirements through the use of reinsurance, in determining if a license should be granted. The newly adopted company licensing accreditation standards require that the state review the applicant's business and strategic plans, pro forma financial projections, proposed reinsurance program, investment policy, financing arrangements, and related party agreements. If the insurer is granted a license, the insurer will begin to be monitored under the risk-focused surveillance process; just as any other insurer is monitored. The intent of the risk-focused surveillance process is to broaden and enhance the identification of risk inherent in an insurer's operations and utilize that evaluation in formulating the ongoing surveillance of the insurer. The risk-focused surveillance process includes identifying significant risks, assessing and analyzing those risks, documenting the results of the analysis, and developing recommendations for how the analysis can be applied to the ongoing monitoring of the insurer. In full, this process provides effective

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	procedures to monitor and assess the solvency of insurers on a continuing basis. The risk-focused surveillance cycle includes the following five elements: (1) risk-focused examination; (2) financial analysis; (3) review of internal/external changes; (4) priority system; and (5) supervisory plan. An insurer's reinsurance program is an important consideration within the risk-focused surveillance process. For example, the state's financial analysis department will perform quarterly reviews of the insurer's financial statements (and related available information) to determine how the company is performing against its projected plan. The NAIC Financial Analysis Handbook sets forth the standards for the analysis that most states conduct on their insurers on a quarterly and annual basis. Pursuant to this handbook, state insurance regulators analyze many key points and prospective risk considerations with respect to a company's reinsurance agreements and overall reinsurance program, including but not limited to consideration of the following items: • Whether the insurer has a reinsurance program in place that adequately supports its risk profile; • Whether the insurer's accounting for reinsurance ceded is proper and in accordance with the NAIC Accounting Practices and Procedures Manual and the Annual Statement Instructions; • Whether amounts recoverable from reinsurers are significant; • Whether amounts recoverable from reinsurers are collectible; • Whether reinsurance between affiliates involves any unusual shifting of risk from one affiliate to another; • Whether pyramiding may be occurring that could cause significant collectability risk to the insurer; • Whether reinsurance is being used for fronting purposes and if so, whether any potential abuses exist; • Whether any unusual reinsurance intermediary agreements or reinsurance assumed agreements exist; • Whether any unusual reinsurance transactions were completed during the year.

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	Review of a state insurance department's financial analysis process is a key component within the accreditation standards. There are eight broad standards pertaining to financial analysis and numerous specific guidelines with which a state insurance department must comply. If a state insurance department is accredited, one may be assured that the state insurance department is in substantial compliance with these standards and guidelines. In addition, the NAIC Financial Condition Examiners Handbook outlines many detailed risks and considerations with respect to reinsurance. This handbook specifically includes identified risks, control best practices, tests of controls and detail tests as reference material for state insurance examiners in examining an insurer's reinsurance program, reinsurance transactions, and reinsurance-related amounts reported within the statutory financial statements. The repository includes considerations from the perspective of both a ceding insurer and an assuming insurer. Review of a state insurance department's examination process is a key component within the accreditation standards. Insurers also provide information to regulators regarding reinsurance and risk mitigation within the ORSA filing.
13.2	**The supervisor requires that cedants are transparent in their reinsurance arrangements and the associated risks, allowing the supervisor to understand the economic impact of reinsurance and other forms of risk transfer arrangements in place.**
13.2	**States:** Insurers and reinsurers are required under state law to file standardized annual and quarterly financial reports that the regulators use to assess an insurer's risk and financial condition. These reports contain both qualitative and quantitative information and are updated as necessary to incorporate significant common insurer risks. Reporting requirements are specified in two forms: through the NAIC Accounting Practices and Procedures Manual, utilizing fully codified statutory accounting principles (SAP), and through the NAIC Quarterly and Annual Statement Instructions. Requirements run the gamut from typical accounting requirements (e.g., balance sheet and income statement) to detailed data reporting on specified schedules (e.g., Schedule D – Investment Schedules, Schedule F – Reinsurance Schedules, Schedule P – Loss Triangles, etc.). SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance, SSAP No. 62R—Property and Casualty Reinsurance, SSAP No. 63—Underwriting Pools and Associations Including Intercompany Pools, and the NAIC Quarterly and Annual Statement Instructions (specific for each company type) provide codified statutory guidance with respect to accounting,

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	reporting and disclosure of reinsurance transactions and information within the statutory financial statements. These requirements are part of the NAIC accreditation program, and the reporting requirements are applicable to all insurers. Following is a summary of reinsurance-related information that is provided within an insurer's statutory financial statement: • Balance Sheet Items – the statutory balance sheet includes disclosure of amounts recoverable from reinsurers, funds held by or deposited with reinsured companies, amounts receivable under reinsurance contracts, ceded reinsurance premiums payable (net of ceding commission), funds held by the company under reinsurance treaties, and the provision (liability) required to be recorded for reinsurance with respect to uncollateralized unauthorized reinsurance and overdue reinsurance. • Underwriting and Investment Exhibits – provide information with respect to amounts of reinsurance assumed and ceded by line of business (separated between affiliates and non-affiliates) for premiums written, losses paid and incurred, and expenses. • General Interrogatories – provide disclosure of information with respect to the reporting entity's reinsurance program (catastrophe reinsurance, method used to estimate probable maximum loss, etc.). Information is also disclosed with respect to finite-type risks and certain reinsurance contracts that include loss limiting features. • Notes to the Financial Statements – provide additional information with respect to unsecured reinsurance recoverables, reinsurance recoverables in dispute, uncollectible reinsurance, commutation of ceded reinsurance and retroactive reinsurance agreements. • Schedule P – this schedule is intended to display a summary containing ten years of historical loss data for all lines of property and casualty business. There are seven parts in addition to interrogatories within the schedule. The schedule includes various information with respect to direct, assumed and ceded business. • Property and Casualty Reinsurance Schedule F – the nine parts of Schedule F provide a more detailed analysis of reinsurance data that is shown in total in various parts of the statutory annual statement. Information regarding reinsurance assumed and ceded is included within this schedule at the counterparty level of detail. This schedule also

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	includes an aging schedule with respect to reinsurance recoverable amounts, and a restatement of the balance sheet to remove the impact of reinsurance and identify the net credit for reinsurance reflected in the reporting entity's balance sheet. • Life, Accident and Health Reinsurance Schedule S – the seven parts of Schedule S provide a more detailed analysis of reinsurance data for life, accident and health reinsurance that is shown in total in various parts of the statutory annual statement. Information regarding reinsurance assumed and ceded is included within this schedule at the contract-level of detail. This schedule also includes a five-year history of reinsurance ceded, and a restatement of the balance sheet to identify the net credit for reinsurance.
13.3	**The supervisor takes into account the nature of supervision of reinsurers and other counterparties, including any supervisory recognition arrangements in place.**
13.3	**States:** In November 2011, the NAIC adopted revisions to Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786), which serve to reduce reinsurance collateral requirements for non-U.S. licensed reinsurers that are licensed and domiciled in qualified jurisdictions. Under the previous version of the Credit for Reinsurance Models, in order for U.S. ceding insurers to receive reinsurance credit, the reinsurance was required to be ceded to U.S.-licensed reinsurers or secured by collateral representing 100% of U.S. liabilities for which the credit is recorded, regardless of the domiciliary jurisdiction of the reinsurer. The collateral requirements for non-U.S.-licensed reinsurers were a frequent subject of debate over the past decade, with various groups calling for the elimination of the collateral requirement for reinsurers licensed in well-regulated jurisdictions. The revised models establish a certification process for reinsurers. A certified reinsurer is eligible for collateral reduction with respect to contracts entered into or renewed subsequent to certification. Each enacting state has the authority to certify reinsurers, or a commissioner has the authority to recognize the certification issued by another NAIC-accredited state. Reinsurers are subject to certain criteria in order to be eligible for certification, as well as ongoing requirements in order to maintain certification. Examples of evaluation criteria include financial strength, timely claims payment history, and the requirement that a reinsurer be domiciled and licensed in a "qualified jurisdiction."

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	Each state may evaluate the reinsurance supervisory system of a non-U.S. jurisdiction in order to determine if it is a "qualified jurisdiction." In August 2013, the NAIC adopted the Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions (NAIC Qualified Jurisdiction Process). The NAIC Process is intended as an outcomes-based comparison to financial solvency regulation under the NAIC Financial Regulation Standards and Accreditation Program, relevant international guidance for recognition of reinsurance supervision (IAIS Guidance Paper on Mutual Recognition of Reinsurance Supervision), and adherence to international supervisory standards (e.g., FSAP, ROSC). A state must consider the NAIC list in its determination of qualified jurisdictions. The list is not binding, but a state must thoroughly document the justifications for approving any jurisdiction not on the list. In December 2013, pursuant to the Expedited Review Procedure within the NAIC Process, the NAIC approved the following supervisory authorities as Conditional Qualified Jurisdictions for inclusion on the NAIC List of Qualified Jurisdictions: Bermuda Monetary Authority; German Federal Financial Supervisory Authority (BaFin); Swiss Financial Market Supervisory Authority (FINMA); and the Prudential Regulation Authority of the Bank of England (PRA). The NAIC will complete full reviews of these supervisory authorities during 2014, in addition to conducting reviews of the Central Bank of Ireland; the French ACPR; and the Financial Services Agency of Japan.
13.4	**The question of binding documentation requirements for reinsurance contracts is a question of jurisdictional contract law. However, the supervisor requires that parties to reinsurance contracts promptly document the principal economic and coverage terms and conditions agreed upon by the parties and finalise the formal reinsurance contract in a timely fashion.**
13.4	**States:** With respect to Property Casualty reinsurance agreements, SSAP No. 62R acknowledges that it is not uncommon for reinsurance arrangements to be initiated before the beginning of a policy period but not finalized until after the policy period begins. However, the SSAP provides that whether there was an agreement in principle at the beginning of the policy period (and therefore the agreement is substantively prospective) shall be based on the facts and circumstances. Under SSAP No. 62R, reinsurance contracts that are not reduced to written form and signed by the parties within nine months after the effective date of the contract are presumed to be retroactive (with some limited exceptions) and must receive retroactive reinsurance accounting treatment. Exceptions to the retroactive reinsurance rules are made for

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	structured settlements, novations, substitutions of reinsurers, reinsurance contracts between affiliates where there is no gain in surplus at the inception of the agreement, and reinsurance/retrocession agreements that meet the criteria of property/casualty run-off agreements as provided with SSAP No. 62R. As conditions precedent to receiving reinsurance accounting, the reinsurance contract must (1) contain an insolvency clause; (2) provide for prompt payment of reinsured losses; (3) constitute the entire agreement between the parties; (4) not provide a guarantee of profit to either party; (5) provide for at least quarterly reports of premiums and losses (unless there is no activity during the period); and (6) contain some special provisions if it is a retroactive reinsurance contract. With respect to Life and Health reinsurance agreements, the Life and Health Reinsurance Agreements Model Regulation provides that (1) no reinsurance agreement or amendment to any agreement may be used to reduce any liability or to establish any asset in any financial statement filed with the insurance department, unless the agreement, amendment or a binding letter of intent has been duly executed by both parties no later than the "as of date" of the financial statement; and (2) in the case of a letter of intent, a reinsurance agreement or an amendment to a reinsurance agreement must be executed within a reasonable period of time, not exceeding ninety (90) days from the execution date of the letter of intent, in order for credit to be granted for the reinsurance ceded.
13.5	**The supervisor assesses whether cedants control their liquidity position to take account of the structure of risk transfer contracts and likely payment patterns arising from these.**
13.5	**States:** An insurer's cash flow and liquidity is an important consideration under the risk-focused surveillance process. The intent of the risk-focused surveillance process is to broaden and enhance the identification of risk inherent in an insurer's operations and utilize that evaluation in formulating the ongoing surveillance of the insurer. The risk-focused surveillance process includes identifying significant risks, assessing and analyzing those risks, documenting the results of the analysis, and developing recommendations for how the analysis can be applied to the ongoing monitoring of the insurer. In full, this process provides effective procedures to monitor and assess the solvency of insurers on a continuing basis. The risk-focused surveillance cycle includes the following five elements: (1) risk-focused examination; (2) financial analysis; (3) review of internal/external changes; (4) priority system; and (5) supervisory plan.

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	Analysts will evaluate and determine whether an insurer's investment plan and investment portfolio appears to result in investments and practices that are appropriate for the insurer based on the types of business written, and that it is adequately diversified with the appropriate level of liquidity to meet cash flow requirements. Where liquidity is a concern, the analyst may also consider requesting interim reporting from the insurer on areas of risk specific to that insurer. Analysts will consider whether an insurer's liquidity has been negatively impacted by any material changes in (1) cash inflows as a result of changes in reinsurance, and/or (2) cash outflows as a result of changes in reinsurance recoverable. Insurers also provide information to regulators regarding cash flow and liquidity within the ORSA filing. In addition, the timing of recoveries by a ceding insurer under reinsurance agreements is a critical consideration in the reporting of credit for reinsurance. Contractual features that delay timely reimbursement to the ceding insurer violate statutory risk transfer requirements and the conditions of reinsurance accounting. State insurance regulators also collect information that allows for slow-payment analysis on reinsurance recoverables on a reinsurer-by-reinsurer basis. This analysis further enhances the assessment of counterparty risk exposure to the ceding insurer, which is a consideration in liquidity analysis.
13.6	**Where risk transfer to the capital markets is permitted, supervisors are able to understand the structure and operation of such arrangements and to assess issues which may arise.**
13.6	**States:** As discussed under previous responses, an insurer's reinsurance program is an important consideration within the risk-focused surveillance process. A summary of the applicant's reinsurance program, listing all reinsurance agreements and providing a basic explanation of each agreement is provided by an insurer upon application for a license to transact insurance business. Upon granting a license, the state's financial analysis department will perform quarterly reviews of the insurer's financial statements (and related available information) to determine how the company is performing against its projected plan. The insurer's quarterly financial statements will highlight any new reinsurance counterparties. States employ general procedures with respect to the review of reinsurance agreements and trust agreements. The NAIC and state insurance regulators have monitored the recent significant increase in the use of alternative risk transfer structures by ceding insurers, and as a result intend to propose enhanced guidance within the *Financial Analysis Handbook* in 2014 to incorporate more specific guidance with respect to analysis of agreements that

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	transfer insurance risk to capital market structures.
ICP 14	**Valuation**
14	**The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.**
14	**FRB:** As noted in the response to ICP 17, the FRB has the authority to impose capital requirements on BHCs and SLHCs that are or control insurance companies and nonbank financial companies. Those requirements remain under development. In building out its capital adequacy framework for group solvency, the FRB will consider requirements for valuation of assets and liabilities. **States:** The NAIC *Accounting Practices and Procedures Manual* (APPM) is a codification of insurance regulatory requirements (collectively referred to as Statutory Accounting Principles (SAP). As noted in the APPM, the primary responsibility of each state insurance department is to regulate insurance companies in accordance with state laws with an emphasis on solvency for the protection of policyholders. The ultimate objective of solvency regulation is to ensure that policyholder and contract holder and other legal obligations are met when they come due and that companies maintain capital and surplus at all times and in such forms as required by statute to provide an adequate margin of safety. The cornerstone of solvency measurement is financial reporting. Therefore the regulator's ability to effectively determine relative financial condition using financial statements is of paramount importance to the protection of policyholders. The APPM consists primarily of "Statements of Statutory Accounting Principles (SSAPs), which are the primary accounting practices and procedures promulgated by the NAIC. The valuation requirements for assets and liabilities are detailed within SSAPs pursuant to the three Statements of Statutory Accounting Concepts detailed within the APPM Preamble: • Conservatism: Statutory Accounting should be reasonably conservative over the span of economic cycles and in recognition of the primary responsibility to regulate for financial solvency. Valuation procedures should, to the extent possible, prevent sharp fluctuations in surplus. • Consistency: The regulator's need for meaningful, comparable financial information to determine an insurer's financial condition

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	requires consistency in the development and application of statutory accounting principles. • Recognition: 1) Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet but rather should be charged against surplus when acquired or when availability otherwise becomes questionable. 2) Liabilities require recognition as they are incurred. 3) Revenue should be recognized only as the earnings process of the underlying underwriting or investment business is completed.
14.1	**The valuation addresses recognition, derecognition and measurement of assets and liabilities.**
14.1	**States:** *See* response to ICP 14. The SSAPs prescribe the accounting and reporting requirements for assets and liabilities. Specific SSAPs detail the definition of assets and liabilities and the accounting for transfers/extinguishments, with specific SSAPs on various assets to detail reporting specifics, including but not limited to: acquisition, measurement method, valuation, impairment, income recognition, and disclosures.
14.2	**The valuation of assets and liabilities is undertaken on consistent bases.**
14.2	**States:** *See* response to ICP 14 & ICP/Std. 14.1. The NAIC Statutory Statements of Concepts includes "consistency." Accounting provisions within the APPM are established in accordance with the "regulator's need for meaningful, comparable financial information." The codification of NAIC SAP did not pre-empt state legislative and regulatory authority. States may "prescribe" or "permit" accounting practices that vary from NAIC SAP. Prescribed Practice – Accounting practices that are incorporated directly or by reference by state laws, regulations and general administrative rules applicable to all insurance enterprises domiciled in a particular state. • Permitted Practice – Accounting practice specifically requested by an insurer that departs from NAIC SAP and state prescribed accounting practices, which has been approved from the insurer's domiciliary

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	regulatory authority. Pursuant to the SAP, no domiciliary state regulator shall grant an approval to use an accounting practice unless it provides advance notice to all other states in which the insurer is licensed with the following information: ▪ Nature and clear description of the permitted accounting practice request; ▪ Quantitative effect of the permitted accounting practice with all other approved permitted accounting practices currently in effect; ▪ Effect of the requested permitted accounting practice on a legal entity basis and on all parent and affiliated U.S. insurance companies; ▪ The effect, and the quantitative impact, to each financial statement line item affected by the request. If a reporting entity employs accounting practices that depart from the NAIC APPM (prescribed or permitted), disclosure of the following information is required at the date each financial statements is presented: • Description of accounting practice; • Statement that the accounting practice differs from NAIC SAP; • Monetary effect on net income and statutory surplus of using an accounting practice which differs from NAIC SAP; and • If an insurance enterprise's risk-based capital would have triggered a regulatory event had it not used a prescribed or permitted practice.
14.3	**The valuation of assets and liabilities is undertaken in a reliable, decision useful and transparent manner.**
14.3	**States:** *See* response to ICP 14 & ICP/Std.14.1. The SAP Statement of Concepts incorporates by reference FASB Concept Statements One, Two, Five and Six to the extent they do not conflict with the SAP concepts. The intent of FASB Concept Statement Two identifies characteristics that make accounting information useful: • Relevant – Information must be timely and it must have predictive

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	value or feedback value or both. • Reliable – Information must have representational faithfulness and it must be verifiable and neutral. • Comparability & Consistency – Information gains greatly in usefulness if it can be compared with similar information about other enterprises and with the same enterprise for some other period or some other point of time. The Statutory Accounting Principles (E) Working Group has the responsibility of developing and revising SSAPs pursuant to the NAIC Policy Statement on Maintenance of Statutory Accounting Principles and the NAIC Open Meetings policy.
14.4	**The valuation of assets and liabilities is an economic valuation.**
14.4	**States:** Pursuant to ICP 14, an economic-basis includes amortized cost valuations and market-consistent valuations. The SSAPs prescribed accounting valuations that reflect amortized cost or fair value, with impairment assessments. The determinants of the asset measurement method includes considerations of asset and liability matching (e.g., bonds held at amortized cost to match the tenure of insurance liabilities), as well as the risk assessment of the investment. Liabilities are defined under statutory accounting as certain or probable future sacrifices of future benefits and must be recorded when incurred. Liabilities are recorded at expected cost. The SAP fair value calculation of investments adopts, with modification to exclude the consideration of non-performance risk (own credit risk), the GAAP provisions for the definition and determination of fair value. This definition identifies that fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
14.5	**An economic valuation of assets and liabilities reflects the risk-adjusted present values of their cash flows.**
14.5	**States:** *See* response to ICP/Std. 14.4. As noted for assets, amortized cost or fair value are prescribed accounting valuations within the SSAPs. These measurement methods are determined in accordance with the nature of the investments. These valuation measures require impairment assessments, with

