

Date: 7/29/19

2019 Summer National Meeting  
New York, New York

**GROUP SOLVENCY ISSUES (E) WORKING GROUP**

**Saturday, August 3, 2019**

**11:30 a.m. – 12:30 p.m.**

**Hilton New York Midtown— Sutton North & Beekman**

**ROLL CALL**

Justin Schrader, Chair	Nebraska	John Turchi	Massachusetts
Doug Slape, Vice Chair	Texas	Judy Weaver	Michigan
Emma Hirschhorn	California	Debbie Doggett/Shannon Schmoeger	Missouri
Kathy Belfi	Connecticut	Steve Kerner	New Jersey
Charles Santana	Delaware	Margot Small	New York
David Altmaier	Florida	Dale Bruggeman/Tim Biler	Ohio
Cindy Andersen/Eric Moser	Illinois	Joe DiMemmo	Pennsylvania
Roy Eft	Indiana	Doug Stolte	Virginia
Jim Armstrong	Iowa	Steve Junior	Wisconsin

NAIC Support Staff: Bruce Jenson/Jane Koenigsman

**AGENDA**

1. Receive an Update from the ORSA Implementation (E) Subgroup—*Kathy Belfi (CT) and Mike Yanacheak (IA)*
2. Receive an Update on International Association of Insurance Supervisors (IAIS) Group-Related Activities—*Justin Schrader (NE)*
3. Discuss Referral Received from Operational Risk (E) Subgroup—*Justin Schrader (NE)* Attachment A
4. Discuss Comments Received on Group-Related Analysis Guidance—*Justin Schrader (NE)*
  - Exposed Guidance Attachment B
  - Wisconsin Comment Letter Attachment C
5. Discuss Effectiveness of the Form F Implementation Guide—*Justin Schrader (NE)*
6. Discuss Any Other Matters Brought Before the Working Group—*Justin Schrader (NE)*
7. Adjournment

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# **Attachment A**

***2/16/19 Referral from Operational Risk (E)  
Subgroup***




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## MEMORANDUM

TO: Justin Shrader, Chair, Group Solvency Issues (E) Working Group and Risk-Focused Surveillance (E) Working Group

FROM: Stephen Wiest, Chair, Operational Risk (E) Subgroup

DATE: February 26, 2019

RE: Improving Regulator Knowledge and Assessment of Operational Risk

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As Operational Risk is recognized as a key consideration of the Group Solvency Issues (E) Working Group and Risk-Focused Surveillance (E) Working Group process, the Operational Risk (E) Subgroup recommends that one or both of the above referenced working groups take steps to encourage ongoing study and knowledge development in this area. In particular, regulators may benefit from a greater understanding of the definition and scoping of operational risk, and application of the concept. Specifically, regulators could benefit from a greater understanding of methodologies used in measuring, quantifying and mitigating operational risks, as well as a comparison of the amount of capital insurers allocate to cover their operational losses to that calculated through the risk-based capital (RBC) Operational Risk charge. To the extent that knowledge is gained that could inform further development or refinement of the RBC operational risk charge, or improve the overall evaluation of operational risk in solvency monitoring, the working group(s) is (are) encouraged to share the information with the Capital Adequacy (E) Task Force or other NAIC groups for future consideration. Attached you will find a list of possible areas of regulator review that are provided as examples of the type of information that could be most helpful in gaining further insight into how insurers address operational risk.

### Relevant Charges:

Group Solvency Issues (E) Working Group (Parent of ORSA Subgroup)

- A. Continue to develop potential enhancements to the current regulatory solvency system as it relates to group solvency-related issues.

Risk-Focused Surveillance (E) Working Group

- A. Continually review the effectiveness of risk-focused surveillance and develop enhancements to processes as necessary.

## Background

Operational risk was identified as a material risk during the NAIC's solvency modernization work. The Operational Risk (E) Subgroup was charged with developing an RBC charge for operational risk in all RBC formulas. The Subgroup completed its work on basic operational risk in 2018. In deciding on the approach to quantify basic operational risk, the Subgroup looked to methods and capital charges used by other foreign jurisdictions to gauge appropriate treatment for operational risk in RBC. As a result, a percentage of RBC (3 percent) after covariance (an "add-on" approach) was adopted to be effective in all 2018 RBC formulas. Bermuda, Canada and Japan currently use such a method in their regulatory capital formulas. The RBC add-on factor will be applied beginning with 2018 RBC.

