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**Discussion of Analysis for Intercompany Pooling Arrangements**

Intercompany pooling arrangements involve the establishment of a quota share reinsurance agreement under which pooled business is ceded to a lead entity and then retroceded back to pool participants in accordance with stipulated shares (if any). This generally results in pool participants sharing exposure to the various insurance risks ceded into the pool. Because of this structure, financial analysts may be able to gain efficiencies by conducting and documenting the analysis of insurance risks associated with the pooled business on a combined basis and then leveraging the results of that work to complete legal entity analysis. For example, in situations where the majority of the group’s writings are ceded into the intercompany pool and there are few unique legal entity risks, the analyst may choose to create and maintain a combined risk assessment and/or IPS for all of the legal entities participating in the pool (if domiciled in the same state). In other situations, it may be more appropriate to maintain separate risk assessment worksheets and/or IPSs for each legal entity, but to reference work completed in the pool lead’s documentation or include substantially similar information in each legal entity’s risk assessment worksheet and IPS.

While insurers participating in intercompany pooling arrangements often share exposure to pooled insurance risks, differences in the overall risk exposure of participants may arise due to a number of factors including, but not limited to, the following:

* Surplus/RBC levels
* Balance sheet composition
* Pool participation percentages
* The timing of pool participation
* Premiums not ceded to the pool
* Reinsurance arrangements outside of the pool (e.g., facultative placement prior to cessions to the pool lead).
* Current or legacy risks (e.g., asbestos exposure) disclosed within the financial statement

Regardless of the method utilized to assess and document the analysis of the pool, the financial analyst should ensure that all significant, unique exposures of each pool participant are separately assessed and addressed within analysis documentation.

If pool participants are domiciled in various states, communication and coordination across states is strongly encouraged to achieve efficiencies in analysis. For example, it might be appropriate for the domestic state of the pool lead to complete the analysis of the pooled insurance risks early in the analysis cycle to enable other states with domestics in the pool to leverage the completed work.

In situations where an insurer cedes business to an intercompany pool, but does not participate in retrocession, the analysis of the pooled business should be obtained/reviewed to evaluate reinsurance credit risk. If the pool is troubled or potentially troubled, this may require more in-depth analysis to evaluate the potential impact of claims associated with the insurer’s direct writings not being covered by the pool.