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	recognition of other-than-temporary impairments within the confines of the SSAPs. P&C technical provisions: Reporting (in Schedule P) is required such that risk-adjusted present values of cash flows can be estimated by a user of the annual statement. The value reported on the balance sheet is the full settlement value discounted only when the payments are fair and determinable.
14.6	**The value of technical provisions and other liabilities does not reflect the insurer's own credit standing.**
14.6	**States:** Pursuant to *SSAP No. 100—Fair Value Measurements*, paragraph 14: Consideration of non-performance (own credit risk) should not be reflected in the fair value calculation of liabilities (including derivative liabilities) at subsequent measurement. At initial recognition, it is perceived that the consideration of own-credit risk may be inherent in the contract negotiations resulting in the liability. The consideration of non-performance risks for subsequent measurement is inconsistent with the conservatism and recognition concepts as well as the assessment of financial solvency for insurers, as a decrease in credit standing would effectively decrease reported liabilities and thus seemingly increase the appearance of solvency. Furthermore, liabilities reported or disclosed at "fair value" shall not reflect any third-party credit guarantee of debt.
14.7	**The valuation of technical provisions exceeds the Current Estimate by a margin (Margin over the Current Estimate or MOCE).**
14.7	**States:** For P&C technical provisions, valuation includes a margin over a current estimate, such that the regulatory assumption is that the margin equals the amount of otherwise applicable current value discount. For life insurance technical provisions (reserves), a margin exists over the current estimate. *See* description of asset adequacy testing of the minimum formula reserve in response to ICP/Std. 14.9.
14.8	**The Current Estimate reflects the expected present value of all relevant future cash flows that arise in fulfilling insurance obligations, using unbiased, current assumptions.**

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14.8	**States:** The P&C technical provisions can be calculated using numerous methodologies, all which aim to calculate the ultimate settlement value (thereby including all relevant future cash flows). For life insurance technical provisions (reserves), the asset adequacy testing requires the calculation of the expected present value of all relevant future cash flows using unbiased current assumptions. *See* description of asset adequacy testing in the response to ICP/Std. 14.9.
14.9	**The MOCE reflects the inherent uncertainty related to all relevant future cash flows that arise in fulfilling insurance obligations over the full time horizon thereof.**
14.9	**States:** For P&C technical provisions, the regulatory assumption is that the margin equals the amount of otherwise applicable current value discount. In the United States, the Standard Valuation Law (Model Law 820) specifies minimum requirements for technical provisions (reserves) for life insurance. The minimum technical provisions (reserves) are established by a formula consisting of a reserve method, valuation mortality table and valuation interest rate. Therefore the minimum formula reserve has implicit margins built in. For example the valuation mortality table is based in insurance industry experience with specific margins added in. The valuation interest rate is generally a conservative (low) interest rate. The formula reserves ignore other policy owner behavior such as lapsing the policy, etc. Not allowing such other decrements adds an implicit margin in the reserve calculation. However, the minimum formula reserve may not be adequate in all situations and therefore, the minimum technical provisions (reserves) are subject to asset adequacy testing to determine if the minimum formula reserve is adequate given the assets the company owns that fund the reserve to fulfill insurance obligations over the full time horizon. This asset adequacy testing accounts for all liability and asset cash flows to determine if the implicit margin over current estimate is adequate. If the formula reserve is not adequate (based on asset adequacy testing) an additional reserve is required to be established. Section 3 of the Standard Valuation Law states as follows: **Section 3. Actuarial Opinion of Reserves** A. Actuarial Opinion Prior to the Operative Date of the Valuation Manual

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	(1) General Every life insurance company doing business in this state shall annually submit the opinion of a qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the commissioner by regulation are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts and comply with applicable laws of this state. The commissioner shall define by regulation the specifics of this opinion and add any other items deemed to be necessary to its scope. (2) Actuarial Analysis of Reserves and Assets Supporting Reserves (a) Every life insurance company , except as exempted by regulation , shall also annually include in the opinion required by Subsection (1) of this section, an opinion of the same qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the commissioner by regulation, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including but not limited to the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company's obligations under the policies and contracts, including but not limited to the benefits under and expenses associated with the policies and contracts.(b) The commissioner may provide by regulation for a transition period for establishing any higher reserves that the qualified actuary may deem necessary in order to render the opinion required by this section.

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14.10	**The valuation of technical provisions allows for the time value of money. The supervisor establishes criteria for the determination of appropriate rates to be used in the discounting of technical provisions.**
14.10	**States:** In the United States, the Standard Valuation Law (Model Law 820) specifies minimum requirements for technical provisions (reserves) for life insurance. Section 4b specifies how the valuation interest rate (time value of money) is to be determined. This section states: B. Calendar Year Statutory Valuation Interest Rates (1) The calendar year statutory valuation interest rates, *I*, shall be determined as follows and the results rounded to the nearer one-quarter of one percent (1/4 of 1%): (a) For life insurance: $I = .03 + W \cdot (R_1 - .03) + \frac{W}{2} \cdot (R_2 - .09)$ (b) For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and from guaranteed interest contracts with cash settlement options: $I = .03 + W \cdot (R - .03)$ Where R_1 is the lesser of R and .09, R_2 is the greater of R and .09, R is the reference interest rate defined in this section, W is the weighting factor defined in this section; (c) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on an issue year basis, except as stated in Subparagraph (b) above, the formula for life insurance stated in

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	Subparagraph (a) above shall apply to annuities and guaranteed interest contracts with guarantee durations in excess of ten (10) years and the formula for single premium immediate annuities stated in Subparagraph (b) above shall apply to annuities and guaranteed interest contracts with guarantee duration of ten (10) years or less; (d) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the formula for single premium immediate annuities stated in Subparagraph (b) above shall apply. (e) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, the formula for single premium immediate annuities stated in Subparagraph (b) above shall apply. (2) However, if the calendar year statutory valuation interest rate for a life insurance policy issued in any calendar year determined without reference to this sentence differs from the corresponding actual rate for similar policies issued in the immediately preceding calendar year by less than one-half of one percent (1/2 of 1%), the calendar year statutory valuation interest rate for the life insurance policies shall be equal to the corresponding actual rate for the immediately preceding calendar year. For purposes of applying the immediately preceding sentence, the calendar year statutory valuation interest rate for life insurance policies issued in a calendar year shall be determined for 1980 (using the reference interest rate defined in 1979) and shall be determined for each subsequent calendar year regardless of when Section 5c of the Standard Non-forfeiture Law for Life Insurance as amended becomes operative. C. Weighting Factors (1) The weighting factors referred to in the formulas stated above are given in the following tables:(a)

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	Weighting Factors for Life Insurance: Guarantee Duration (Years) — Weighting Factors 10 or less — .50 More than 10, but not more than 20 — .45 More than 20 — .35 For life insurance, the guarantee duration is the maximum number of years the life insurance can remain in force on a basis guaranteed in the policy or under options to convert to plans of life insurance with premium rates or non-forfeiture values or both which are guaranteed in the original policy. For P&C under statutory accounting, with the exception of fixed and reasonably determinable payments such as those emanating from workers' compensation tabular indemnity reserves and long-term disability claims, reserves shall not be discounted. For contacts that qualify for discounting, and if state exceptions are made to allow discounting for non-tabular reserves, specific financial statement disclosures are required. Under U.S. GAAP, most short-duration contracts such as many property and liability insurance contracts claim liabilities are not discounted. Pursuant to the SEC Staff Position with respect to discounting claims liabilities related to short-duration insurance contracts, the SEC staff has noted that they will raise no objection if a registrant follows a policy for GAAP reporting purposes of: • Discounting liabilities for unpaid claims and claim adjustment expenses at the same rates that it uses for reporting to state regulatory authorities with respect to the same claims liabilities, or • Discounting liabilities with respect to settled claims under the following circumstances: (1) The payment pattern and ultimate cost are fixed and determinable on an individual claim basis, and (2) The discount rate used is reasonable on the facts and circumstances applicable to the registrant at the time the claims are settled.

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	Discounting for short-duration contracts was a key discussion point in the FASB 2013 Insurance Contracts exposure draft. As noted by the FASB in their related "Comment letter and Other Feedback Summary," while most responders agreed with the concept of the time value of money, the responders noted that discounting the liability for incurred claims would be costly and not provide decision-useful information because: • There is uncertainty in both the amount and the timing of claim payments, which causes significant subjectivity and variability in the calculated discount. • It is not consistent with the property and casualty business model where claims are typically managed internally, analyzed externally, and ultimately settled all on a nominal (that is, undiscounted) basis. • The financial condition of a reporting entity would be overstated if reserves are recorded at a discounted amount, and that may increase the perceived financial risk of insurance entities. The FASB also noted field testing results, which highlighted the variability in the calculated discount on the liability for incurred claims.
14.11	**The supervisor requires the valuation of technical provisions to make appropriate allowance for embedded options and guarantees.**
14.11	**States:** Section 7.C. of the Model Regulation 822 titled "Actuarial Opinion and Memorandum Regulation" states the following: Details of the Regulatory Asset Adequacy Issues Summary (1) The regulatory asset adequacy issues summary shall include: (a) Descriptions of the scenarios tested (including whether those scenarios are stochastic or deterministic) and the sensitivity testing done relative to those scenarios. If negative ending surplus results under certain tests in the aggregate, the actuary should describe those tests and the amount of additional reserve as of the valuation date which, if held, would eliminate the negative aggregate surplus values. Ending surplus values shall be determined by

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	either extending the projection period until the in force and associated assets and liabilities at the end of the projection period are immaterial or by adjusting the surplus amount at the end of the projection period by an amount that appropriately estimates the value that can reasonably be expected to arise from the assets and liabilities remaining in force. (b) The extent to which the appointed actuary uses assumptions in the asset adequacy analysis that are materially different than the assumptions used in the previous asset adequacy analysis; (c) The amount of reserves and the identity of the product lines that had been subjected to asset adequacy analysis in the prior opinion but were not subject to analysis for the current opinion; (d) Comments on any interim results that may be of significant concern to the appointed actuary. For example, the impact of the insufficiency of assets to support the payment of benefits and expenses and the establishment of statutory reserves during one or more interim periods; (e) The methods used by the actuary to recognize the impact of reinsurance on the company's cash flows, including both assets and liabilities, under each of the scenarios tested; and (f) Whether the actuary has been satisfied that all options whether explicit or embedded, in any asset or liability (including but not limited to those affecting cash flows embedded in fixed income securities) and equity-like features in any investments have been appropriately considered in the asset adequacy analysis. (2) The regulatory asset adequacy issues summary shall contain the name of the company for which the regulatory asset adequacy issues summary is being supplied and shall be signed and dated by the appointed

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	actuary rendering the actuarial opinion.
ICP 15	**Investment**
15	**The supervisor establishes requirements for solvency purposes on the investment activities of insurers in order to address the risks faced by insurers.**
15	**FRB:** As noted in the response to ICP 17, the FRB has the authority to impose capital requirements on BHCs and SLHCs that are or control insurance companies and nonbank financial companies. Those requirements remain under development. In building out its capital adequacy framework for group solvency, the FRB will consider requirements for valuation of assets and liabilities. **States:** State laws and regulations, along with NAIC guidance on investments and investment risks, focus on the investment activities and investment risks of insurers through state investment laws, Statutory Accounting Principles, and financial statement reporting requirements. Insurers are required to report each individual investment in detailed investment schedules. These investments are also divided into different asset classes for ease of review. Investments are subject to specific guidelines for what are admitted assets for purposes of calculating surplus and capital, and are also subject to specific valuation rules. Beyond reporting and valuation, as a second leg, insurers' investments are also considered individually and as asset classes for purposes of capital and reserving requirements. Finally, financial analysts and insurance examiners have at their disposal guidance and recommendations for considering the specific risks of different types of investments as well as valuation metrics in technical handbooks, and through different tools that are available only to regulators. This handbook guidance assists regulators in a risk-focused approach towards their review of the investment characteristics of insurer portfolios. Risks highlighted in the handbooks include those related to concentration and liquidity in the portfolio overall and in relation to the nature of the insurer's liabilities. The tools for monitoring investment risks are maintained on an ongoing basis by several different regulator committees at the NAIC. Statutory accounting guidance, the risk-based capital framework, as well as basic analysis and examination guidance have all been adopted by the various jurisdictions and are also part of the accreditation process. There is no additional legislative action required when NAIC committees adopt modifications to stay current with the evolving marketplace because all jurisdictions have adopted the relevant and required models. Therefore any changes adopted by the relevant NAIC committees are

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	automatically included in state guidance.
15.1	**The supervisor establishes requirements that are applicable to the investment activities of the insurer.**
15.1	**States:** State investment laws may include specific investment limits for the insurers domiciled in that state. Broader requirements giving regulators the tools for oversight of investment activities of insurance companies have been adopted by all member states and are contained within statutory accounting principles, the risk-based capital framework and examination standards of the NAIC.
15.2	**The supervisor is open and transparent as to the regulatory investment requirements that apply and is explicit about the objectives of those requirements.**
15.2	**States:** Requirements under statutory accounting principles and the risk-based capital framework as they relate to investments are contained in public documents. Discussions related to that guidance including any that may result in changes to that guidance are all held in public sessions as per the open meetings policy of the NAIC.
15.3	**The regulatory investment requirements address at a minimum, the** • **Security;** • **Liquidity; and** • **Diversification;** **of an insurer's portfolio of investments as a whole.**
15.3	**States:** Different aspects of investment risk, whether for individual investments, as is the case for credit risk, or for portfolios, as is more appropriate for risks such as liquidity or concentration, are addressed in different parts of the regulatory framework. Each of the three legs, reporting and valuation, risk-based capital, and analysis and examination, work together to support the overall goals.
15.4	**The supervisor requires the insurer to invest in a manner that is**

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	appropriate to the nature of its liabilities.
15.4	**States:** The insurer is subject to off-site and on-site inspections where investment practices are examined. The profile of the insurer's investments is analyzed with consideration given to the nature and extent of risks taken in the current market environment, duly taking into account potential liquidity needs. The insurer's Investment Policy Statement is reviewed along with the jurisdiction's investment laws which generally differ based on insurer type. For example, for life companies, the actuarial opinion contains the appointed actuary's opinion with respect to the adequacy of the supporting assets to mature the liabilities. Asset-liability management is a key aspect of the risk-focused examination process and is also strongly considered in the Own Risk and Solvency Assessment (ORSA).
15.5	**The supervisor requires the insurer to invest only in assets whose risks it can properly assess and manage.**
15.5	**States:** The supervisor requires the insurer to have the requisite knowledge to understand the nature and complexity of its investments. Pursuant to the Hazardous Financial Condition Model Regulation (#385), the supervisor will consider "whether the management of an insurer, including officers, directors, or any other person who directly or indirectly controls the operation of the insurer, fails to possess and demonstrate the competence, fitness and reputation deemed necessary to serve the insurer in such position." Statutory Accounting Principles are explicit in determining what are admitted assets for purposes of calculating surplus and capital. Admitted assets are in turn assigned a risk-based capital factor. Excessive exposure to investments with higher risk could result in an insurer being deemed weakly capitalized and subject to increased regulatory oversight.
15.6	**The supervisor establishes quantitative and qualitative requirements, where appropriate, on the use of more complex and less transparent classes of assets and investment in markets or instruments that are subject to less governance or regulation.**
15.6	**States:** While individual jurisdictions have specific limits on investments, assets classes and investment practices, general NAIC guidance focuses on appropriate, yet conservative, reporting and valuation requirements, including the aforementioned determinations of admitted assets. For admitted assets,

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	capital and reserving requirements focus on the specific risks of the individual investments. Detailed reporting requirements highlight an insurer's involvement in potentially volatile areas, including the use of derivatives. Guidance for examiners highlights the importance of risk-focused examinations, in particular on those areas of an investment portfolio or investment strategy that may put the insurer at risk.
ICP 16	**Enterprise Risk Management for Solvency Purposes**
16	**The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.**
16	**FRB:** The FRB places significant supervisory emphasis on the adequacy of an institution's management of risk. The FRB expects organizations to have in place comprehensive risk management policies and processes for identifying, evaluating, monitoring and controlling or mitigating all material risks. In addition, the Dodd-Frank Act created specific risk management requirements for banking organizations with total assets greater than $50 billion and nonbank financial companies. It should be noted that the essential components of an enterprise risk management framework appear either explicitly or implicitly throughout the FRB's general guidance on risk management for the banking organizations under its supervisory jurisdiction. For example, the FRB's Capital Plan (Plan) for firms with assets of at least $50 billion requires firms to have risk management and capital planning policies to ensure that they have sufficient capital during normal and stressed conditions. The Plan states, in part: "BHCs should have risk-identification processes that ensure that all risks are appropriately accounted for when assessing capital needs. These processes should evaluate the full set of potential exposures…" As noted in the FRB's response to ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development. It is expected that the principles embodied in an enterprise risk management framework will be incorporated in the final rules. **States:** Pursuant to the Risk Management and Own Risk and Solvency Assessment (RMORSA Model Act) adopted by the NAIC, states that have adopted similar legislation will be able to specifically require insurers to maintain a risk management framework for the purpose of identifying,

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	monitoring, assessing, managing and reporting on its material and relevant risks. As of July 2014, 19 states have adopted such legislation.
16.1	**The supervisor requires the insurer's enterprise risk management framework to provide for the identification and quantification of risk under a sufficiently wide range of outcomes using techniques which are appropriate to the nature, scale and complexity of the risks the insurer bears and adequate for risk and capital management and for solvency purposes.**
16.1	**States:** The RMORSA Model Act is not an overly prescriptive document and contains principles under which insurers must file certain information supporting its ORSA filing. A separate document entitled "NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual" contains more specific guidance on the elements of an effective ERM framework, including risk culture and governance; risk identification and prioritization; risk appetite, tolerances and limits; risk management and controls; and risk reporting and communication. It also requires an insurer to analyze the results of risk exposures under both normal and stressed environments. An insurer that is subject to ORSA must conduct an ORSA consistent with a process comparable to the ORSA Guidance Manual. The ORSA Guidance Manual may be revised in the future based on evolving risks, but more likely is that our processes for supervisors' review of ORSA summary reports will evolve, thus resulting in an ever-evolving dialogue between the regulator and the group. During the NAICs ORSA pilot programs in 2012 and 2013, insurance groups identified and quantified risks in a variety of ways; and in almost all cases, such information was reflective of the applicable scale and complexity of the insurance group. In those rare cases that it was not, the regulators notified the insurance groups of those facts for either immediate modification or future modification of such information in the reports and/or processes.
16.2	**The supervisor requires the insurer's measurement of risk to be supported by accurate documentation providing appropriately detailed descriptions and explanations of the risks covered, the measurement approaches used and the key assumptions made.**
16.2	**States:** The RMORSA Model Act, in conjunction with the ORSA Guidance Manual, requires that adequate documentation be maintained as it relates to the measurement of risks (including measurement approaches used and key

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	assumptions made), among other things, associated with an ORSA filing.
16.3	**The supervisor requires the insurer to have a risk management policy which outlines how all relevant and material categories of risk are managed, both in the insurer's business strategy and its day-to-day operations.**
16.3	**States:** As part of the ORSA Guidance Manual, Section 1 provides a description of the insurer's enterprise risk management framework. It states, in part, "The ORSA Summary Report should describe how the insurer identifies and categorizes relevant and material risks and manages those risks as it executes its business strategy."
16.4	**The supervisor requires the insurer to have a risk management policy which describes the relationship between the insurer's tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.**
16.4	**States:** As part of the ORSA Guidance Manual, the supervisor requires the insurer to have a risk management policy which describes the relationship between the insurer's tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk. In addition to Section 1, Section 3 provides guidance on group assessment of risk capital and prospective solvency assessment.
16.5	**The supervisor requires the insurer to have a risk management policy which includes an explicit asset-liability management (ALM) policy which clearly specifies the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management.**
16.5	**States:** The supervisor requires an actuarial opinion and memorandum. Part of this requirement includes an opinion paragraph expressing the appointed actuary's opinion with respect to the adequacy of the supporting assets to mature the liabilities. The ERM framework does not explicitly have a requirement for asset liability matching but the actuarial opinion and memorandum requirement effectively addresses the need for asset liability matching. From an ERM perspective, each insurer should utilize assessment techniques that are appropriate to the risk profile of the insurer. Such

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	assessment techniques are subject to reporting under the RMORSA Model Act.
16.6	**The supervisor requires the insurer to have a risk management policy which is reflected in an explicit investment policy which:** • **specifies the nature, role and extent of the insurer's investment activities and how the insurer complies with the regulatory investment requirements established by the supervisor; and** • **establishes explicit risk management procedures within its investment policy with regard to more complex and less transparent classes of asset and investment in markets or instruments that are subject to less governance or regulation.**
16.6	**States:** The RMORSA Model Act, along with its ORSA Guidance Manual, provides for the general ERM framework and the items described are minimum requirements. Section 2 of the ORSA Guidance Manual specifically mentions that examples of relevant risk categories may include, but are not limited to credit, market, liquidity, underwriting and operational risks. Rather than specifying investments as a covered element, which are instead covered by state investment laws and required reporting within the NAIC annual statement, it requires the risk identification and prioritization process that are key to the organization. It requires a formal risk appetite statement, associated risk tolerances and limits, risk strategy, and feedback loops as necessary elements of a robust ERM framework. It is anticipated that a risk management policy that explicitly covers investment risk would be part of the broader ERM framework.
16.7	**The supervisor requires the insurer to have a risk management policy which includes explicit policies in relation to underwriting risk.**
16.7	**States:** The RMORSA Model Act, along with its ORSA Guidance Manual, provides for the general ERM framework and the items described are minimum requirements. Section 2 of the ORSA Guidance Manual specifically mentions that examples of relevant risk categories may include, but are not limited to credit, market, liquidity, underwriting, and operational risks. Rather than specifying underwriting as a covered element, it requires the risk identification and prioritization process that are key to the organization. It requires a formal risk appetite statement, associated risk tolerances and limits, risk strategy, and feedback loops as necessary elements of a robust ERM framework. It is anticipated that a risk management policy