### **RBC for Basic Operational Risk:**

The operational risk definition for Subgroup purposes is generally consistent if not identical to that used by other global financial regulators:

*The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.*

Some operational risk types or events are picked up (embedded) in other risk categories in RBC. However, it was determined that there are existing or emerging risk types or events that are not currently addressed elsewhere in the RBC formulas. Among these are cyber risk, model risk / calculation errors, political risk, outsourcing / delegation risk, legal / contractual risk, business interruption, and some components of fraud related expenses. The focus of the Operational Risk Subgroup in developing an initial factor based on the "add-on" methodology turned to the widespread inclusion of operational risk in other advanced jurisdictions as a starting point.

### **The Risk Factor:**

Since there is currently little or no NAIC data that isolates or assigns a dollar value to the operational risk of insurers, the Operational Risk Subgroup relied heavily on the operational risk charges of other jurisdictions.

Initial results presented by Europe based organizations that have begun collecting data on operational risk losses from member insurers was considered by the Subgroup members. They indicated target levels between 8% and 12%, or more, of total capital requirements. However, there were questions raised about the applicability of these levels to the U.S. insurance market, and as to how potential embedded operational risk was addressed.

Other input from interested parties suggested that the factor should be minimal and that operational risk is better handled via other qualitative measures rather than in Risk Based Capital. It appears that the larger more sophisticated insurer groups do model operational risk as a separate risk, while recognizing that some is embedded in other risks, and some not. The extent that smaller companies/groups address operational risk is not clear.

Given this input, the Operational Risk Subgroup members decided to go forward with a 3% post covariance add-on. The Subgroup selected 3% as the full factor primarily due to the following reasons:

- The Subgroup's after covariance add-on was set at the low end of the spectrum for the ratio of operational risk to total capital requirement observed for other jurisdictions in order to recognize a desire not to "overshoot" based on the lack of precision and uncertainty about the extent of embedded operational risk.
- There are clearly similar calibration issues being confronted by other advanced insurance regulators around the globe and therefore there is heavy reliance on supervisory judgement rather than operational risk data.

- There are op risk events that are not captured on other risk categories. A primary example is cyber risk, but there are other examples (as discussed above). Events which are captured through historical data used for other risks in RBC may not reflect these emerging operational risks.
- Operational risk can be very company specific and some jurisdictions have opted for internal capital models which may better reflect a particular firm's operational risk exposure relative to other risks, but U.S regulators have not embraced broad-based internal capital models for RBC purposes at this time.
- The add-on approach was designed to be a first step in addressing operational risk.

The Subgroup is also interested in promoting efforts to better identify and assess operational risk. The Subgroup members also believe that regulators can gain considerable insight from understanding how companies assess and quantify operational risk for their own internal capital purposes. This could eventually lead to refinement of the operational risk methodology and charge adopted for the RBC formulas.

#### Attachment - Sample Regulator Review Areas

- Improve understanding of how insurers / insurance groups define operational risk. This includes defining which aspects of operational risk might be included in other risk charges as well how specific categories of operational risk are defined. What kinds of scenarios/categories of exposure are considered – e.g. cyber, inappropriate u/w, product flaws, outsourcing failures, etc.
- Improve understanding of how insurers / insurance groups identify possible operational risk events and what data is used to identify operational risk events (e.g., loss data or event tracking). If based on scenarios and/or corporate processes, which ones are used?
- Gain an understanding of methodology and data that is used to assess operational risk (e.g., factors, scenario testing; stress testing, distribution of losses, expert judgement / assessment of internal processes). NOTE: Since there is rarely enough data to calibrate an OR model, if expert judgement is used, how is external data used/scaled to be appropriate? If based on an assessment of internal processes, describe how this is done (and by whom) within a lines of defense framework.
- Does the insurer / insurance group use an internal model to quantify required capital for operational risk? If so, is operational risk a stand-alone module or is it integrated into a full internal capital model, and what key parameters, assumptions and inputs are included in the model?
- Identify the proportion of own required risk capital that insurers / insurance groups attribute to operational risk (if zero, determine how operational risk capital is eliminated).
- Do insurers / insurance groups assess operational risk on both a gross and net (after application of mitigating measures or controls) basis? If net, what is being considered (e.g., management action, mitigation measures, controls, etc.) and who determines effectiveness?
- Review whether operational risk is considered by insurers / insurance groups as correlated or independent of other risks and how are diversification benefits assessed, both between different ORs and between OR and other risks?