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	that explicitly covers underwriting risk would be part of the broader ERM framework.
16.8	**The supervisor requires the insurer to:** • **establish and maintain a risk tolerance statement which sets out its overall quantitative and qualitative risk tolerance levels and defines risk tolerance limits which take into account all relevant and material categories of risk and the relationships between them;** • **make use of its risk tolerance levels in its business strategy; and** • **embed its defined risk tolerance limits in its day-to-day operations via its risk management policies and procedures.**
16.8	**States:** The RMORSA Model Act, along with its ORSA Guidance Manual, provide for the general ERM framework. One of the items specifically deals with risk appetite, tolerances, and limits, both quantitative and qualitative. It requires that tolerance levels be demonstrated in the insurer's business strategy and day-to-day operations.
16.9	**The supervisor requires the insurer's ERM framework to be responsive to changes in its risk profile.**
16.9	**States:** The RMORSA Model Act, along with its ORSA Guidance Manual, requires that the ERM framework be responsive to change in the insurer's risk profile. The ORSA Guidance Manual discusses how the ERM framework in an ORSA Summary Report, should at a minimum incorporate 5 key principles, including risk identification and prioritization, which is often the driving force on changes in risk profile.
16.10	**The supervisor requires the insurer's ERM framework to incorporate a feedback loop, based on appropriate and good quality information, management processes and objective assessment, which enables it to take the necessary action in a timely manner in response to changes in its risk profile.**
16.10	**States:** The RMORSA Model Act, along with its ORSA Guidance Manual, requires that the ERM framework incorporate a feedback loop (flexibility in the framework to consider changes in the environment) enabling the insurer to take the necessary action in a timely manner in response to changes in its risk

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	profile.
16.11	**The supervisor requires the insurer to perform its own risk and solvency assessment (ORSA) regularly to assess the adequacy of its risk management and current, and likely future, solvency position.**
16.11	**States:** The RMORSA Model Act, along with its ORSA Guidance Manual, requires the insurer to perform its own risk and solvency assessment annually to assess the adequacy of its risk management and current, and likely future, solvency position.
16.12	**The supervisor requires the insurer's Board and Senior Management to be responsible for the ORSA.**
16.12	**States:** In accordance with the RMORSA Model Act, the ORSA report shall include a signature of the insurer or insurance group's chief risk officer or other executive having responsibility for the oversight of the insurer's enterprise risk management process attesting to the best of his/her belief and knowledge that the insurer applies the enterprise risk management process described in the ORSA Summary Report. A copy of said report will be provided to the insurer's board of directors or the appropriate committee thereof.
16.13	**The supervisor requires the insurer's ORSA to encompass all reasonably foreseeable and relevant material risks including, as a minimum, underwriting, credit, market, operational and liquidity risks and additional risks arising due to membership of a group. The assessment is required to identify the relationship between risk management and the level and quality of financial resources needed and available.**
16.13	**States:** The RMORSA Model Act, along with its ORSA Guidance Manual, requires the insurer's ORSA to encompass all reasonably foreseeable and relevant material risks including underwriting, credit, market, operational and liquidity risks and additional risks as the risk profile dictates. The assessment includes identifying the relationship between risk management and the level and quality of financial resources needed and available.

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16.14	**The supervisor requires the insurer to:** • **determine, as part of its ORSA, the overall financial resources it needs to manage its business given its own risk tolerance and business plans, and to demonstrate that supervisory requirements are met;** • **base its risk management actions on consideration of its economic capital, regulatory capital requirements and financial resources, including its ORSA; and** • **assess the quality and adequacy of its capital resources to meet regulatory capital requirements and any additional capital needs.**
16.14	**States:** The RMORSA Model Act, along with its ORSA Guidance Manual, requires the insurer's ORSA to determine the overall financial resources it needs to manage its business (given its own risk tolerance and business plans), demonstrate that supervisory requirements are met; base its risk management actions on consideration of its economic regulatory capital requirements and financial resources, and assess the quality and adequacy of its capital resources to meet regulatory capital requirements and any additional capital needs.
16.15	**The supervisor requires:** • **the insurer, as part of its ORSA, to analyse its ability to continue in business, and the risk management and financial resources required to do so over a longer time horizon than typically used to determine regulatory capital requirements;** • **the insurer's continuity analysis to address a combination of quantitative and qualitative elements in the medium and longer-term business strategy of the insurer and include projections of its future financial position and analysis of its ability to meet future regulatory capital requirements.**
16.15	**States:** The RMORSA Model Act, along with its ORSA Guidance Manual, requires the insurer's ORSA to analyse its ability to continue in business and the risk management and financial resources required to do so over a longer time horizon than typically used to determine regulatory capital requirements, and the insurer's continuity analysis to address a combination of quantitative and qualitative elements and include projections of its future financial position and analysis of its ability to meet future regulatory capital requirements.

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16.16	**The supervisor undertakes reviews of an insurer's risk management processes and its financial condition, including the ORSA. Where necessary, the supervisor requires strengthening of the insurer's risk management, solvency assessment and capital management processes.**
16.16	**States:** The RMORSA Model Act, along with its ORSA Guidance Manual, acknowledges that the supervisor will conduct reviews of the insurer's ERM framework as part of the risk-focused analysis and/or examination processes. The supervisor may also request supporting materials to supplement his/her understanding of information contained in the ORSA Summary Report. These materials may include risk management policies or programs, such as the insurer's underwriting, investment, claims, asset-liability management, reinsurance counterparty and operational risk policies. Where appropriate and necessary, the supervisor may require strengthening of risk management, solvency assessment, and capital planning processes.
ICP 17	**Capital Adequacy**
17	**The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.**
17	**States:** The supervisor establishes "legal entity" capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention. These capital adequacy requirements are required by the NAIC Risk Based Capital Model Law and have been adopted by all states. For all other insurance groups and as permitted within ICP 17, supervisors utilize a legal entity focus when performing a group-wide capital adequacy assessment. The insurance group is considered primarily as a set of interdependent legal entities. Insurance groups (and their subsidiaries) that conduct business internationally are subject to capital adequacy requirements of those countries in which they are domiciled. To the extent that U.S. insurers hold insurance company subsidiaries (regardless of their country of domicile), requisite RBC charges are placed on the carrying values of those subsidiaries. **FRB:** The FRB and the other federal banking agencies (OCC and FDIC) revised their regulatory capital frameworks in July 2013. The FRB did not apply the rule to SLHCs. The FRB decided to consider further the

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	development of capital requirements consistent with section 171 of the Dodd-Frank Act ("Collins Amendment")[8] for SLHCs as well as for nonbank financial companies, taking into consideration information provided by the commenters during the rule-making process for finalizing the 2013 capital rule and information gained through the supervisory process. Capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.1	**The supervisor requires that a total balance sheet approach is used in the assessment of solvency to recognise the interdependence between assets, liabilities, regulatory capital requirements and capital resources and to require that risks are appropriately recognised.**
17.1	**States:** The supervisor requires insurers to file financial statements on a statutory accounting principles basis. Statutory accounting principles have an extensive number of footnote and/or disclosure requirements including, the disclosure of off balance sheet activities and are an integral part of the financial statements, as filed. Statutory accounting principles embrace valuation principles (e.g., principles-based reserving for both life and nonlife insurers) and risk-based capital requirements. Supervisors require for certain groups the filing of combined financial statements for U.S. insurance groups (filed on a statutory basis) and annual consolidated audited financial statements which have been filed with the SEC. **FRB:** As discussed above in ICP 17, the FRB is considering issues that commenters raised arguing that the final capital rules for SLHCs and nonbank financial companies engaged in insurance activities should take into account insurance company liabilities and asset-liability matching practices, the risks associated with separate accounts, the interaction of consolidated capital requirements with the capital requirements of state insurance regulators, and differences in accounting practices for banks and insurance companies and their holding companies.
17.2	**The supervisor establishes regulatory capital requirements at a sufficient level so that, in adversity, an insurer's obligations to policyholders will continue to be met as they fall due and requires that insurers maintain**

[8] Section 171 of the Dodd-Frank Act requires that the FRB establish minimum leverage capital requirements and minimum risk-based capital requirements for depository institution holding companies and for financial companies designated by the FSOC that are not "less than" the minimum capital requirements for insured depository institutions. 12 U.S.C. § 5371.

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	capital resources to meet the regulatory capital requirements.
17.2	**States:** The supervisor has established "legal entity" regulatory capital requirements at a sufficient level so that, in adversity, an insurer's obligations to policyholders will continue to be met as they fall due and requires that insurers maintain capital resources to meet the regulatory capital requirements. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.3	**The regulatory capital requirements include solvency control levels which trigger different degrees of intervention by the supervisor with an appropriate degree of urgency and requires coherence between the solvency control levels established and the associated corrective action that may be at the disposal of the insurer and/or the supervisor.**
17.3	**States:** The regulatory capital requirements include four levels of supervisory intervention. They include the Company Action Level, Regulatory Action Level, Authorized Control Level, and Mandatory Control Level; two action levels and two control levels. Beginning with the least invasive supervisory intervention, the Company Action Level, to the most invasive supervisory intervention, Mandatory Control Level, each level of action is associated with a corrective action that is demonstrably more challenging. There are time constraints with each level of action. There are no levels of supervisory intervention at the group level. To the extent that group solvency issues are identified, it would trigger a process of coordination and cooperation among different supervisors of a group. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.4	**In the context of insurance legal entity capital adequacy assessment, the regulatory capital requirements establish:** • **a solvency control level above which the supervisor does not intervene on capital adequacy grounds. This is referred to as the Prescribed Capital Requirement (PCR). The PCR is defined such that assets will exceed technical provisions and other liabilities with a specified level of safety over a defined time horizon;** • **a solvency control level at which, if breached, the supervisor would invoke its strongest actions, in the absence of appropriate corrective**

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	action by the insurance legal entity. This is referred to as the Minimum Capital Requirement (MCR). The MCR is subject to a minimum bound below which no insurer is regarded to be viable to operate effectively.
17.4	**States:** The risk-based capital requirements include a solvency control level (Company Action Level coupled with the Trend Test), above which a supervisor cannot intervene on the basis of capital. The risk-based capital requirements include a solvency control level, Mandatory Control Level, under which an insurer is no longer allowed to operate. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.5	**In the context of group-wide capital adequacy assessment, the regulatory capital requirements establish solvency control levels that are appropriate in the context of the approach to group-wide capital adequacy that is applied.**
17.5	**States:** The Federal Reserve has the authority to promulgate group wide capital requirements for systemically important financial institutions designated by the FSOC. Insurance supervisors use a legal entity focus in a group-wide capital adequacy assessment as reflected in ICP 17. As the insurance group is considered a set of interdependent legal entities, heavy emphasis is placed on the review and regulatory approval of intragroup transactions. In addition, the Model Holding Company Act now contains the Enterprise Risk Report which requires the ultimate controlling person to identify the material risks within the insurance holding company system that could pose enterprise risk to the insurer. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.6	**The regulatory capital requirements are established in an open and transparent process, and the objectives of the regulatory capital requirements and the bases on which they are determined are explicit. In determining regulatory capital requirements, the supervisor allows a set of standardised and, if appropriate, other approved more tailored**

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	approaches such as the use of (partial or full) internal models.
17.6	**States:** The regulatory capital requirements are established in an open and transparent process, allowing for input from a variety of stakeholders. The objectives of the regulatory capital requirements and the bases on which they are determined are explicit. In determining regulatory capital requirements, the supervisor requires a standard factor-based model and, if appropriate, other approved more tailored approaches such as the use of a "partial" internal model may be used. The use of something other than the standard factor-based model is subject to the same deliberative process and is established under the same open and transparent process. **FRB:** The FRB is fully committed to transparency and due process in the development and promulgation of regulatory standards. The FRB is carefully considering the comments it has received regarding the application of section 171 of the Dodd-Frank Act to BHCs and SLHCs that are significantly engaged in the insurance business. The FRB will continue to consider these issues seriously, as well as the potential implementation challenges for BHCs and SLHCs with insurance operations, as it determines how to move forward with respect to the proposed capital requirements.
17.7	**The supervisor addresses all relevant and material categories of risk in insurers and is explicit as to where risks are addressed, whether solely in technical provisions, solely in regulatory capital requirements or if addressed in both, as to the extent to which the risks are addressed in each. The supervisor is also explicit as to how risks and their aggregation are reflected in regulatory capital requirements.**
17.7	**States:** The supervisor addresses all relevant and material categories of risk and is explicit as to where risks are addressed. Property and health catastrophe risk, as well as operational risk, were recognized as material risks that were not explicitly addressed in the capital requirements, so factors for property catastrophe risk and operational risk are expected to be in place in the next few years. The supervisor is also explicit as to how risks and their aggregation are reflected in regulatory capital requirements. The RBC formula clearly articulates the aggregation of risks and their reflection in capital requirements. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.

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17.8	**The supervisor sets appropriate target criteria for the calculation of regulatory capital requirements, which underlie the calibration of a standardised approach. Where the supervisor allows the use of approved more tailored approaches such as internal models for the purpose of determining regulatory capital requirements, the target criteria underlying the calibration of the standardised approach are also used by those approaches for that purpose to require broad consistency among all insurers within the jurisdiction.**
17.8	**States:** In the calculation of regulatory capital requirements, target criteria are generally defined on a risk by risk basis, not on an overall basis (among all risks combined). Among the assets between life and nonlife insurers, in general, the target criterion is fairly consistent. The calibration reflects the risk profile of the assets/liabilities supporting the business written; this includes an average holding period of the assets and average duration of the liabilities. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.9	**Any variations to the regulatory capital requirement imposed by the supervisor are made within a transparent framework, are appropriate to the nature, scale and complexity according to the target criteria and are only expected to be required in limited circumstances.**
17.9	**States:** Any variations to the regulatory capital requirement imposed by the supervisor are made within a transparent framework and are appropriate to the nature, scale and complexity according to the target criteria, and are only expected to be required in limited circumstances. Any variations will be disclosed in the financial statements filed with the supervisor. A recent example (recent global financial crisis) of a variation was the handling of RMBS securities for valuation purposes. The handling of this matter was clearly made in a transparent framework and included engagement from a variety of stakeholders. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.10	**The supervisor defines the approach to determining the capital resources eligible to meet regulatory capital requirements and their value, consistent with a total balance sheet approach for solvency assessment**

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	and having regard to the quality and suitability of capital elements.
17.10	**States:** The supervisor defines the approach to determining the capital resources eligible to meet regulatory capital requirements and their value, consistent with a total balance sheet approach and having regard to the quality and suitability of capital elements. The supervisor requires insurers to file financial statements in accordance with statutory accounting principles. With over 100 Statements of Statutory Accounting Principles, it is the framework for determining eligible capital resources for purposes of meeting regulatory capital requirements. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.11	**The supervisor establishes criteria for assessing the quality and suitability of capital resources, having regard to their ability to absorb losses on both a going-concern and wind-up basis.**
17.11	The supervisor requires insurers to file financial statements in accordance with Statutory Accounting Principles. Statutory Accounting Principles contain a Statement of Concepts, which establishes guiding principles for assessing the quality and suitability of capital resources. These include concepts such as conservatism, consistency, and recognition. The Statement of Concepts helps guide the development and maintenance of statutory accounting principles. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.12	**Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor:** • **establishes appropriate modelling criteria to be used for the determination of regulatory capital requirements, which require broad consistency among all insurers within the jurisdiction; and** • **identifies the different levels of regulatory capital requirements for which the use of internal models is allowed.**
17.12	**States:** Not Applicable. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and

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	nonbank financial companies remain under development.
17.13	**Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor requires:** • **prior supervisory approval for the insurer's use of an internal model for the purpose of calculating regulatory capital requirements;** • **the insurer to adopt risk modelling techniques and approaches appropriate to the nature, scale and complexity of its current risks and those incorporated within its risk strategy and business objectives in constructing its internal model for regulatory capital purposes;** • **the insurer to validate an internal model to be used for regulatory capital purposes by subjecting it, as a minimum, to three tests: "statistical quality test", "calibration test" and "use test"; and** • **the insurer to demonstrate that the model is appropriate for regulatory capital purposes and to demonstrate the results of each of the three tests.**
17.13	**States:** Not Applicable. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.14	**Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor requires:** • **the insurer to conduct a "statistical quality test" which assesses the base quantitative methodology of the internal model, to demonstrate the appropriateness of this methodology, including the choice of model inputs and parameters, and to justify the assumptions underlying the model; and** • **that the determination of the regulatory capital requirement using an internal model addresses the overall risk position of the insurer and that the underlying data used in the model is accurate and complete.**
17.14	**States:** Not Applicable. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.

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17.15	**Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor requires the insurer to conduct a "calibration test" to demonstrate that the regulatory capital requirement determined by the internal model satisfies the specified modelling criteria.**
17.15	**States:** Not Applicable. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.16	**Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor requires:** • **the insurer to fully embed the internal model, its methodologies and results, into the insurer's risk strategy and operational processes (the "use test");** • **the insurer's Board and Senior Management to have overall control of and responsibility for the construction and use of the internal model for risk management purposes, and ensure sufficient understanding of the model's construction at appropriate levels within the insurer's organisational structure. In particular, the supervisor requires the insurer's Board and Senior Management to understand the consequences of the internal model's outputs and limitations for risk and capital management decisions; and** • **the insurer to have adequate governance and internal controls in place with respect to the internal model.**
17.16	**States:** Not Applicable. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.17	**Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor requires the insurer to document the design, construction, and governance of the internal model, including an outline of the rationale and assumptions underlying its methodology. The supervisor requires the documentation to be sufficient to demonstrate compliance with the regulatory validation requirements for internal models, including the statistical quality test, calibration test and use test outlined above.**

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17.17	**States:** Not Applicable. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
17.18	**Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor requires:** • **the insurer to monitor the performance of its internal model and regularly review and validate the ongoing appropriateness of the model's specifications. The supervisor requires the insurer to demonstrate that the model remains fit for regulatory capital purposes in changing circumstances against the criteria of the statistical quality test, calibration test and use test;** • **the insurer to notify the supervisor of material changes to the internal model made by it for review and continued approval of the use of the model for regulatory capital purposes;** • **the insurer to properly document internal model changes; and** • **the insurer to report information necessary for supervisory review and ongoing approval of the internal model on a regular basis, as determined appropriate by the supervisor. The information includes details of how the model is embedded within the insurer's governance and operational processes and risk management strategy, as well as information on the risks assessed by the model and the capital assessment derived from its operation.**
17.18	**States:** Not Applicable. **FRB:** As noted in ICP 17, capital adequacy requirements for SLHCs and nonbank financial companies remain under development.
ICP 18	**Intermediaries**
18	**The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.**
18	**States:** States have a structured system for the licensing and monitoring of intermediaries (commonly referred to as "producers" in the United States). The NAIC Producer Licensing Model Act provides the basis for the producer

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	licensing framework in the United States. This framework includes examination requirements, continuing education requirements for producers and broad regulatory discretion to deny, suspend or revoke an insurance producer's license. **FRB:** The FRB is not a licensing or regulatory authority for intermediaries.
18.1	**The supervisor ensures that insurance intermediaries are required to be licensed.**
18.1	**States:** The NAIC Producer Licensing Model Act provides that all individuals who sell, solicit or negotiate insurance must be licensed. As part of this process, both the individual and the business entity through which the producer operates must be licensed. Licenses are issued by the following lines of authority: (1) life; (2) accident and health or sickness; (3) property; (4) casualty; (5) variable life and variable annuity products; and (6) personal lines.
18.2	**The supervisor ensures that insurance intermediaries licensed in its jurisdiction are subject to ongoing supervisory review.**
18.2	**States:** The national standard in the United States is that insurance producers are required to renew their licenses and complete 24 hours of continuing education every two years. In addition, U.S. insurance regulators have broad regulatory discretion regarding what activities warrant the suspension/revocation of an insurance producer's license or the imposition of fines for engaging in misconduct.
18.3	**The supervisor requires insurance intermediaries to possess appropriate levels of professional knowledge and experience, integrity, and competence.**
18.3	**States:** Resident applicants must pass a test to ensure a minimal level of competency. Tests are specific to the following lines of authority: (1) life; (2) accident and health or sickness; (3) property; (4) casualty; (5) variable life and variable annuity products; and (6) personal lines. To ensure producers are of sound moral character, applicants are asked a series of background questions which ask about prior misdemeanour convictions, felony convictions and involvement in administrative proceedings. Individuals who have been convicted of a felony involving "dishonesty or breach of trust" are prohibited

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	from engaging in the business of insurance unless they request and obtain a waiver to engage in the business of insurance. In addition to these strict standards, twenty-seven states fingerprint their applicants to identify any prior criminal activity. Finally, resident applicants must pass a test for each insurance line of authority they wish to sell, solicit or negotiate and complete 24 hours of continuing education every two years, with 3 of the 24 hours of continuing education addressing ethics.
18.4	**The supervisor requires that insurance intermediaries apply appropriate corporate governance.**
18.4	**States:** Insurance producers may work as "independent producers", who represent multiple companies, or may work as "captive producers" and represent only one company. Forty-two states and the District of Columbia require producers to obtain formal appointments with the companies they represent. Insurance companies are then required to notify each state in which the producer will be selling, soliciting, or negotiating insurance of the appointment. Producers are subject to the relevant governance measures of the insurers which they represent. The behavior of and processes used by producers are assessed as part of the supervisory review process. State insurance regulators can also undertake investigations of producers, which can focus on issues of governance, if concerns arise.
18.5	**The supervisor requires insurance intermediaries to disclose to customers, at a minimum:** • **the terms and conditions of business between themselves and the customer;** • **the relationship they have with the insurers with whom they deal; and** • **information on the basis on which they are remunerated where a potential conflict of interest exists.**
18.5	**States:** Insurance producers generally disclose associations through the normal course of business as insurance consumers need to understand what company will be underwriting the risk. The NAIC Producer Licensing Model Act provides that where an insurance producer receives compensation from the customer for the placement of insurance or represents the customer with respect to that placement, the producer shall not accept or receive any compensation from an insurer for that placement of insurance unless the producer has, prior to the customer's purchase of insurance, obtained the customer's documented acknowledgment that such compensation will be

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	received by the producer and disclosed the amount of compensation to be received from the insurer.
18.6	**The supervisor requires an insurance intermediary who handles client monies to have sufficient safeguards in place to protect these funds.**
18.6	**States:** State statutes generally provide that funds received by any person acting as an insurance agent are received and held in a fiduciary capacity and shall be promptly accounted for and paid to the insurer. State insurance regulators may fine a producer, suspend or revoke a license because of the improperly withholding, misappropriating, or converting of any monies or properties received in the course of conducting insurance business.
18.7	**The supervisor takes appropriate supervisory action against licensed insurance intermediaries, where necessary, and has powers to take action against those individuals or entities that are carrying on insurance intermediation without the necessary licence.**
18.7	**States:** States have broad discretion to fine, suspend, or revoke an insurance producer's license. In addition, states have general authority to issue cease and desist orders to those individuals or entities carrying on insurance intermediation without the necessary license. The NAIC's Producer Licensing Model Act sets forth that the insurance commissioner may place on probation, suspend, revoke or refuse to issue or renew an insurance producer's license or may levy a civil penalty or any combination of actions, for any one or more of the following causes: (1) providing incorrect, misleading, incomplete or materially untrue information in the license application; (2) violating any insurance laws, or violating any regulation, subpoena or order of the insurance commissioner or of another state's insurance commissioner; (3) obtaining or attempting to obtain a license through misrepresentation or fraud; (4) improperly withholding, misappropriating, or converting any monies or properties received in the course of doing insurance business; (5) intentionally misrepresenting the terms of an actual or proposed insurance contract or application for insurance; (6) having been convicted of a felony; (7) having admitted or been found to have committed any insurance unfair trade practice or fraud; (8) using fraudulent, coercive, or dishonest practices, or demonstrating incompetence, untrustworthiness, or financial irresponsibility in the conduct of business in this state or elsewhere; (9) having an insurance producer license, or its equivalent, denied, suspended, or revoked in any other state, province, district,

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	or territory; or (10) forging another's name to an application for insurance or to any document related to an insurance transaction.
ICP 19	**Conduct of Business**
19	**The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.**
19	**States:** State insurance regulators prohibit unfair trade practices in the business of insurance that constitute unfair methods of competition or unfair or deceptive acts or practices. These standards provide the foundation of state market conduct regulation and date back to 1947 when the NAIC adopted the *Unfair Trade Practices Act*. State insurance regulators have the authority to examine and investigate the activities of insurers and intermediaries to determine whether they are engaged in any unfair trade practices. Additionally, the NAIC adopted the *Unfair Claims Settlement Practices Act* in 1990 in order to focus additional attention on unfair claims as a function of market conduct surveillance separate and apart from general unfair trade practices. State insurance regulators have the authority to analyse, examine and investigate the activities of insurers and intermediaries and use tools, such as the Market Conduct Annual Statement (MCAS) and other analysis (such as data calls and interrogatories) and on-site market conduct examinations to determine whether customers are being treated fairly. **FRB:** The FRB does not supervise or regulate the conduct of the business of insurance. The states in which an insurance company operates or is organized regulate and supervise the conduct and operation of insurance companies.
19.1	**The supervisor requires insurers and intermediaries to act with due skill, care and diligence when dealing with customers.**
19.1	**States:** State insurance regulators require insurers and intermediaries to act with due skill, care, and diligence through state unfair trade practice standards. For example, it is an unfair trade practices to misrepresent the benefits, advantages, conditions or terms of any insurance policy, or provide any

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	advertisement which is untrue, deceptive or misleading.
19.2	**The supervisor requires insurers and intermediaries to establish and implement policies and procedures on the fair treatment of customers that are an integral part of their business culture.**
19.2	**States:** State insurance regulators prohibit practices that misrepresent the benefits, advantages, conditions, or terms of any insurance policy, or provide any advertisement which is untrue, deceptive or misleading. An insurer's or intermediary's engagement in unfair trade practices may result in a monetary penalty, suspension or revocation of the insurer's or intermediary's license if such unfair trade practices are committed flagrantly and in conscious disregard or committed with such frequency to indicate a general business practice. U.S. insurance regulators use these tools to ensure that insurers and intermediaries give fair treatment of customers due regard as part of their business culture. Additionally, insurers' practices are reviewed by state insurance regulators during their analysis and on-site examinations by reviewing items such as a company's board minutes; underwriting, rating, claims and complaint handling manuals; communications to their staff and intermediaries; and other operational and management documents.
19.3	**The supervisor requires insurers to take into account the interests of different types of customers when developing and marketing insurance products.**
19.3	**States:** State insurance regulators require insurers to take into account the interests of different types of customers when developing their products. For example, regulators review rate filings to determine the consistency with statutory requirements and ensure they are not excessive, unjust, or unfairly discriminatory. Additionally, state insurance regulators prohibit marketing materials to be untrue, deceptive, or misleading. Because of this, all marketing materials must meet certain minimum regulatory standards. At the same time, insurers may use different marketing strategies to target different segments of the market.
19.4	**The supervisor requires insurers and intermediaries to promote products**

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	and services in a manner that is clear, fair and not misleading.
19.4	**States:** State insurance regulators prohibit any advertisements which are untrue, deceptive, or misleading. This includes prohibitions against misrepresenting the benefits, advantages, conditions, or terms of any policy; misrepresenting the dividends or share of the surplus to be received on any policy; using any name or title of any policy as to misrepresent its true nature; misrepresenting or providing any intentional misquote of premium rate, for the purpose of inducing the purchase, lapse, forfeiture, exchange, conversion, or surrender of any policy.
19.5	**The supervisor sets requirements for insurers and intermediaries with regard to the timing, delivery, and content of information provided to customers at point of sale.**
19.5	**States:** It is an unfair trade practice for a producer to misrepresent the benefits and conditions of a policy; insurers are also required to provide each consumer with a copy of their contract. State insurance regulators can use the product approval process and market conduct analysis and examination processes to assess the provision of information at the point of sale. The type and level of requirements for provision of information vary based on the line of business and the complexity of the product. For example, state insurance regulators require an applicant for an annuity contract to be provided at or before the time of application a disclosure document. At a minimum, the following information shall be included in the disclosure document: (1) the generic name of the contract, the company product name, if different, and form number, and the fact that it is an annuity; (2) the insurer's legal name, physical address, website address and telephone number; and (3) a description of the contract and its benefits, emphasizing its long-term nature, including examples where appropriate.
19.6	**The supervisor requires insurers and intermediaries to ensure that, where customers receive advice before concluding an insurance contract, such advice is appropriate, taking into account the customer's disclosed circumstances.**
19.6	**States:** Producers have a responsibility to provide appropriate disclosure concerning the products they sell and their potential impact on the consumer if purchased as well as to assess the needs of their clients. U.S. insurance

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	regulators prohibit misrepresentation of the benefits, advantages or conditions or terms of any insurance policy. U.S. insurance regulators can use the market conduct analysis and examination processes to assess the provision of advice to customers. The type and level of requirements for advice vary based on the line of business and the complexity of the product. For example, in recommending to a consumer the purchase of an annuity or the exchange of an annuity, the insurance producer or insurer must have reasonable grounds for believing that the recommendation is suitable for the consumer on the basis of the facts disclosed by the consumer as to his or her investments and other insurance products and as to his or her financial situation and needs.
19.7	**The supervisor requires insurers and intermediaries to ensure that, where customers receive advice before concluding an insurance contract, any potential conflicts of interest are properly managed.**
19.7	**States:** Insurance producers generally disclose associations through the normal course of business as insurance consumers need to understand what company will be underwriting the risk. The *Unfair Trade Practices Act* prohibits providing misleading information or making misrepresentations. U.S. insurance regulators can use the market conduct analysis and examination processes to assess how conflicts of interest are managed. The expectations on managing conflicts of interest vary based on the line of business and the complexity of the product. For example, for life and annuity replacements, consumers are notified to carefully consider whether a replacement is in their best interests, informed there may be acquisition costs and surrender costs, and that they may be able to make changes to their existing policy or contract to meet their insurance needs at less cost. In the case of an exchange or replacement of an annuity, the exchange or replacement must also be suitable and take into account whether the consumer will incur a surrender charge, be subject to a new surrender period, lose existing benefits, or be subject to increased fees.
19.8	**The supervisor requires insurers to:** • **service policies appropriately through to the point at which all obligations under the policy have been satisfied;** • **disclose to the policyholder information on any contractual changes during the life of the contract; and** • **disclose to the policyholder further relevant information depending on**

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	the type of insurance product.
19.8	**States:** State insurance regulators require insurers to service policies appropriately through to the point at which all obligations under the policy have been satisfied through enforcing standards addressing claims settlement practices. In addition, insurers must disclose to the policyholder information on any contractual changes and further relevant information through enforcing unfair trade practice standards.
19.9	**The supervisor requires that insurers have policies and processes in place to handle claims in a timely and fair manner.**
19.9	**States:** Through the Unfair Claims Settlement Practices Act, U.S. insurance regulators define and prohibit the following as unfair claims settlement practices: (1) knowingly misrepresenting to claimants and insureds relevant facts or policy provisions relating to coverage at issue; (2) failing to acknowledge with reasonable promptness pertinent communications with respect to claims arising under its policies; (3) failing to adopt and implement reasonable standards for the prompt investigation and settlement of claims arising under its policies; (4) not attempting in good faith to effectuate prompt, fair and equitable settlement of claims submitted in which liability has become reasonably clear; (5) compelling insureds or beneficiaries to institute suits to recover amounts due under its policies by offering substantially less than the amounts ultimately recovered in suits brought by them; (6) refusing to pay claims without conducting a reasonable investigation; (7) failing to affirm or deny coverage of claims within a reasonable time after having completed its investigation related to such claim or claims; (8) attempting to settle or settling claims for less than the amount that a reasonable person would believe the insured or beneficiary was entitled by reference to written or printed advertising material accompanying or made part of an application; (9) attempting to settle or settling claims on the basis of an application that was materially altered without notice to, or knowledge or consent of, the insured; (10) making claims payments to an insured or beneficiary without indicating the coverage under which each payment is being made; (11) unreasonably delaying the investigation or payment of claims by requiring both a formal proof of loss form and subsequent verification that would result in duplication of information and verification appearing in the formal proof of loss form;

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	(12) failing in the case of claims denials or offers of compromise settlement to promptly provide a reasonable and accurate explanation of the basis for such actions; (13) failing to provide forms necessary to present claims within fifteen calendar days of a request with reasonable explanations regarding their use; and (14) failing to adopt and implement reasonable standards to assure that the repairs of a repairer owned by or required to be used by the insurer are performed in a workmanlike manner.
19.10	**The supervisor requires that insurers and intermediaries have policies and processes in place to handle complaints in a timely and fair manner.**
19.10	**States:** Through the Unfair Trade Practices Act, state insurance regulators require insurers to maintain a complete record of all the complaints received. This record must indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint. U.S. insurance regulators require insurers and intermediaries to acknowledge with reasonable promptness pertinent communications with respect to claims arising under its policies; adopt and implement reasonable standards for the prompt investigation and settlement of claims arising under its policies; and effectuate prompt, fair, and equitable settlement of claims.
19.11	**Legislation identifies provisions relating to privacy protection under which insurers and intermediaries are allowed to collect, hold, use or communicate personal information of customers to third parties.**
19.11	**States:** State insurance regulators have established standards governing the treatment of non-public personal health information and non-public personal financial information about individuals. The NAIC has adopted the Insurance Information and Privacy Protection Model Act (Model #670), the Privacy of Consumer Financial and Health Information Regulation (Model #672) and the Standards for Safeguarding Consumer Information Model Regulation (Model #673). These standards require insurers and intermediaries to provide notice to individuals about their privacy policies and practices; describe the conditions under which they may disclose non-public personal health information and non-public personal financial information to affiliates and non-affiliated third parties; and provide methods for individuals to prevent disclosure of that information. Additionally, there is federal legislation that addresses the privacy protection of personal information of customers, such as the Health Portability and

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	Accountability Act (HIPAA) and Gramm-Leach-Bliley Act.
19.12	**The supervisor requires insurers and intermediaries to have policies and procedures for the protection of private information on customers.**
19.12	**States:** State insurance regulators require insurers and intermediaries to implement comprehensive written information security programs that include administrative, technical and physical safeguards for the protection of customer information. An information security program should be designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of the information; and protect against unauthorized access to or use of the information that could result in substantial harm or inconvenience to any customer.
19.13	**The supervisor publicly discloses information that supports the fair treatment of customers.**
19.13	**States:** State insurance regulators undertake a number of supervisory activities and consumer education initiatives to support the fair treatment of customers. State insurance regulators track unlawful unauthorized insurance activity, issue warnings to the public to be wary of those engaged in these activities, and take enforcement action, such as cease and desist orders, to stop them. U.S. insurance regulators, through the NAIC's Consumer Information Source, provide consumers web-based access to key information about insurance companies, including closed insurance complaints, licensing information, and key financial data. In addition, consumers are able to access individual state insurance departments from the Consumer Information Source to obtain information on enforcement actions and closed market conduct examination reports. In addition, state insurance regulators maintain consumer information on their web sites, develop consumer brochures, and conduct in-person consumer outreach. Through the NAIC, states have conducted a national consumer educational campaign on fake insurance plans and created a program entitled Insure U, which is specifically designed to provide consumers with the knowledge needed to make wise buying decisions. **FRB:** The FRB does not supervise or regulate the conduct of the business of

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	insurance. The states in which an insurance company operates or is organized regulate and supervise the conduct and operation of that insurance company.
ICP 20	**Public Disclosure**
20	**The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.**
20	**States:** Legal entity insurers are required to utilize the NAIC Blank template for their annual and quarterly statutory statement filings. These are designed primarily for regulators, but the majority of contents are available to the public if they do not contain any confidential or proprietary data. The NAIC website – via the Consumer Information Source (CIS) – provides free financial information on all insurance entities that have submitted the NAIC Blank. In addition to providing demographic information (state of domicile, group information, contact details, etc.), this information includes assets, liabilities, liquidity ratio, direct premiums by line of business, invested asset mix, and three year trends for net premiums, policyholder surplus, and income and loss information. Policyholders, market participants, and the general public looking to obtain more information also have the ability to obtain the actual Blank filings for each insurance reporting entity. The accounting utilized for the blank filings is statutory accounting, a codified body of accounting that considers U.S. GAAP but modifies or rejects it as appropriate for regulatory needs – with divergence from U.S. GAAP generally in accordance with the regulatory principle of conservatism. The annual and quarterly statements provide the basic financial statement (balance sheet, income statement and cash flow), notes to financial statement, general interrogatories, a summary of premiums by state (and losses for non-life) in Schedule T, a holding company organizational chart in Schedule Y, and detailed listings of investments purchased or sold during the period. The annual statement adds detailed listings of investments owned, detailed listings of reinsurance transactions, and various summary level schedules for premiums, claims and investment activity. The quarterly statement replaces the detailed listings of reinsurance transactions with a listing of new contracts for the period. Various supplemental filings exist for the annual statement, which provide more detailed information for particular types of business such

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	as interest sensitive products or accident and health policies. Due to the level of detail provided in the supplements, some are considered confidential and only available to regulators (e.g., the Risk-based Capital filing and the Supplemental Compensation Exhibit). For groups that are publicly traded, the group files a U.S. GAAP consolidated financial statement with the SEC. Pursuant to the U.S. GAAP and SEC requirements, these filings provide detailed information enabling readers to obtain a view of the group and its operations. Though this does not cover all insurance groups in the United States, there is much less need for extensive detailed filings for non-publicly traded groups. Consumers primarily need to know the status of the legal entity that will be writing their policy, and the legal entity filing provides identification of the group. Most U.S. customers rely upon a rating from Moody's or S&P, for example, rather than performing their own analysis of the financial position of a legal entity, let alone a group. Rating agencies obtain their own information as part of their process. Investors in non-publicly traded entities would not need access to all of the groups, only the one(s) they were offered to invest in, and the offering would include this type of information. **FRB:** The FRB requires supervised entities to regularly disclose information to the public concerning activities, structure, and ownership. In addition, many of the BHCs, SLHCs, and all of the nonbank financial companies currently subject to FRB supervision are required to make regular filings with the SEC that give market participants a clear view of their activities, performance, and financial position (e.g., quarterly and annual financial statements). These filings are publicly available.
20.1	**Insurers disclose, at least annually, appropriately detailed quantitative and qualitative information in a way that is accessible to market participants on their profile, governance and controls, performance, and the risks to which they are subject. In particular, information disclosed must be:** • **decision useful to decisions taken by market participants;** • **timely so as to be available and up-to-date at the time those decisions are made;** • **comprehensive and meaningful;** • **reliable as a basis upon which to make decisions;** • **comparable between different insurers operating in the same market; and** • **consistent over time so as to enable relevant trends to be discerned.**

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20.1	**States:** Pursuant to the Statements of Statutory Accounting Standards (SSAPs) and the Annual/Quarter Financial Statement forms and instructions, all legal entity reporting entities provide disclosure information in the statutory financial statements in a consistent and comparable manner. In addition to various disclosures based on the type of business and activities, all entities include disclosures pertaining to risks and uncertainties, certain significant estimates, and the vulnerability to concentrations. These disclosures are taken from the basis of GAAP disclosures, so U.S. GAAP filers provide similar information on a consolidated group basis. The statutory financial statements are filed electronically in tabular and PDF formats with the NAIC for all multi-state insurers. Single state insurers where electronic filing would be a burden may be waived from filing electronically with the NAIC, but they still file hard copies with the state regulator using the NAIC Blank template. The annual statement is required 2 months after year end, and the first 3 quarterly statements are due 45 days after the close of the quarter. Basic financial information is made available via the NAIC website, including some easy to understand graphs, aimed at consumers who typically have little financial understanding. However, the full PDF financial statements are also available. U.S. insurer public filings provide extensive quantitative and qualitative data. This data is subjected to an annual audit by an independent CPA. Pursuant to the NAIC Annual Financial Reporting Model Regulation, qualifying insurers must furnish the Commissioner from their state of domicile with a written communication as to unremediated material weaknesses in internal control over financial reporting noted during their external audit. Additionally, insurance regulators perform a full scope, risk-focused on-site examination at least once every 3 to 5 years. The NAIC Accounting Practices and Procedures Manual (AP&P) establishes the common baseline for statutory accounting. Even though state laws may differ (prescribed accounting practices) and permitted accounting practices are occasionally granted to individual insurers, material differences to the AP&P capital and surplus and the net income must be disclosed in Note 1 of the Notes to Financial Statement. This allows all viewers of the legal entity statutory statement to consider the capital and operating results on the same exact accounting basis. Accounting requirements for a particular item do not change frequently, so consistency exists for trending purposes. A five year historical data exhibit is an important schedule within the annual statement filing. The SEC provides electronic access to the GAAP consolidated filings. The annual audit report of the independent CPA audit provides assurances on whether the financial statements present fairly the financial position, as well as whether the company maintained, in all material respects, effective internal

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	controls over financial reporting. While there are some more optionality elements in GAAP, the overall basis is comparable from group to group. Similar to statutory accounting, GAAP requirements for a particular item do not change frequently. **FRB:** As noted in response to ICP 20, insurance subsidiaries of entities supervised by the FRB and BHCs and SLHCs that are insurance companies may be required to periodically disclose quantitative and qualitative information pursuant to state law, regulation, or policy. In addition, many of the BHCs, SLHCs, and all of the nonbank financial companies currently subject to FRB supervision are required to make regular filings with the SEC that may provide market participants and others with this type of information.
20.2	**Disclosure about the financial position of the insurer includes appropriately detailed quantitative and qualitative information about the determination of technical provisions. Technical provisions are presented by appropriate segment. This disclosure includes, where relevant to policyholders and market participants, information about the future cash flow assumptions, the rationale for the choice of discount rates, and risk adjustment methodology where used or other information as appropriate to provide a description of the method used to determine technical provisions.**
20.2	**States:** Statutory accounting provides more prescriptive requirements for reserves, particularly for life products. As such, specific policyholder characteristics for life insurance products are considered proprietary data and not included in public financial statements. However, the life blocks are detailed in an exhibit which identifies the key regulatory requirements associated with those policies. Property/casualty companies include Schedule P claims development triangles for various categories of products. The Notes to Financial Statement contain detail about accounting for major elements of the assets and liabilities. The regulatory standards for reserving are available to the public to assist in these disclosures. GAAP consolidated filings provide more of this type of information since the reserve requirements are less prescriptive. The U.S. Financial Accounting Standards Board (FASB) recently (June 2014) decided to require for short-duration contracts additional information for incurred and paid claims development tables, information on frequency and severity of claims, as well as additional disclosures to highlight the effects of discounting and average annual pay out of claims. This information, which benchmarks some of the existing statutory disclosures, should provide financial statement users

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	improved information on a consolidated basis. **FRB:** Insurance subsidiaries of entities supervised by the FRB and BHCs and SLHCs that are insurance companies may be required to periodically disclose quantitative and qualitative information pursuant to state law, regulation, or policy. In addition, many of the BHCs, SLHCs, and all of the nonbank financial companies currently subject to FRB supervision are required to make regular filings with the SEC that may provide market participants and others with this type of information.
20.3	**Disclosure about the financial position of the insurer includes appropriately detailed quantitative and qualitative information about capital adequacy. An insurer discloses information that enables users to evaluate the insurer's objectives, policies and processes for managing capital and to assess its capital adequacy. This information encompasses the generic solvency requirements of the jurisdiction(s) in which the insurer operates and the capital available to cover regulatory capital requirements. If an internal model is used to determine capital resources and requirements, information about the model must be provided having due regard to proprietary or confidential information.**
20.3	**States:** Significant quantitative disclosures allow sophisticated financial statement users to garner a lot of information about capital adequacy. The legal entity's Total Adjusted Capital and the Authorized Control Level RBC amount are disclosed in the 5-year historical data exhibit. A management's discussion and analysis provides information about trends and changes in the operational direction of the company. The detailed information on investment portfolio composition and transactions provides insight into the risk appetite of the legal entity. More detailed understanding of the insurer's capital management, however, is considered proprietary by U.S. insurers. GAAP consolidated filings include more discussions in this regard, due to their lack of detailed investment disclosure and the nature of representing the various legal entities within the group. **FRB:** Insurance subsidiaries of entities supervised by the FRB and BHCs and SLHCs that are insurance companies may be required to periodically disclose quantitative and qualitative information about capital adequacy pursuant to state law, regulation, or policy. In addition, many of the BHCs, SLHCs, and all of the nonbank financial companies currently subject to FRB supervision are required to make regular filings with the SEC that may provide market participants and others with this type of information.

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20.4	**Disclosure about the financial position of the insurer includes appropriately detailed quantitative and qualitative information about financial instruments and other investments by class. In addition, information disclosed about investments includes:** • **investment objectives;** • **policies and processes;** • **values, assumptions and methods used for general purpose financial reporting and solvency purposes, as well as an explanation of differences (where applicable); and** • **information concerning the level of sensitivity to market variables associated with disclosed amounts.**
20.4	**States:** The legal entity statutory annual statement includes detailed listings of all investments owned, as well as those acquired and/or disposed of during the year. Additional information by asset classes is provided. Detailed investment policies and derivative use plans are considered proprietary in the United States. However, Notes disclosures are provided for various asset classes regarding the accounting bases, risks, and market sensitivities. Detailed accounting requirements for valuation are publicly available in the statutory accounting literature (similar to GAAP). GAAP consolidated financial statements include more of this information since there are more varied categories that depend upon insurer classification of investments requiring different accounting treatment. **FRB:** Insurance subsidiaries of entities supervised by the FRB and BHCs and SLHCs that are insurance companies may be required to periodically disclose quantitative and qualitative information about financial instruments and other investments pursuant to state law, regulation, or policy. In addition, many of the BHCs, SLHCs, and all of the nonbank financial companies currently subject to FRB supervision are required to make regular filings with the SEC that may provide market participants and others with this type of information.
20.5	**Disclosure about the financial position of the insurer includes appropriately detailed quantitative and qualitative information about enterprise risk management (ERM) including asset-liability management (ALM) in total and, where appropriate, at a segmented level. At a minimum, this information includes the methodology used and the key assumptions employed in measuring assets and liabilities for ALM purposes and any capital and/or provisions held as a consequence of a**

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	mismatch between assets and liabilities.
20.5	**States:** At the legal entity level, the detail of the company's results regarding ALM is considered proprietary. However, the requirements the company must follow are public, based on the state's adoption of the Standard Valuation Law and the Actuarial Opinion and Memorandum Regulation. If the testing results in the need for an ALM reserve, it is disclosed in the Liabilities page. The details of these items, instead, are included in the annual Regulatory Asset Adequacy Issues Summary (RAAIS) filed annually with the regulator and in the detailed actuarial memorandum made available to the regulator each year. Other considerations of ERM may be included in the Management's Discussion and Analysis, which is a public document. However, again, too much detail regarding ERM at a legal entity level is considered proprietary. In the GAAP consolidated financial statements, the Management's Discussion and Analysis section includes disclosures regarding the ALM results for the life insurers as a group. There is a good discussion of risks and management of the risks for the group. **FRB:** Insurance subsidiaries of entities supervised by the FRB and BHCs and SLHCs that are insurance companies may be required to periodically disclose quantitative and qualitative information about ERM pursuant to state law, regulation, or policy. In addition, many of the BHCs, SLHCs, and all of the nonbank financial companies currently subject to FRB supervision are required to make regular filings with the SEC that may provide market participants and others with this type of information.
20.6	**Disclosure includes appropriately detailed quantitative and qualitative information on financial performance in total and by segmented financial performance. Where relevant, disclosures must include a quantitative source of earnings analysis, claims statistics including claims development, pricing adequacy, information on returns on investment assets and components of such returns.**
20.6	**States:** The legal entity filings include many breakout summaries of premiums and claims/losses, as well as disclosure of gains and losses (realized and unrealized) and interest/dividends received for specific investment classes. However, the investment schedules include this information for each individual security. Claims development triangles exist for property/casualty business, and underwriting gain/loss is specifically disclosed. GAAP consolidated filings include more of these disclosures from the

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	perspective of major business units (whereas the legal entity does it for product types only). **FRB:** Insurance subsidiaries of entities supervised by the FRB and BHCs and SLHCs that are insurance companies may be required to periodically disclose quantitative and qualitative information on financial performance in total and segmented by financial performance pursuant to state law, regulation, or policy. In addition, many of the BHCs, SLHCs, and all of the nonbank financial companies currently subject to FRB supervision are required to make regular filings with the SEC that may provide market participants and others with this type of information.
20.7	**Disclosure about the financial position of the insurer includes appropriately detailed quantitative and qualitative information on all reasonably foreseeable and relevant material insurance risk exposures and their management. This disclosure must include information on its objectives and policies, models and techniques for managing insurance risks (including underwriting processes). At a minimum, disclosures must include:** • **information about the nature, scale and complexity of risks arising from insurance contracts;** • **how the insurer uses reinsurance or other forms of risk transfer;** • **an understanding of the interaction between capital adequacy and risk; and** • **a description of risk concentrations.**
20.7	**States:** Potential liabilities that are probable to occur and able to be estimated must be booked as liabilities; otherwise, a contingent liability is disclosed in the Notes. Reinsurance transactions are listed by entity, including reserve ceded, and information about the type of reinsurance. Risk concentrations are disclosed in various presentations, particularly for invested assets, but including in the Notes. GAAP consolidated financial statements include more qualitative disclosures on these topics since they have less prescribed quantitative schedules. **FRB:** Insurance subsidiaries of entities supervised by the FRB and BHCs and SLHCs that are insurance companies may be required to periodically disclose quantitative and qualitative information on all reasonably foreseeable and relevant material insurance risk exposures and their management pursuant to state law, regulation, or policy. In addition, many of the BHCs, SLHCs, and

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	all of the nonbank financial companies currently subject to FRB supervision are required to make regular filings with the SEC that may provide market participants and others with this type of information.
20.8	**Disclosure includes appropriately detailed information about the company profile, including the nature of its business, a general description of its key products, the external environment in which it operates and information on the insurer's objectives and the strategies in place to achieve them.**
20.8	**States:** This type of disclosure occurs in the legal entity financial statement, but to a lesser extent than the GAAP consolidated statement due to the nature of the statements. The quantitative details in the statutory legal entity statement provide significant amounts of information regarding life insurance, annuity (including a supplement that spells out the various types of annuities), and deposit-type contracts (breakouts for GICS, etc.). While the management's discussion and analysis discusses some high level objectives, some of this information is considered proprietary. In the GAAP consolidated statement, this information is more descriptive since many legal entities are included and less specific detail exists. **FRB:** Insurance subsidiaries of entities supervised by the FRB and BHCs and SLHCs that are insurance companies may be required to periodically disclose information about an insurance company's profile and other information pursuant to state law, regulation, or policy. In addition, many of the BHCs, SLHCs, and all of the nonbank financial companies currently subject to FRB supervision are required to make regular filings with the SEC that may provide market participants and others with this type of information.
20.9	**Disclosures include the key features of the insurer's corporate governance framework and management controls including how these are implemented.**
20.9	**States:** While some corporate governance information exists in the statutory financial statement, much of this is considered proprietary in the United States and thus is only available to the regulators. Additional disclosures regarding corporate governance practices are expected to be provided to regulators beginning in 2016, but this information will also be considered proprietary and subject to confidentiality protections. **FRB:** Insurance subsidiaries of entities supervised by the FRB and BHCs and

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	SLHCs that are insurance companies may be required to periodically disclose information that includes an insurer's corporate governance framework pursuant to state law, regulation, or policy. In addition, many of the BHCs, SLHCs, and all of the nonbank financial companies currently subject to FRB supervision are required to make regular filings with the SEC that may provide market participants and others with this type of information.
20.10	**Subject to the nature, scale and complexity of an insurer, supervisors require insurers to produce, at least annually, audited financial statements and make them available to market participants.**
20.10	**States:** The NAIC Accreditation program includes a requirement for annual audited financial statements, with a size threshold based upon premiums written. **FRB:** Insurance subsidiaries of entities supervised by the FRB and BHCs and SLHCs that are insurance companies may be required to produce audited financial statements pursuant to state law, regulation, or policy. In addition, many of the BHCs, SLHCs, and all of the nonbank financial companies currently subject to FRB supervision are required to make regular filings with the SEC that may provide market participants and others with this type of information.
ICP 21	**Countering Fraud in Insurance**
21	**The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance.**
21	**States:** Statutes provide state insurance regulators with means to address insurance fraud. State Antifraud Plan laws, regulations and bulletins require insurers to establish internal models for fraud prevention and reporting. Antifraud Plans detail the measures an insurer should take to prevent fraud and provide protocol when fraud is discovered. The insurer or intermediary's Antifraud Plan must be filed with the state insurance regulator. State regulators conduct financial and market conduct examinations based on guidance provided in the NAIC Market Regulation Handbook and the NAIC Financial Condition Examiners Handbook. Such examinations are used to assess measures insurers have in place to counter fraud as well as to detect fraud which may have occurred or is occurring within an insurer. The timing

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	of such examinations is determined by state laws, regulations, and bulletins. Some examinations are conducted on a cyclical basis (annual, once every 3-5 years, etc.), while others are targeted or conducted as warranted by an insurer's consumer complaint trends. Insurers understand that in order to continue conducting business in a state, they should demonstrate they are in compliance with all state laws, including antifraud laws. Many U.S. insurers and intermediaries dedicate specific staff to address internal and external fraud, commonly known as Special Investigation Units (SIUs). State insurance regulators work closely with SIUs to assist in fraud investigations, as well as the prevention of fraud. **FRB:** The FRB relies on the federal and state supervisors of "functionally regulated" subsidiaries of entities supervised by the FRB, such as insurance companies and broker-dealers, to examine those subsidiaries and take supervisory and other remedial actions when appropriate. The FRB works closely with the other regulatory agencies to address supervisory concerns of common interest and is authorized by statute to require, through formal supervisory action, the holding company or bank to cease and desist from violations of law or regulation. Common provisions for formal enforcement actions include a requirement that the holding company cure specified violations of law.
21.1	**Fraud in insurance is addressed by legislation which prescribes adequate sanctions for committing such fraud and for prejudicing an investigation into fraud.**
21.1	**States:** States utilize the antifraud laws established through their state legislature to combat insurance fraud, which may be classified as a misdemeanour or felony, depending upon the severity of the fraudulent act. An insurer or intermediary may be subject to a monetary penalty, suspension of a license, or revocation of a license if it is determined a fraudulent act has been committed.
21.2	**The supervisor has a thorough and comprehensive understanding of the types of fraud risk to which insurers and intermediaries are exposed. The supervisor regularly assesses the potential fraud risks to the insurance sector and requires insurers and intermediaries to take effective measures to address those risks.**
21.2	**States:** State regulators maintain reporting and cooperative relationships with

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	all state and federal law enforcement agencies, SIUs, and independent antifraud associations. These relationships allow state regulators to better understand and combat insurance fraud and work towards the reduction of insurance fraud. Through educational opportunities and outreach, state regulators encourage all agencies, organizations and insurers to work cooperatively on investigations and suspected fraudulent activities. State insurance fraud units may initiate independent inquiries and conduct independent investigations when they have cause to believe that a fraudulent insurance act may be, is being, or has been committed.
21.3	**The supervisor has an effective supervisory framework to monitor and enforce compliance by insurers and intermediaries with the requirements to counter fraud in insurance.**
21.3	**States:** Insurers are required to report external, internal and claims suspected fraud. The NAIC's Antifraud Plan Guidelines set forth the following standards for insurers antifraud plans: (1) an acknowledgement that a special investigative unit has established criteria that will be used for the investigation of suspected fraud; (2) an acknowledgement that the insurer will record the date that any suspected fraudulent activity is deterred; and (3) a written description of chart outlining the organizational arrangement of the insurer's antifraud positions responsible for the investigation and reporting of suspected fraudulent acts. State insurance regulators regularly conduct examinations which include an assessment of compliance with relevant antifraud laws and requirements. Additionally, the NAIC offers consumers and insurers the Online Fraud Reporting System (OFRS) in order to facilitate the mandatory reporting of suspected fraud. A report made in OFRS against an insurer or intermediary is delivered to all states in which the insurer or intermediary does business.
21.4	**The supervisor regularly reviews the effectiveness of the measures insurers and intermediaries and the supervisor itself are taking to deter, prevent, detect, report and remedy fraud. The supervisor takes any necessary action to improve effectiveness.**
21.4	**States:** State regulators maintain reporting and cooperative relationships with all state and federal law enforcement agencies, SIUs, and independent antifraud associations. These relationships allow state regulators to better assess the effectiveness of measures in place to deter, prevent, detect, report,

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	and remedy fraud. The examination process is used to assess the effectiveness of such measures and may require action as necessary. Insurance regulators may levy civil penalties or take civil action for unfair trade practices, which in many cases encompasses instances of fraud; cases may also be referred for criminal prosecution. Statutes provide state insurance regulators with all necessary means to address insurance fraud.
21.5	**The supervisor has effective mechanisms in place, which enable it to cooperate, coordinate and exchange information with other competent authorities, such as law enforcement authorities, as well as other supervisors concerning the development and implementation of policies and activities to deter, prevent, detect, report and remedy fraud in insurance.**
21.5	**States:** State regulators maintain excellent reporting and cooperative relationships with state and federal law enforcement agencies, SIUs, and independent antifraud associations. State regulators have statutory authority to share information regarding investigations, actions, and examination results with other insurance regulators and law enforcement agencies. State insurance departments have established protocol and department personnel dedicated to investigating and often prosecuting insurance fraud referrals when necessary.
ICP 22	**Anti-Money Laundering and Combating the Financing of Terrorism**[9]
22	**The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, and the supervisor takes effective measures to combat money laundering financing of terrorism.**
22	**FinCEN:**[10] In the United States, with respect to AML/CFT matters, federal and state authorities have specifically outlined roles. The insurance industry

[9] The ICP 22 Anti-Money Laundering and Combating the Financing of Terrorism was revised in 2013 and adopted at the IAIS Annual General Meeting in October 2013

[10] The response to ICP 22 was provided by FinCEN, another office within Treasury. The upcoming FATF report, which will be completed within 18 months of the FSAP, will have more information on FinCEN and the U.S. AML/CFT framework.

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	is subject to the relevant AML/CFT provisions of the Currency and Foreign Financial Transactions Reporting Act, also known as the Bank Secrecy Act ("BSA"), 31 U.S.C. § 5311 *et. seq*. The BSA was enacted by the U.S. Congress in 1970 as a means to fight money laundering but its scope has expanded over time to address terrorist financing and other crimes and related issues. The BSA and its implementing regulations, 31 CFR § 1025.100 *et seq.*, require insurance companies that issue or underwrite certain products ("covered products") that present a high degree of risk for money laundering or the financing of terrorism or other illicit activity—e.g., permanent life insurance policies (other than group policies), annuity contracts (other than group contracts), and any other insurance products with cash value or investment features—to file suspicious activity reports with the Financial Crimes Enforcement Network ("FinCEN"), keep records, and maintain an AML program applicable to its covered products. 31 CFR §§ 1025.320, 1025.400, and 1025.210. FinCEN is responsible for administering the BSA and AML/CFT activities, and supervising for AML/CFT in the insurance sector and other financial institutions pursuant to the BSA, 31 U.S.C. § 5311 *et. seq*., Treasury Order 180-01 of March 24, 2003. FinCEN has delegated to the Internal Revenue Service, Small Business/Self-Employment Division ("IRS SB/SE")") civil examination authority for the insurance companies that offer covered products. 31 CFR § 1010.810(b)(8). FinCEN has retained AML/CFT civil enforcement authority over these institutions. 31 CFR § 1010.810(a). In addition, FinCEN signs MOUs with state insurance authorities to incorporate a review for compliance with FinCEN's regulations into their financial examinations of insurance companies. To date, FinCEN has not received any referrals of cases for enforcement action from IRS SB/SE or state insurance commissioners. **States:** Most states have legislation and regulations that require insurers with "covered products" to file suspicious activity reports with the state, keep records, and maintain an AML program applicable to its covered products. The NAIC Financial Condition Examiners Handbook indicates that regulators conducting exams can notify appropriate federal regulators if an insurer is not in compliance with the required practice. State insurance regulators can confirm insurance carriers AML practices during financial and market conduct examinations. Pursuant to any agreements that may be in place between FinCEN and state insurance departments, the state insurance departments may provide FinCEN with annual reports, information regarding its examination program that relates to compliance with the BSA, special BSA examination

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	initiatives, and instances in which the insurance department personnel believe that there are significant BSA violations or deficiencies. State insurance regulators coordinate with FinCEN on corrective actions when appropriate.
A.	**Where the insurance supervisor is a designated AML/CFT competent authority**
A.	
22.1	**The supervisor has a thorough and comprehensive understanding of the ML/FT risks to which insurers and intermediaries are exposed and uses available information to assess the ML/FT risks to the insurance sector in its jurisdiction on a regular basis.**
22.1	
22.2	The supervisor: • issues to insurers and intermediaries enforceable rules on AML/CFT obligations consistent with the FATF Recommendations, for matters which are not in law or regulation; • establishes guidelines that will assist insurers and intermediaries to implement and comply with their respective AML/CFT requirements; and • provides insurers and intermediaries with adequate and appropriate feedback to promote AML/CFT compliance.
22.2	
22.3	**The supervisor has an effective supervisory framework to monitor and enforce compliance by insurers and intermediaries with AML/CFT requirements.**
22.3	
22.4	**The supervisor regularly reviews the effectiveness of the measures that insurers and intermediaries and the supervisor itself are taking on AML/CFT. The supervisor takes any necessary action to improve effectiveness.**

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22.4	
22.5	**The supervisor has effective mechanisms in place which enable it cooperate, coordinate and exchange information with other domestic authorities, such as the financial intelligence unit, as well as with supervisors in other jurisdictions for AML/CFT purposes.**
22.5	
B.	**Where the insurance supervisor is not a designated AML/CFT competent authority**
B.	
22.6	**The supervisor is aware of and has an understanding of ML/FT risks to which insurers and intermediaries are exposed. It liaises with and seeks to obtain information from the designated competent authority relating to AML/CFT by insurers and insurance intermediaries.**
22.6	**States:** The United States splits the responsibilities of AML and CFT between various federal agencies. U.S. state insurance regulators provide necessary assistance to federal counterparts in areas that have been designated as the primary jurisdiction of the federal government. At a minimum, insurers and intermediaries offering life insurance products or other investment related insurance must have effective measures to deter, detect, and report money laundering and the financing of terrorism consistent with the recommendations of the Financial Action Task Force on Money Laundering (FATF). State and federal laws implement and comply with FATF recommendations. Money laundering activities have been criminalized in the United States at both the state and federal levels. Businesses and individuals must take certain record-keeping measures related to AML activities. Effected organizations and individuals have specific reporting duties. State regulators determine whether insurers have established an AML program that has been approved by senior management and contains the required elements. State insurance departments may also look at how the company's compliance function takes account of money laundering risks. If a state insurance department determines that a company has not established or is not

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	maintaining an AML program, then they have the authority to refer this information to the appropriate federal authorities.
22.7	**The supervisor has effective mechanisms in place which enable it to cooperate, coordinate and exchange information with other domestic authorities, such as the financial intelligence unit, as well as with supervisors in other jurisdictions for AML/CFT purposes.**
22.7	**States:** State insurance fraud bureaus work closely with their federal governmental counterparts when suspected money laundering activities are discovered. Regular financial examinations and market conduct examinations may discover money laundering activities. Both state and federal regulators have the authority to cooperate and share information relating to AML investigations. Both state and federal regulators have the authority through appropriate arrangements (such as MOUs) to cooperate and share information relating to AML investigations. Additionally, the FinCEN, the National Insurance Crime Bureau, and the IRS are working with the NAIC and state insurance departments to further share information electronically from a variety of database systems. State insurance fraud bureaus have access to the Federal Bureau of Investigation Law Enforcement On-Line (LEO) website. This website contains training information related to a number of topics, including AML. Through LEO, the state insurance fraud bureaus facilitate inquiries regarding suspicious activities with life insurance policies in death or missing person cases.
ICP 23	**Group-wide Supervision**
23	**The supervisor supervises insurers on a legal entity and group-wide basis.**
23	**States:** State insurance law sets forth the powers and practices for supervising insurers, which can be best summarized by reviewing the NAICs Financial Regulation Standards and Accreditation program. Included is a Part A standard related to the Model Holding Company Act, which relates to powers over the group, and a Part B standard related to examinations and analysis. The Part A standards impose specific requirements on the insurer with respect to notice and approval of transactions and relationships with an insurance holding company system, and also impose certain requirements on the ultimate controlling person with the insurance company system. The Part B standards for analysis include the requirement (appropriate depth-item e,

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	number 4) that "the lead state is responsible for developing and documenting and analysis of the holding company group and for distributing such an analysis to the other domestic state in the group by October 31 each year. The non-lead state is responsible for developing and documenting an analysis of the impact of the holding company system on the domestic insurer by December 31 each year." The same section of the Part B standards indicates that checklists are available for states to utilize for the analysis. *See* pages 517-527 of the 2014 Financial Analysis Handbook. There are also expectations placed on lead states relating to examinations as detailed in the NAIC Financial Condition Examiners Handbook. All states have enacted a version of an insurance holding company law substantially similar to the Model Holding Company Act, which is referenced throughout this document. State insurance regulators adopted revisions to this model in 2010, giving the state insurance commissioner authority, though not the requirement, to obtain consolidated financial reports. The revisions also require an enterprise risk report for the full holding company structure, clarify regulatory access to holding company information, and enable the regulators to more easily participate in supervisory colleges. 38 states have adopted the revisions to the Model Holding Company Act. In addition to the above, the NAIC has also adopted the Risk Management and Own Risk and Solvency Assessment (RMORSA) Model Act, which requires insurers and insurance groups of a certain size to submit information regarding their group risk management framework, risks, and capital management. The NAIC is currently in the process of developing regulatory guidance for reviewing such information and has also recently hired an Enterprise Risk Management Advisor, to assist states in evaluating risk management techniques used by insurers, including quantitative techniques and practices, so that these can be evaluated and examined by the lead state during the review of the ORSA reports by analysts and the ORSA processes by the examiner. **FRB:** The FRB is the supervisor for U.S. BHCs—including financial holding companies (FHCs)—and for SLHCs and nonbank financial companies. The relevant governing statutes are the BHC Act and the Gramm-Leach Bliley Act and the Dodd-Frank Act (among others), and the HOLA, which governs SLHCs. Regulations implementing those statutes include the Federal Reserve's Regulation Y (12 CFR Part 225) and Regulation LL (12 CFR Part 238), among others. Consolidated supervision responsibility, particularly from the resolution perspective, is also derived from Titles I and II of the Dodd-Frank Act.

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23.1	**The supervisor, in cooperation with other involved supervisors as necessary, identifies the scope of the group to be subject to group-wide supervision.**
23.1	**States:** The Model Holding Company Act, which serves as the basis for state law in this area, defines the term "control" in such a way that the Act sets forth the scope of a group subject to the Act to include the ultimate controlling party. Effectively, an insurer, along with any affiliate under common control, as defined by the law, will comprise an insurance holding company system for purposes of the Model Holding Company Act. Consequently, the procedures referenced in ICP 23 refer to procedures that would be performed on the ultimate controlling party. **FRB:** All BHCs (including FHCs) and SLHCs (collectively referred to as holding companies) and nonbank financial companies are subject to supervision by the FRB on a consolidated basis. Consolidated supervision encompasses the parent company and its subsidiaries, and allows the FRB to understand the organization's structure, strategy, activities, resources, risks, and financial and operational resilience. Working with other domestic and foreign supervisors and regulators, the FRB seeks to ensure that financial, operational, or other deficiencies are addressed before they pose a danger to the consolidated organization, its banking offices (as applicable), or the broader economy. For SLHCs that are or control insurance companies and nonbank financial companies, additional rule-making and supervisory guidance/procedures are under development to provide for full implementation of the consolidated supervision programs for these entities.
23.2	**The identified group, regarded as an insurance group for the purpose of group-wide supervision by insurance supervisors, covers all relevant entities. In deciding which entities are relevant, consideration should be given to, at least:** • **operating and non-operating holding companies (including intermediate holding companies);** • **insurers (including sister or subsidiary insurers);** • **other regulated entities such as banks and/or securities companies;** • **non-regulated entities (including parent companies, their subsidiary companies and companies substantially controlled or managed by entities within the group); and** • **special purpose entities;**

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	taking into account, at a minimum, the following elements related to the insurance activities: • **(direct or indirect) participation, influence and/or other contractual obligations;** • **interconnectedness;** • **risk exposure;** • **risk concentration;** • **risk transfer; and/or** • **intra-group transactions and exposures.**
23.2	**States:** The NAIC Financial Analysis Handbook requires in procedure #1 for the lead state to evaluate and document an understanding of the holding company system (referencing the statutory Schedule Y report and the Form B Registration among other things). Procedure 1g specifically requires the analyst to "document an understanding of the nature and function of material non-insurance legal entities that pose a material risk to the holding company system and asks the analyst whether there are material risks presented by these non-insurance entities. (Page 525 includes a grid that is suggested as a possible document to request the company to complete as a way to help assist in obtaining such an understanding). As noted previously, the Model Holding Company Act defines "insurance holding company system" to include an insurer and any affiliates that are under legally-defined control of a common parent, which could be the insurer itself. **FRB:** All holding companies and nonbank financial companies are subject to supervision by the FRB on a consolidated basis. Consolidated supervision encompasses the parent company and its subsidiaries and allows the FRB to understand the organization's structure, strategy, activities, resources, risks, and financial and operational resilience. Working with other domestic and foreign supervisors and regulators, the FRB seeks to ensure that financial, operational, or other deficiencies are addressed before they pose a danger to the consolidated organization, its banking offices (as applicable), or the broader economy. For SLHCs that are or control insurance companies and nonbank financial companies, additional rule-making and supervisory guidance/procedures are under development to provide for full implementation of the consolidated supervision programs for these entities.

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23.3	**The supervisor does not narrow the identified scope of the group due to lack of legal authority and/or supervisory power over particular entities.**
23.3	**States:** The Part B Accreditation standards make no exception for these issues and states are expected to complete these procedures for all groups, including those where the "group-wide supervisor" is located in another country. **FRB:** All holding companies and nonbank financial companies are subject to supervision by the FRB on a consolidated basis. Consolidated supervision encompasses the parent company and its subsidiaries, and allows the FRB to understand the organization's structure, strategy, activities, resources, risks, and financial and operational resilience. Working with other domestic and foreign supervisors and regulators, the FRB seeks to ensure that financial, operational, or other deficiencies are addressed before they pose a danger to the consolidated organization, its banking offices, or the broader economy. For SLHCs that are or control insurance companies and nonbank financial companies, additional rule-making and supervisory guidance/procedures are under development to provide for full implementation of the consolidated supervision programs for these entities.
23.4	**The scope of the group for the purpose of group-wide supervision is flexible in order to take account of any (potential) material and relevant changes in or outside of the group, such as those regarding the structure, activities or macro-economic environment.**
23.4	**States:** As previously indicated, the Model Holding Company Act defines the group to include the ultimate controlling party and all other entities controlled by that party, and therefore the state has the authority to protect its policyholders from any risk imposed on the insurer regardless of whether the other entity is regulated by another regulator. Consequently, holding company analysis would be performed on all groups even if another functional regulator existed (e.g., the Federal Reserve). However, in such situations, the Model Holding Company Analysis procedure #10 suggests coordination with such other regulator. **FRB:** All holding companies and nonbank financial companies are subject to supervision by the FRB on a consolidated basis. Consolidated supervision encompasses the parent company and its subsidiaries, and allows the FRB to understand the organization's structure, strategy, activities, resources, risks, and financial and operational resilience. Working with other domestic and

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	foreign supervisors and regulators, the FRB seeks to ensure that financial, operational, or other deficiencies are addressed before they pose a danger to the consolidated organization, its banking offices, or the broader economy. For SLHCs that are or control insurance companies and nonbank financial companies, additional rule-making and supervisory guidance/procedures are under development to provide for full implementation of the consolidated supervision programs for these entities.
23.5	**The supervisor requires insurance group structures to be sufficiently transparent so that group-wide supervision will not be hindered.**
23.5	**States:** The NAIC annual statement is a public document. Included within that document is the requirement that the insurer identify within Schedule Y all entities within the holding company system, thus providing transparency into the group structure. Additionally, the Model Holding Company Act requires the insurer to submit information concerning, if not seek the prior approval of, various business operations and transactions occurring within the insurance holding company system to which the insurer belongs and to which the insurer is a party. **FRB:** All holding companies and nonbank financial companies are subject to supervision by the FRB on a consolidated basis. Consolidated supervision encompasses the parent company and its subsidiaries, and allows the FRB to understand the organization's structure, strategy, activities, resources, risks, and financial and operational resilience. Working with other domestic and foreign supervisors and regulators, the FRB seeks to ensure that financial, operational, or other deficiencies are addressed before they pose a danger to the consolidated organization, its banking offices, or the broader economy.
23.6	**The supervisor establishes an effective and efficient group-wide supervision framework.**
23.6	**States:** The NAIC group-wide supervision framework is based upon the fundamental concepts in the Model Holding Company Act and its requirements. This framework, which requires financial statements of or within an insurance holding company system, including all affiliates, forms the basis for holding company analysis previously mentioned. As referenced on page 525 of the NAIC Financial Analysis Handbook, Section 6 of the Model Holding Company Act provides broad authority to examine any registered insurer and its affiliates to ascertain the financial condition of the

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	insurer, including the enterprise risk to the insurer. This authority is utilized for all groups through the NAIC Financial Examiners Handbook (*see* section 1 for discussion of "Coordination of Holding Company Group Exams" for how such work is coordinated), which requires the lead state examiner in a coordinated group exam to document their assessment of ERM and governance at the group level (*see* section 2 for discussion of the risk focused exam process). In 2013, the NAIC Group Solvency Issues (E) Working Group adopted proposed revisions to the NAIC Financial Analysis Handbook, which are intended to create a more cohesive framework that discusses how these aspects work together to form the US group supervision framework. This updated section will go into the year-end 2014 NAIC Financial Analysis Handbook, and in the meantime can be found at the following URL: http://www.naic.org/documents/committees_e_isftf_group_solvency_2014_financial_analysis_handbook.pdf. State insurance regulators have also organized supervisory colleges for every U.S. insurer meeting the current definition of an IAIG developed by the IAIS, and participated in numerous supervisory colleges hosted by other jurisdictions. **FRB:** All holding companies and nonbank financial companies are subject to supervision by the FRB on a consolidated basis. Consolidated supervision encompasses the parent company and its subsidiaries, and allows the FRB to understand the organization's structure, strategy, activities, resources, risks, and financial and operational resilience. Working with other domestic and foreign supervisors and regulators, the FRB seeks to ensure that financial, operational, or other deficiencies are addressed before they pose a danger to the consolidated organization, its banking offices, or the broader economy.

23.7	**At a minimum, the group-wide supervision framework includes, as a supplement to legal entity supervision:**
	
	• **extension of legal entity requirements, as applicable according to the relevant ICPs, on:**
	  ○ **solvency assessment (group-wide solvency);**
	  ○ **governance, risk management and internal controls (group-wide governance);**
	  ○ **market conduct (group-wide market conduct);**
	• **requirements related to group-wide supervision on:**
	  ○ **complexity of group structure;**
	  ○ **cross-border/cross-sectoral issues;**
	  ○ **interplay with legal entity supervision;**
	  ○ **non-regulated entities.**

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23.7	**States:** The primary solvency assessment performed on the group is that which is outlined in the NAIC Financial Analysis Handbook pages 517-527. The primary governance, risk management, and internal controls assessment is conducted via the examination (with interim analysis work done through the Management Considerations section of the Financial Analysis Handbook pages 447-459) as detailed in Exhibit M (Governance) and Phases 1-5 of the risk-focused examination process (Risk Assessment & Internal Controls). Market conduct is handled more broadly with other areas in a department, communicating issues to the analyst where such exist. The Accreditation Part B requirements include a standard that the department should "provide relevant information . . . to the financial analysis staff," and the guidelines go on to indicate that included in such are examples like significant complaint data and results of market conduct examinations. With respect to requirements related to group-wide supervision, page 518 of the NAIC Financial Analysis Handbook requires the analyst to identify and document any other regulated entities within the holding company system and the respective involved supervision, and discusses coordination with such regulators. Page 517 requires the analyst to document an understanding of the nature and function of material non-insurance legal entities. The interplay with legal entity supervision is clear given the different procedures for the lead state (pages 518-525) and the non-lead state(s) (pages 526-527), with the focus on the potential impact of the group on the insurer. This is also the basis for the Form F, as described in the Model Holding Company Act and its companion regulation. **FRB:** The FRB conducts continuous monitoring activities to understand and assess each holding company's and nonbank financial company's cross-border strategy, trends, and legal entity structure and related governance, risk management, and internal controls. For a holding company or nonbank financial company with international operations or risks, the firm's ability to assess and oversee its cross-border operations is incorporated into the evaluation of key corporate governance functions and primary firm-wide risk management and internal control functions, including legal and regulatory risk management. In addition, the FRB reviews materials prepared by host country supervisors, including examination reports and assessments, and conducts ongoing communications with involved foreign and domestic supervisors regarding trends and assessment of cross-border operations. These continuous monitoring activities are supplemented, as appropriate, by examination activities to understand and assess the holding company's or nonbank

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	financial company's cross-border strategy, activities, risks, trends, and legal entity structure and related governance, risk management, and internal controls.
23.8	**The supervisor provides for group-wide supervisory review and reporting of an insurance group's adherence to the group-wide regulatory requirements.**
23.8	**States:** The Model Holding Company Act requires financial statements of or within an insurance holding company system, including all affiliates, which forms the basis for the holding company analysis previously mentioned. In addition, Section 6 of the Model Holding Company Act provides broad authority to examine any insurer registered and its affiliates to ascertain the financial condition of the insurer, including the enterprise risk to the insurer. These processes include by their nature, identifying the group risks, and then determining if any intervention measures are appropriate for the group or any of its legal entities. Collectively, these processes represent the group-wide supervisory assessment. **FRB:** The supervisory approach is tailored to the size, complexity, and risks of the firm. For the largest BHCs and FBOs and for the nonbank financial companies, the FRB uses a range of supervisory activities to maintain a comprehensive understanding and assessment of each firm. These include coordinated horizontal reviews involving the examination of several institutions simultaneously, encompassing firm-specific supervision and the development of cross-firm perspectives. Firm-specific examination and continuous monitoring activities are undertaken to maintain an understanding and assessment across the core areas of supervisory focus for each firm. For insurance and commercial SLHCs and nonbank financial companies, additional rule-making and supervisory guidance/procedures are under development to provide for full implementation of the consolidated supervision programs for these entities.
23.9	**The supervisor requires that insurance groups have reporting systems in place that adequately meet the supervisory demands.**
23.9	**States:** Section 6 of the Model Holding Company Act provides the commissioner with the power to examine any insurer and its affiliates to ascertain the financial condition of the insurer, including the enterprise risk to the insurer by the ultimate controlling party, or by any entity or combination

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	of entities within the insurance holding company system, or by the insurance holding company system on a consolidated basis. The same section gives the commissioner the authority to order any insurer to produce relevant information, either in the possession or not in the possession of the insurer. In the event the insurer cannot obtain the information requested by the commissioner, the insurer shall provide the commissioner a detailed explanation of the reason that the insurer cannot obtain the information and the identity of the holder of information. Whenever it appears to the commissioner that the detailed explanation is without merit, the commissioner may require, after notice and hearing, the insurer to pay a penalty or may suspend or revoke the insurer's license. The annual holding company registration statement shall include, among other items, current information about the capital structure, financial condition, ownership and management of the insurer and any person controlling the insurer; identity and relationship of every member of the insurance holding company system; and financial statements "of or within" the insurance holding company system if requested (statements filed with SEC are acceptable). The ultimate controlling person shall file the enterprise risk report with the lead state commissioner, which shall identify the material risks within the holding company system that could pose enterprise risk to the insurer. Various transactions involving an insurer and any member of its insurance holding company system are subject to prior approval as well as standards of fairness and reasonableness. In some cases, there may be a financial threshold involved; such transactions include sales, purchases, loans, and reinsurance agreements. In other cases, there is no dollar threshold, thereby requiring prior approval for all management agreements, service contracts, tax allocation agreements, guarantees and cost-sharing arrangements. Dividends and other distributions must be reported to the commissioner, with extraordinary dividends subject to prior approval. **FRB:** BHCs and SLHCs are required to prepare and file a comprehensive set of regulatory reports. Regulatory reporting requirements for nonbank financial companies are under development. The two insurance nonbank financial companies are publicly traded companies that are required to file under appropriate SEC rules.
ICP 24	**Macroprudential Surveillance and Insurance Supervision**
24	**The supervisor identifies, monitors and analyzes market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilise**

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	information from, and insights gained by, other national authorities.
24	**FIO:** At this time, FIO provides surveillance and monitoring of the insurance industry and its regulation, pursuant to its authorities under Title V of the Dodd-Frank Act. FIO is authorized "to monitor the extent to which traditionally underserved communities and consumers, minorities . . . and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance." 31 U.S.C. § 313(c)(1)(B). FIO is also authorized "to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the United States financial system." 31 U.S.C. § 313(c)(1)(A). FIO also contributes to the financial stability of the insurance sector and the U.S. financial system as a part of its role serving on and working in support of the FSOC. Relatedly, FIO analyzes market and financial information as part of its authority "to recommend to the [FSOC] that it designate an insurer, including the affiliates of such insurer, as an entity subject to regulation as a nonbank financial company supervised by the [FRB] pursuant to title I [of the Dodd-Frank Act]." 31 U.S.C. § 313(c)(1)(C). FIO also analyzes market and financial information as part of its authority to recommend, along with the FRB and in consultation with the FDIC, that the Secretary of the Treasury (in consultation with the President) make a systemic risk determination, pursuant to statutorily prescribed criteria, to place an insurer or a holding company for which the largest U.S. subsidiary is an insurer into receivership. *See* 12 U.S.C. § 5383(a)(1)(C). Additionally, FIO contributes to the analysis and identification of financial stability matters in connection with its role representing the United States in the IAIS, which is committed to global financial stability. *See* 31 U.S.C. § 313(c)(1)(E). FIO's work with the IAIS includes its role on the IAIS's Financial Stability Committee. Finally, FIO monitors and analyzes the insurance sector and tracks developments in the insurance market in order to research, write, and publish its annual reports and special reports. *See* 31 U.S.C. §§ 313(n)-(p). FIO maintains relationships with authorities from the U.S. federal government, the states, and other countries. **FRB:** One key feature of the Dodd-Frank Act is its macroprudential orientation. To implement the macroprudential approach, the Dodd-Frank Act established the FSOC, which is tasked with promoting a more comprehensive approach to monitoring and mitigating systemic risk. Nonbank financial companies are part of the LISCC portfolio within the FRB's Division of Banking Supervision and Regulation. As such, an insurance company that is a nonbank financial company is subject to additional supervisory oversight that is conducted with a focus on financial stability. The LISCC is comprised of senior officers representing various functions at the FRB and Reserve Banks,

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	bringing interdisciplinary and cross-firm perspective to the supervision of large systemically important financial institutions. Day-to-day supervision of the LISCC firms is overseen by the LISCC Operating Committee, which is composed of senior staff whose primary focus is the supervision of entities in the LISCC portfolio. In the aftermath of the crisis, the FRB established the Office of Financial Stability and Research (OFS) to help the FRB more effectively monitor the financial system and develop policies for mitigating systemic risks. The OFS's function is to coordinate and analyze information bearing on financial stability from a wide range of perspectives and to place the supervision of individual institutions within a broader macroeconomic and financial context. **States:** States monitor trends in the marketplace and among individual insurers, and have mechanisms specifically focused on the sharing of that information across state insurance departments. State regulators also rely on consultations with other financial regulators in the United States to stay current. The NAIC's Financial Regulatory Services and Capital Markets Bureau are specifically charged with monitoring and gathering data on insurer activities and giving careful consideration to broader market factors that could have an impact on insurers, individually, as a group, or as an industry. Relevant data is made readily available through regulator-only technology tools. In addition to existing NAIC committees charged with monitoring individual issues that may have macro-prudential import, the NAIC also formed the Financial Stability Task Force. The mission of the Financial Stability Task Force, which reports directly to the Executive Committee of the NAIC, is to consider issues concerning domestic or global financial stability as they pertain to the role of state insurance regulators. Lessons learned from these various discussions, including through supervisory colleges, is shared actively through regular meetings and conference calls. In particular, this includes the Financial Analysis Working Group and the Chief Financial Regulator Forum. State insurance regulators participate in all the relevant IAIS Subcommittees including holding significant leadership roles, such as the Acting Chair of the IAIS Financial Stability Committee, and the Chair of the Macroprudential Policy and Surveillance Subcommittee.
24.1	**The supervisor identifies underlying trends within the insurance sector by collecting data on, but not limited to, profitability, capital position, liabilities, assets and underwriting, to the extent that it has information available at the level of legal entities and groups. The supervisor also develops and applies appropriate tools that take into account the nature, scale and complexity of insurers, as well as non-core activities of**

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	insurance groups, to limit significant systemic risk.
24.1	**FIO:** In conducting the monitoring addressed in the response to ICP 24, FIO identifies underlying trends in the insurance sector. With regard to the FSOC's work, FIO and the other members of the FSOC have developed a rule and interpretive guidance describing the three-stage process of how the FSOC will evaluate a nonbank financial company based upon the standards set forth in the Dodd-Frank Act. *See* 12 CFR Part 1310. In Stage 1, the FSOC applies uniform quantitative thresholds to identify nonbank financial companies for further evaluation. In Stage 2, the FSOC analyzes the nonbank financial companies identified in Stage 1 using a broad range of information available to the FSOC primarily through existing public and regulatory sources. In Stage 3, the FSOC contacts each nonbank financial company that the FSOC believes merits further review to collect information directly from the company not otherwise available in the prior stages. Each nonbank financial company that is reviewed in Stage 3 is notified that it is under consideration and is provided an opportunity to submit written materials related to the FSOC's consideration of the company for a proposed designation. **FRB:** The LISCC Operating Committee is supported by a number of multidisciplinary teams, including a risk secretariat composed of risk teams, capital and performance secretariat, and a data team. The risk teams develop a perspective on risk across the LISCC portfolio and contain a breadth and depth of expertise from the Federal Reserve System. **States:** U.S. insurance companies are required to file their quarterly and annual financial statements with the NAIC. There is a wealth of granular data on the activities of each insurance legal entity stored historically in the Financial Data Repository. This can be manipulated and analyzed to track trends on issues as they come to light. Given the turmoil of the recent financial crisis, resources and tools have been added or enhanced to support state insurance regulators in their focus on potential systemic issues. The NAIC monitors the capital markets and analyzes insurer exposures across the different asset classes and investment practices. Distinctions are noted for different insurer types and different sizes of companies, given different liability and liquidity needs. It has been noted that this analysis has been important in focusing the dialogue with insurers about their risk management practices. Risk focused surveillance has taken on increased emphasis with additional resources dedicated to group issues and prospective risks.
24.2	**The supervisor, in performing market analysis, considers not only past developments and the present situation, but also trends, potential risks**

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	and plausible unfavourable future scenarios with the objective and capacity to take action at an early stage, if required.
24.2	**FIO:** When engaged in the surveillance and monitoring of the insurance sector addressed in ICP 24, FIO considers past and present situations and potential future trends and risks. **FRB:** The FRB expects large, complex BHCs to have sufficient capital to continue lending to support real economic activity while meeting their financial obligations, even under stressful economic conditions. Stress testing is one tool that helps bank supervisors measure whether a BHC has enough capital to support its operations throughout periods of stress. The FRB previously highlighted its use of stress testing as a means to assess a financial institution's capital sufficiency during periods of stress with its 2009 Supervisory Capital Assessment Program (SCAP) and since 2011 through the annual Comprehensive Capital Analysis and Review (CCAR) exercise.[11] The Dodd-Frank Act requires the FRB to conduct an annual stress test of large BHCs and all nonbank financial companies designated by the FSOC for Federal Reserve supervision. The FRB in the annual stress test is to evaluate whether these companies have sufficient capital to absorb losses resulting from stressful economic and financial market conditions. The Dodd-Frank Act also requires BHCs and other financial companies supervised by the FRB to conduct their own stress tests. Together the Dodd-Frank Act supervisory stress tests and company-run stress tests are intended to provide company management and boards of directors, the public, and supervisors with forward-looking information to help gauge the potential effect of stressful conditions on capital adequacy of these large banking organizations. All nonbank financial companies designated by FSOC will be required to conduct their first stress test in the calendar year after the year in which the company becomes subject to the FRB's minimum regulatory capital requirements, unless the Board accelerates or extends the compliance date. **States:** In addition to the ongoing attention of financial analysts and examiners at state insurance departments, staff at the NAIC monitor company

[11] The CCAR is an annual exercise by the Federal Reserve to ensure that institutions have robust, forward-looking capital planning processes that account for their unique risks and sufficient capital to continue operations throughout times of economic and financial stress. As part of the CCAR, the Federal Reserve evaluates institutions' capital adequacy, internal capital adequacy assessment processes, and their plans to make capital distributions, such as dividend payments or stock repurchases, and other actions that affect capital.

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	financial solvency and industry performance. This often identifies macro issues that are researched and communicated broadly to state insurance regulators. The analysis also extends to industry-wide results for the different insurance segments, with the results being communicated through semi-annual reports to each state insurance department. Ad hoc queries are also performed to identify emerging risks and trends. The NAIC's Financial Regulatory Services group has focused on and worked with state insurance regulators on broad issues such as the state of the reinsurance market, reinsurance companies, and the impact of alternative capital through insurance linked securities. Given some of the experiences related to the financial crisis, the group also focused attention on different ways that an insurer's assets could be restricted for more general use. For example, assets can be pledged as collateral for different types of transactions. The NAIC's Capital Markets Bureau monitors activity specifically as it may relate to or have an impact on the investments or investment practices of insurers. Information is communicated both generally and on a confidential basis to state insurance regulators. Examples of areas of specific focus since the financial crisis include securities lending, various aspects of structured securities, derivatives use, reliance on external asset managers, and commercial real estate exposure.
24.3	**The supervisor performs both quantitative and qualitative analysis and makes use of both public and other sources of information, including horizontal reviews of insurers and relevant data aggregation.**
24.3	**FIO:** FIO employs both quantitative and qualitative analysis, using public and non-public data, in conducting the oversight functions addressed in FIO's response to ICP 24. **FRB:** Firms within the LISCC portfolio are subject to horizontal reviews. **States:** Supervisors regularly perform quantitative analysis relying on guidance in the Financial Analysis and Examiner's Handbooks to ensure consistency in approach across insurers. Qualitative considerations are handled on a case-by-case basis, depending on the type and size of insurer, and the insurer's historical experience. Aggregated data as benchmarks are provided by the NAIC, using the financial statement data submitted by all insurers. This will be enhanced going forward beginning in 2015, as requirements have been developed for insurer's Own Risk and Solvency Assessment (ORSA). This will allow regulators to have greater access to information from insurers regarding how they manage their most significant solvency risks, including identification, monitoring and mitigation. Regulators will be able to get an understanding of broader issues impacting the industry

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	through a review and comparison of ORSA reports across different companies.
24.4	**The supervisor uses market-wide data to analyze and monitor the actual or potential impact on the financial stability of insurance markets in general and of insurers in particular and takes appropriate action. The supervisor also makes sufficiently detailed aggregated market data publicly available.**
24.4	**FIO:** As explained in its response to ICP 24, FIO's authority related to financial stability is four-fold. First, FIO has authority to monitor the stability of the insurance sector as part of its overall surveillance role. Second, FIO has authority to analyze the stability of the insurance sector and the overall U.S. financial system through its role serving on and supporting the work of the FSOC. Third, FIO has authority to assess the stability of particular insurers in determining whether to recommend a firm for designation by the FSOC or for the Secretary of the Treasury to make a systemic risk determination as to an insurer or a holding company for which the largest U.S. subsidiary is an insurer and seek the appointment of a receiver. Fourth, FIO has authority to assess financial stability as part of its work with the IAIS, including its role on the IAIS's Financial Stability Committee. In each of these work streams, FIO uses aggregated market-wide data to monitor overall financial stability and the stability of particular insurers. While some confidential data cannot be shared, FIO publishes considerable aggregated data in its statutorily-mandated annual reports. **FRB:** In the aftermath of the crisis, the FRB established the Office of Financial Stability and Research (OFS) to help the FRB more effectively monitor the financial system and develop policies for mitigating systemic risks. The OFS's function is to coordinate and analyse information bearing on financial stability from a wide range of perspectives and to place the supervision of individual institutions within a broader macroeconomic and financial context. **States:** With the detailed information received, the NAIC tracks key market trends across the entire industry and the different insurer types. Important solvency and profitability metrics are shared on a regular basis with the Financial Analysis Working Group. Particular attention is paid to nationally significant insurers. While individual company information that could be deemed confidential is discussed in regulator-to-regulator sessions, broader issues are generally brought up during open meetings and conference calls. Industry-wide information is made publicly available through a variety of

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	different venues, including Capital Markets Special Reports and publications of the Center for Insurance Policy and Research (CIPR). CIPR holds four regular conferences annually addressing broad market issues. In 2013, CIPR sponsored a summit exploring insurers' liabilities, health care reform and terrorism insurance. More recently in 2014, there was a seminar on cyber liability risk. CIPR publishes a quarterly newsletter which provides information on regulatory activities, key issues, and trends affecting the insurance industry such as life-insurer owned captives and longevity risk. CIPR has also published white papers on a variety of topics, including the state of the life insurance industry and policy considerations for financing home ownership. In addition, CIPR maintains numerous issue briefs on their website that explain complex insurance issues and link to relevant NAIC activity.
24.5	**The supervisor assesses the extent to which macro-economic vulnerabilities and financial market risks impinge on prudential safeguards or the financial stability of the insurance sector.**
24.5	**FIO:** In its financial stability oversight role, addressed in its responses to ICP 24 and ICP/Std. 24.4, FIO assesses how macro-economic vulnerabilities and financial market risks impact the stability of the insurance sector and prudential safeguards. **FRB:** Supervisory oversight considers the effect of an unwind of building financial imbalances on the LISCC firms and the contribution that they may have to any such imbalances. **States:** As industry-wide issues are identified, the impact of these issues is considered in developing enhancements to the U.S. solvency monitoring framework. This includes modifications to risk-based capital charges, accounting and reporting requirements and recommended exam/analysis procedures. The regulatory framework is dynamic, constantly evolving to address emerging issues. Additional disclosures are regularly adopted to better assess the materiality of exposures to the industry as a whole, different segments of the industry, or individual companies. Where the exposure or the risk is deemed material, modifications can be made to capital and reserving requirements. Also, additional guidance is provided for in the financial analysis and examiners handbooks.
24.6	**The supervisor has an established process to assess the potential systemic importance of insurers, including policies they underwrite and**

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	instruments they issue in traditional and non-traditional lines of business.
24.6	**FIO:** FIO assesses the systemic importance of insurers as part of its monitoring authority under 31 U.S.C. § 313(c)(1)(a) and pursuant to its role serving on and supporting the work of the FSOC. In doing so, FIO considers various aspects of those insurers, including lines of business and underwriting practices. Also, FIO assesses insurers' global systemic importance through its work with the IAIS, including its membership on the IAIS Financial Stability Committee and in work streams related to the identification of G-SIIs. **States:** The Financial Analysis Working Group has, as part of its charge, the responsibility of analyzing nationally significant insurers and groups that exhibit characteristics of trending toward or being financially troubled; and determining if appropriate action is being taken by the state of domicile. It also supports, encourages, promotes, and coordinates multi-state efforts in addressing solvency problems, including identifying adverse industry trends. Where appropriate, it coordinates and consults other regulatory bodies. Various committees at the NAIC, such as the Life Insurance and Annuities Committee or the Financial Condition Committee have responsibility for monitoring broader issues, including the evolution of products, lines of business, or investment practices.
24.7	**If the supervisor identifies an insurer as systemically important, it develops an appropriate supervisory response, which is commensurate with the nature and degree of the risk.**
24.7	**FIO:** FIO may recommend that an insurer be designated by the FSOC, 31 U.S.C. § 313(c)(1)(C), which will formally evaluate whether that insurer should be subject to FRB supervision and enhanced prudential standards. Additionally, pursuant to its authority under Title II, FIO and the FRB (in consultation with the FDIC) may recommend that the Secretary of the Treasury (in consultation with the President) make a systemic risk determination, pursuant to statutorily prescribed criteria, to place an insurer or a holding company for which the largest U.S. subsidiary is an insurer into receivership. Finally, pursuant to its authority to monitor the insurance industry and its regulation, to the extent that FIO identifies regulatory gaps and/or systemic risk, FIO may make recommendations. **FRB:** Under section 165 of the Dodd-Frank Act, the Board must establish prudential standards for nonbank financial companies designated by the FSOC

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	that are more stringent than standards and requirements applicable to other companies that do not present similar risks to U.S. financial stability. Those standards must include risk-based and leverage capital requirements, liquidity requirements, risk management requirements, resolution plan requirements, and concentration limits. In October 2011, the FRB issued a final rule imposing resolution plan requirements on nonbank financial companies that the FSOC has determined will be supervised by the FRB. In early 2014, the Federal Reserve issued a final rule that set forth factors that the FRB would consider in adopted prudential standards for nonbank financial companies that the FSOC has determined will be supervised by the FRB, including certain insurance companies. In connection with the final rule, the FRB indicated that, following the designation of a nonbank financial company by the FSOC, the FRB would assess the business model, capital structure, and risk profile to determine how the enhanced standards should apply, and would tailor application of the standards by order or regulation to an individual nonbank financial company or category of companies. In addition to the regulatory measures described above, the FRB also engages in enhanced supervision and oversight of larger institutions, including nonbank financial companies supervised by the FRB. *See, e.g.*, Supervision and Regulation Letter 12-17 (consolidated supervision of large financial institutions), http://www.federalreserve.gov/bankinforeg/srletters/sr1217.htm, Supervision and Regulation Letter 13-23 (risk transfer transactions), http://www.federalreserve.gov/bankinforeg/srletters/sr1323.htm. **States:** Activities of insurers or groups of insurers that raise concerns of the potential for negative impacts are discussed at various levels within the NAIC committee structure so that information can be shared as widely among regulators as possible and appropriate action can be taken either at the company level or across the regulatory framework. The NAIC structure also lends itself to a high degree of peer review. Smaller issues can often be left to some increased disclosure and monitoring. Larger issues will lead to an increased dialogue among regulators so that appropriate action can be taken. That dialogue could result in modifications to the regulatory framework to address the specific issue and risk. Additionally, a state insurance commissioner representative sits on the FSOC, and he or his staff participate in FSOC committee and working group meetings. Presently, that seat is occupied by Missouri Insurance Director John Huff. While confidentiality rules severely limit the ability to share discussions specific to the work of FSOC as it relates to individual insurers, the NAIC also participates actively in other aspects, including the Systemic Risk Committee. That work has not only led to heightened debate on issues at the

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	NAIC, but has also provided a means for the NAIC to express its views on activities that could impact insurers.
ICP 25	**Supervisory Cooperation and Coordination**
25	**The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.**
25	**States:** State insurance regulators believe that increased communication, coordination, and cooperation among regulators at supervisory colleges, or other international fora, is vital to understanding risk trends that could impact domestic insurers and policyholders in an increasingly global insurance market.[12] State regulators engage in regulatory dialogues with jurisdictions from around the world relating to topics of mutual regulatory concern, and many states have bilateral agreements in place with jurisdictions from around the world relating to the exchange of confidential information. Many states are also either signatory authorities or have applied to become signatories of the IAIS MMoU (considered the gold standard for information exchange amongst international regulators), with many more states considering applying. State insurance regulators have organized supervisory colleges for every U.S. insurer meeting the current definition of an IAIG developed by the IAIS, and participated in numerous supervisory colleges hosted by other jurisdictions subject to the appropriate confidentiality provisions as determined by the college. **FIO:** As addressed in its response to ICP/Std. 3.3, FIO has entered into a variety of information-sharing agreements in the course of carrying out its statutory authorities. FIO cooperates and coordinates with authorities from around the world in a variety of contexts, including through its work with the IAIS and Treasury's involvement with the FSB, through resolution-related projects and work streams, and through various bilateral and multilateral relationships and work streams. **FRB:** FRB staff consults with FIO on issues related to the FRB's supervisory

[12] While NAIC guidance materials often make reference to a lead state regulator, under state law a lead state regulator for an IAIG may perform many of the functions recognized to be performed by a group wide supervisor.

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	framework, including insurance capital requirements and stress testing. FRB staff also meets regularly with industry representatives and with the NAIC, state insurance regulators, and foreign regulators and supervisors, to discuss insurance-related issues. Federal Reserve Banks work with state insurance regulators in the supervision of firms through discussions and information-sharing on supervisory practices and conduct joint inspections as appropriate.
25.1	**The supervisor takes steps to put in place adequate coordination arrangements with involved supervisors on cross-border issues on a legal entity and a group-wide basis in order to facilitate the comprehensive oversight of these legal entities and groups. Insurance supervisors cooperate and coordinate with relevant supervisors from other sectors, as well as with central banks and government ministries.**
25.1	**States:** In order to ensure that the international developments relating to supervisory colleges were incorporated into the state regulatory framework, the NAIC included the concept of supervisory colleges into revisions to the Model Holding Company Act and the related Regulation. Currently 38 states have adopted the revisions to the Model Holding Company Act. U.S. state insurance regulators, building on the IAIS Guidance Paper, which the NAIC Group Solvency Issues (EX) Working Group of the Solvency Modernization Initiative (EX) Task Force endorsed as guidance in November of 2009, drafted a Holding Company and Supervisory Colleges Best Practices document in 2011 that is embedded as an appendix of the 2011 edition of the Financial Analysis Handbook, and includes standards for participating in international supervisory colleges. This document provides additional references on how the key aspects regarding supervisory college participation might work within the existing U.S. framework, highlighting that supervisory colleges should be used in conjunction with existing risk-focused surveillance tools. Communication and coordination between regulators has always been an important component of state based solvency regulation. For instance, information-sharing procedures between states are a component of the NAIC Financial Regulation Standards and Accreditation Program. While the successful operation of supervisory colleges raises unique and significant challenges, as regulators around the world must attempt to develop a common understanding of the overall group-wide risk profile (despite potentially differing languages, regulatory, accounting, legal, and corporate regimes of each involved jurisdiction), the overarching goals of an international supervisory college are quite similar to the lead state approach that has been practiced in the United States for many years for insurance legal entities

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	within the same holding company system. State insurance regulators have organized supervisory colleges for every U.S. insurer meeting the current definition of an IAIG developed by the IAIS, and participated in numerous supervisory colleges hosted by other jurisdictions entering into the relevant coordination agreements or terms of reference as determined appropriate by the relevant supervisory college in order to facilitate the comprehensive oversight of these legal entities and groups. State insurance regulators have information-sharing agreements with the FRB, the OCC, the FDIC, and regularly share information with federal authorities on company specific and market-wide issues. The NAIC has an MOU to provide public information to the Treasury Department, including FIO and the OFR.. **FIO:** FIO participates in crisis management groups for G-SIIs, along with other federal agencies, state regulators, and supervisors from other countries, to plan for cooperative supervision in periods of extreme financial stress. *See also* response to ICP 26. **FRB:** The FRB began to participate in supervisory colleges when we became responsible for supervising the firms. The FRB is working with state insurance regulators to coordinate, plan and host future activities of the colleges. CMGs for GSIIs include the FRB, relevant state insurance regulators, and the FIO.
25.2	**Coordination agreements include establishing effective procedures for:** • **information flows between involved supervisors;** • **communication with the head of the group;** • **convening periodic meetings of involved supervisors; and** • **conduct of a comprehensive assessment of the group.**
25.2	**States:** Given the differing legal frameworks, backgrounds, outlooks, and expectations of members of a supervisory college, a terms-of-reference document or coordination/cooperation agreement is generally agreed upon by the supervisory college members, optimally at one of the earlier meetings. This type of document serves as defining the expectations of the members of the purpose of the college, can include clarification on group membership (*e.g.*, whether there will be a tiered membership), clarity on who is the lead supervisor(s) and their respective role and responsibilities, scope of activities, agreement on frequency and location of meetings, and whether there will be

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	regional colleges or subgroup. The relevant terms of reference or coordination/cooperation agreement for a supervisory college will generally include the means by which the regulators will share information with each other and communicate with each other. The coordination arrangement may also include the processes and procedures by which a comprehensive assessment of the group is undertaken. **FIO:** *See* response to ICP 25.0.
25.3	**Involved supervisors determine the need for a group-wide supervisor and agree on which supervisor will take on that role (including a situation where a supervisory college is established).**
25.3	**States:** The NAIC Financial Analysis Handbook discusses the role of the lead state and more importantly, the process for determining who the lead state should be for a group (general considerations). This is an important concept because the NAIC Accreditation Standards place requirements on lead states for holding company analysis. Over the years, the states have determined the lead state for all NAIC group codes (where one or more U.S. insurer is included in the group), and the NAIC maintains a tool in I-SITE that shows such information as well as the analysis on each of the domestic insurers in the group. In addition to this information, the NAIC Financial Analysis Handbook also contains information on supervisory colleges, including a section that is currently a best practices document for states to use when organizing and running colleges. The guidance is expected to be enhanced over time as colleges continue to evolve. Included within that section is the discussion that colleges may be appropriate for IAIGs, but that concept is also embedded in the Model Holding Company Act, and demonstrated by reviewing the states' use of the I-SITE Supervisory College calendar. As aforementioned, the Model Holding Company Act was significantly revised in 2010 in response to the financial crisis and, as of this writing, further revisions are being proposed in light of international developments on group supervision. Included in the discussion of further revisions is the incorporation of language that would provide states the legal authority to act as the group wide supervisor for an IAIG, which has already been adopted by Pennsylvania as well as other larger states.
25.4	**The designated group-wide supervisor takes responsibility for initiating discussions on suitable coordination arrangements, including establishing a supervisory college, and acts as the key coordinator or chairman of the**

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	supervisory college, where it is established.
25.4	**States:** The lead state supervisor initiates discussions relating to relevant coordination arrangements and establishing a supervisory college, the means by which confidential information will be exchanged between the involved supervisors, and organizing and chairing a supervisory college. NAIC guidelines provide that a lead state supervisor provides consistent communication with applicable international regulators, is available to attend supervisory colleges, gathers all applicable materials from non-lead states in preparing for international meetings and may initiate conference calls with non-lead domestic regulators summarizing the supervisory college meeting and any effects on domestic companies if such efforts are deemed efficient and effective for the particular group by the lead state. State regulators believe that while the lead state supervisor should initiate discussions, there should be two-way communication between the lead state and host supervisors (for example, host supervisors should inform the lead state supervisors on issues that they would like further information on).
25.5	**There is appropriate flexibility in the establishment of a supervisory college – both when to establish and the form of its establishment – and other coordination mechanisms to reflect their particular role and functions.**
25.5	**States:** NAIC guidelines point out the importance of ensuring that regulators maintain the appropriate flexibility when organizing supervisory colleges in order for the college to appropriately take into consideration the nature, scope, and activities of the specific group. While best practices are encouraged, the objective is to make the college more issue-driven and not necessarily based on any fixed form/template.
25.6	**The designated group-wide supervisor establishes the key functions of the supervisory college and other coordination mechanisms.**
25.6	**States:** The lead state supervisor establishes the key functions of the supervisory college after consultation with the other supervisory college members and as agreed to in the relevant coordination/cooperation arrangements or terms of reference document.

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25.7	**The designated group-wide supervisor understands the structure and operations of the group. Other involved supervisors understand the structure and operations of parts of the group at least to the extent of how operations in their jurisdictions could be affected and how operations in their jurisdictions may affect the group.**
25.7	**States:** The role of the lead state supervisor is to understand the structure, operations, and risks inherent to the group and to facilitate this understanding for the other members through focused discussions and disclosures at the colleges. The lead state supervisor, with the help of involved supervisors and of the group, gathers all information necessary to gain a comprehensive overview of the group, its entities, and its activities.
25.8	**The designated group-wide supervisor takes the appropriate lead in carrying out the responsibilities for group-wide supervision. A group-wide supervisor takes into account the assessment made by the legal entity supervisors as far as relevant.**
25.8	**States:** A lead state supervisor would ultimately be responsible for ensuring effective and efficient group-wide supervision, for which he needs the information and cooperation of the supervisory authorities responsible for supervision of all of the relevant entities. The lead state supervisor should coordinate and disseminate essential information needed for reviewing and evaluating risks and assessing solvency on a group-wide basis at the supervisory college.
ICP 26	**Cross-border Cooperation and Coordination on Crisis Management**
26	**The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.**
26	**States:** U.S. state insurance regulators have some experience with cross-border crisis management situations, including certain states involvement in Crisis Management Groups (CMGs) for certain insurers. Supervisors are able to coordinate with other relevant authorities, through supervisory colleges or otherwise, such that a cross-border crisis involving a specific insurer can be managed effectively. A recent example demonstrated that the lead state of the group coordinated not only with other U.S. states, but with material international regulators. This cooperation and coordination is made possible

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	through broad-based authority that all states have in their statutes based upon the NAIC Model Law on Examinations, which provides states with the ability to share, and receive any information with/from international regulators. Further, state regulators actively participate in international standard setting at the IAIS Resolution Working Group. **FIO:** Pursuant to its statutory authority under Title II and Title V of the Dodd-Frank Act, FIO cooperates and coordinates with other authorities on matters related to cross-border crises. FIO participates in CMGs, which include representatives from federal, state, and foreign authorities. These CMGs, which are at an early stage of development, are intended to provide authorities with a tool to coordinate actions and plan for any changes to a financial institution in the event of a severe economic stress. In addition, FIO serves on IAIS and the FSB committees in relation to insurer resolution policy matters. Finally, pursuant to its authorities under Title II, FIO works with the FDIC and the FRB on matters related to the U.S. government's orderly liquidation authority (i.e., Title II resolution). **FRB:** The FRB hosts supervisory colleges for nonbank financial companies it supervises as part of its regular supervisory process. Also, under the auspices of the FSB, the FRB hosts CMGs for host supervisors of both firms. *See* Key Attributes of Effective Resolution Regimes for Financial Institutions, FSB, October 2011. CMGs generally meet in person at least once per year, and via telephone conference as needed. The CMG membership includes insurance supervisors from relevant U.S. states and foreign jurisdictions where major operations are conducted, as well as FIO and the FDIC. Resolution planning and recovery planning are discussed at CMGs. Recovery planning is part of the supervision process for U.S. G-SIIs. The FRB's dialogue with the firms is ongoing. The FRB has organized sessions with industry experts and the FDIC so that various domestic stakeholders in insurance supervision understand the state-based resolution authorities and processes in the United States Regarding resolution plans, the FDIC and FRB received the July 2014 filings of the initial firm-developed resolution plans from nonbank financial companies it supervises, as required by Title I of the Dodd-Frank Act.
26.1	**The supervisor meets regularly with other relevant supervisors and authorities to share and evaluate information relating to specific cross-**

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	border insurers and to analyze and assess specific issues (including whether there are systemic implications) in non-crisis periods.
26.1	**States:** U.S. state insurance regulators meet with international regulators via supervisory colleges on a regular basis to share and evaluate information relating to specific cross-border insurers, and to analyse and assess specific issues including communicating before and after such meetings. State regulators utilize an I-SITE application known as the Supervisory College Calendar in order to plan colleges around other colleges already scheduled. **FIO:** FIO works with committees within the IAIS and the FSB relating to insurer resolution, particularly in the cross-border context. In addition, as addressed in its response to ICP 12, FIO works with the FDIC and the FRB in non-crisis periods to establish policies and processes that can be utilized in the event of resolution of an insurer under Title II of the Dodd-Frank Act. Finally, as part of its authority to monitor the insurance industry and through its role on the FSOC, FIO meets and works with the FSOC member agencies to analyze the systemic implications of insurers on the financial stability of the insurance sector and the overall U.S. financial system. As noted above, FIO participates in CMGs for insurers that have been designated as G-SIIs. **FRB:** Please see the FRB's discussion of supervisory colleges and CMGs in ICP 26.
26.2	**The supervisor develops and maintains plans and tools for dealing with insurers in crisis and seeks to remove practical barriers to efficient and internationally coordinated resolutions.**
26.2	**States:** U.S. state insurance regulators have been leading or participating in all of the major insurer's international supervisory colleges, and there appear to be no barriers to efficient and internationally coordinated work. There is one non-U.S. international group that has been experiencing some financial difficulty; it is the NAIC's understanding that the lead state for that group has been communicating with the global group-wide supervisor and other international regulators in making sure issues are being dealt with appropriately. **FIO:** Through the activities addressed in ICP/Std. 26.1, FIO develops and maintains plans and tools to deal with crisis periods and tries to remove barriers to efficient and internationally coordinated resolutions. **FRB:** Please see the FRB's discussion of supervisory colleges and CMGs in

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	ICP 26.
26.3	**The group-wide supervisor coordinates crisis management preparations with involvement from other relevant supervisors and ensures that all supervisors in the relevant jurisdictions (at a minimum those where the insurer is of systemic importance) are kept informed of the crisis management preparations.**
26.3	**States:** As noted previously, U.S. state insurance regulators have some experience with cross-border crisis management situations and may coordinate relating to crisis management preparations where relevant and inform other relevant supervisors of such preparations. There is one non-U.S. international group that has been experiencing some financial difficulty; it is the NAIC's understanding that the lead state for that group has been communicating with the global group-wide supervisor and other international regulators in making sure the issues are being dealt with appropriately. Separately, the overall financial condition of the group has been a point of discussion at the NAIC Financial Analysis (E) Working Group, a confidential regulator only discussion. **FIO:** In engaging in the activities described in ICP/Std. 26.1, where relevant and appropriate, FIO coordinates its crisis management preparations and informs other relevant authorities of those preparations. **FRB:** Please see the FRB's discussion of supervisory colleges and CMGs in ICP 26.
26.4	**As far as legal frameworks and confidentiality regimes allow, the supervisor shares with other relevant supervisors, at a minimum, information on the following:** • **group structure (including legal, financial and operational intragroup dependencies);** • **interlinkages between the insurer and the financial system in each jurisdiction where it operates;** • **potential impediments to a coordinated solution.**
26.4	**States:** As noted previously, the states have broad authority (*see* state laws on examinations and insurance holding companies) to share and receive any information with/from international regulators. This authority, along with states' ability to require submission of group information through the state

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	holding company laws, allows for the sharing of the relevant information with international counterparts. **FIO:** Title V of the Dodd-Frank Act provides: "In carrying out the functions required under [Title V], [FIO] may receive and collect data and information on and from the insurance industry and insurers; enter into information-sharing agreements; analyse and disseminate data and information; and issue reports regarding all lines of insurance except health insurance." 31 U.S.C. § 313(e)(1). As set forth in its response to ICP 3, FIO has entered into information-sharing agreements and other cooperation agreements with other authorities pursuant to its statutory authority. FIO will continue to develop data collection, analysis, and information-sharing arrangements with other federal agencies and state regulators. To the extent allowed by its information-sharing agreements and federal laws and policies governing the use of confidential information, FIO shares information relating to group structure, interlinkages between insurers and financial systems, and potential impediments to coordinated solutions. **FRB:** As discussed in detail in response to ICP 3, the FRB has in place a number of formal and informal agreements for information sharing. FRB staff regularly exchanges information with other U.S. federal banking regulators, state banking regulators, certain foreign regulators, FIO, state insurance regulators, the NAIC, and other federal agencies on issues related to its supervision, including group structure, interlinkages, and potential impediments to a coordinated solution.
26.5	**The supervisory regime requires that insurers be capable of supplying, in a timely fashion, the information required to manage a financial crisis.**
26.5	**States:** As noted previously, U.S. state insurance regulators have some experience with cross-border crisis management situations. The states have broad-based authority (*see* NAIC Model Law on Examinations) which provides states with the ability for sharing and receiving any information with/from international regulators; in the one situation where there has been a crisis of a U.S.-based group, information required to manage the situation seems to be exchanged with no issues. In addition, Section 6 of the Model Holding Company Act provides the commissioner with the power to examine any insurer and its affiliates to ascertain the financial condition of the insurer, including the enterprise risk to the insurer by the ultimate controlling party, or by any entity or combination of entities within the insurance holding company system, by the insurance holding company system on a consolidated basis. The same section gives the

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	commissioner the authority to order any insurer to produce relevant information, either in the possession or not in the possession of the insurer. In the event the insurer cannot obtain the information requested by the commissioner, the insurer shall provide the commissioner a detailed explanation of the reason that the insurer cannot obtain the information and the identity of the holder of information. Whenever it appears to the commissioner that the detailed explanation is without merit, the commissioner may require, after notice and hearing, the insurer to pay a penalty or may suspend or revoke the insurer's license. **FIO:** As noted in FIO's response to ICP 12, Title I and Title II of the Dodd-Frank Act require certain insurers to provide information in times of financial distress. Under Title I, insurers designated by the FSOC are subject to enhanced prudential standards and consolidated supervision by the FRB, which includes a requirement to submit a "plan for rapid and orderly resolution in the event of material financial distress or failure." 12 CFR Part 243.4. Under Title II, FIO—along with the FRB, the FDIC, the Secretary of the Treasury, and the President—may assess insurers facing financial distress or failure for systemic risk and, if appropriate, refer those insurers for receivership. **FRB:** The FRB requires supervised entities to provide information in a timely manner, particularly in times of crisis.
26.6	**The supervisory regime requires insurers to maintain contingency plans and procedures based on their specific risk for use in a going-and gone-concern situation.**
26.6	**States:** Contingency plans are not required of insurers, but some regulators have experience working with insurer cross border contingency plans. Further, the RBC Model Act gives commissioners the authority to request corrective action plans. Additionally the Hazardous Financial Condition Model Regulation (#385) gives commissioners a wide variety of actions to reduce risk. **FIO:** As explained in FIO's response to ICP 12, Title I of the Dodd-Frank Act requires insurers to maintain plans for use in going- and gone- concern situations. Further, Title II of the Dodd-Frank Act sets up a process by which insurers and holding companies for which the largest U.S. subsidiary is an insurer are assessed for systemic risk and, if appropriate, referred for receivership.

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	FRB: As discussed in ICP 26, in addition to the firm-prepared resolution plans, firms engage in recovery planning exercises as part of the supervisory process. This enables insurers to think through material and actionable options to be invoked in times of severe stress.
26.7	**The supervisor informs the group-wide supervisor as soon as it becomes aware of an evolving crisis. The group-wide supervisor coordinates such that this information and any other relevant information that it has become aware of on its own is shared among other relevant supervisors and other relevant authorities promptly.**
26.7	**States:** U.S. state regulators have some experience with cross-border crisis management situations. In the case of the previously-mentioned U.S.-based group, the issue was identified by the U.S. lead state. In the case of the non-U.S. international group, the issue was noted by the U.S. states in their ongoing review of the group, and the group-wide supervisor also noted the issue. It is the NAIC's understanding that the lead state for that group has been communicating with the global group-wide supervisor and other international regulators in making sure the issues are being dealt with appropriately. **FIO:** FIO works with other authorities in its role as a monitor of the insurance industry and as a member of the FSOC, which focuses on assessing and addressing risks to financial stability. FIO also analyzes and assesses crisis situations under Title II of the Dodd-Frank Act, which provides that the Director of FIO and the FRB (in consultation with the FDIC) may recommend that the Secretary of the Treasury (in consultation with the President) make a systemic risk determination, pursuant to statutorily prescribed criteria, to place an insurer or a holding company for which the largest U.S. subsidiary is an insurer into receivership. In the event of a crisis, FIO will work with other authorities, including the FDIC, the FRB, and state authorities, to assess an insurer facing financial distress or failure. Finally, FIO assesses crisis situations through its work with the IAIS. **FRB:** As members of the CMG, the FRB would expect any local supervisors to inform the group-wide supervisor as soon as an evolving crisis is known.
26.8	**Subject to legislative requirements and confidentiality regimes, the supervisor shares information with relevant supervisors and authorities and in a way that does not compromise the prospects of a successful resolution. The supervisor shares information with other relevant authorities or networks as well, whenever necessary, and subject to the**

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	same legislative and confidentiality requirements.
26.8	**States:** U.S. state regulators have some experience with cross-border crisis management situations. The states have broad authority through their state laws (see NAIC model laws on examinations and insurance holding companies) to share and receive any information with/from international regulators. This authority, along with states' ability to require submission of group information through the state holding company laws, allows for the sharing of the relevant information with international counterparts. For example, in the example mentioned previously of the one U.S.-based group, in which the lead state of the group coordinated other U.S. states and with a specific material international regulator, information was successfully shared. **FIO:** *See* response to ICP 3. **FRB:** Information-sharing mechanisms are discussed in ICP 3 and ICP/Std. 26.4.
26.9	**The group-wide supervisor analyzes and assesses the crisis situation and its implications as soon as practicable and supervisors try to reach a common understanding of the situation.**
26.9	**States:** Again, U.S. state regulators have some experience with cross-border crisis management situations. In both of the two previously-mentioned cases, (U.S. based group and non-U.S. based group), the crisis situation and its implications were assessed in a timely manner and there was a great deal of communication between involved supervisors to reach a common understanding. **FIO:** *See* response to ICP/Std. 26.7. **FRB:** Information-sharing mechanisms are discussed in ICP 3 and ICP/Std. 26.4.
26.10	**The supervisor cooperates to find internationally coordinated, timely and effective solutions.**
26.10	**States:** Again, U.S. state regulators have some experience with cross-border crisis management situations. There is significant amount of international

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	supervisory cooperation taking place. For instance, in the two previously mentioned cases (U.S. based group and non-U.S. based group), the involved supervisors cooperated to find internationally coordinated, timely and effective solutions. **FIO:** FIO tracks the globalization of the insurance industry and regularly cooperates with international authorities to find coordinated, timely, and effective solutions. This cooperation occurs in FIO's work representing the United States at the IAIS. FIO's work with FSOC also involves cooperative efforts related to financial stability. Finally, FIO's role involving orderly liquidation authority under Title II could involve cross-border coordination and cooperation among relevant authorities. **FRB:** Information-sharing mechanisms are discussed in ICP 3 and ICP/Std. 26.4.
26.11	**If a fully coordinated supervisory solution is not possible, the supervisor discusses jurisdictional measures with other relevant supervisors as soon as possible.**
26.11	**States:** Regulators coordinate with other supervisors where appropriate on a timely basis. **FRB:** Information-sharing mechanisms are discussed in ICP 3 and ICP/Std. 26.4.
26.12	**In a crisis situation, the group-wide supervisor coordinates public communication at each stage of the crisis.**
26.12	**States:** Public communication may be provided as appropriate. In the two cases described above there was no need for the supervisors to provide a public communication. Instead, the group itself provided such communication. **FRB:** Information-sharing mechanisms are discussed in ICP 3 and ICP/Std. 26.4.