# **Attachment B**

***Proposed Revisions to NAIC Financial Analysis  
Handbook to Address Group Analysis  
Questions***

### III.A.4. Risk Assessment (All Statement Types) – Analyst Reference Guide

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#### Discussion of Analysis for Intercompany Pooling Arrangements

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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.



**VI.C. Group-Wide Supervision – Insurance Holding Company System Analysis Guidance (Lead State)**

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## Lead State Holding Company Analysis – Process and Procedures

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

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

~~If the ultimate controlling person of the holding company is an insurance company, the analyst may consider preparing one document that includes elements of the IPS and the GPS, in order to promote efficiency in the overall analysis. For example, in addition to the standard elements of the IPS, such a hybrid document may also include sections such as corporate governance, ERM/ORSA, non-insurance affiliates/subsidiaries, etc.~~

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

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

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

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V.A. Domestic and/or Non-Lead State Analysis – Holding Company Procedures (Non-Lead State)

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**Special Notes: The following procedures are intended to be performed by non-lead domestic states to develop and document an analysis of the impact of the holding company system on the domestic insurer.**

**Form procedures do not supersede state regulation, but are merely additional guidance an analyst may consider useful.**

Name of Holding Company System \_\_\_\_\_

Name of Lead State \_\_\_\_\_

### Compliance Assessment - Form B (and C)

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1. Review the registration statement to determine if it was filed in accordance with the state's Insurance Holding Company System Regulatory Act<sup>1</sup> and if it included the required current information. The information provided should include a description of the transaction or agreement, including, at least, the nature and purpose of the transaction, the nature and amounts of any payments or transfers of assets between the parties, the identity of all parties to the transaction, and the relationship of the affiliated parties to the registrant. (LG)
2. Did ~~each domiciled~~ registered insurers properly report dividends and other distributions to shareholders in accordance with the following Model #440 requirements? (LG)
3. If dividends and other distributions to shareholders were considered extraordinary, did the transaction receive proper regulatory approval? (LG)
4. Did the insurer receive proper prior regulatory approval for any transaction, which occurred during the last calendar year involving the insurer and others in its holding company system that required such prior regulatory approval? (LG)

### Assess the Impact of the Holding Company Group on the Domestic Insurer

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#### Assessment of Group Profile Summary from the Lead State

5. Obtain a copy of the lead state's Group Profile Summary (GPS).
6. Consider the GPS's branded risk assessment in determining the impact of the holding company on the domestic insurer.
7. Review the conclusion and supervisory plan of the GPS. Did the lead state identify any holding company risks impacting the domestic insurers' in the group and/or supervisory plans that impact your state's domestic insurer?
8. Consider the nature of the domestic insurer(s)' interdependence on the holding company group or affiliated entities for business operations or financial stability (e.g., employees, services provided, reinsurance and/or capital support in the near term). (OP, CR, ST)
9. Consider the level of reputational risk that the holding company (as a group) poses to the domestic insurer(s). (RP)
10. Determine if income of the domestic insurer(s) is being used to service holding company debt or other corporate initiatives (e.g., acquisitions). (OP, ST)

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<sup>1</sup> The list provided is based on the NAIC *Insurance Holding Company System Regulatory Act* (#440); however analysts should review the Form B compliance in relation to their own state's requirements.

**V.A. Domestic and/or Non-Lead State Analysis – Holding Company Procedures (Non-Lead State)**

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**Assessment of Form B (and C)**

11. Based upon a review of the registration statement, were any significant and/or unusual items noted, such as, but not limited to, the following?
  - a. Person(s) holding 10% or more of any class of voting security who also have a history of transacting business of any kind directly or indirectly with the insurer. (OP, ST)
  - b. Biographical information about directors or officers, which may elevate concerns such as convictions of crimes. (OP, ST)
  - c. Any litigation or administrative proceeding involving the ultimate controlling entity or any of its directors and officers, such as criminal prosecutions or proceedings which may have a material effect upon the solvency or capital structure of the ultimate holding company, such as bankruptcy, receivership, or other corporate reorganization. (LG)
  - d. The absence of an affirmative statement that transactions entered into since the filing of the prior year's annual registration statement are not part of a plan or series of like transactions to avoid statutory threshold amounts. (OP, ST)

**Assessment of Affiliated Risks on the Domestic Insurer**

12. Were any material deficiencies or risks noted during the annual review of the domestic insurer's Notes to Financial Statements, Interrogatories, Schedule Y – Part 2, Holding Company, Forms B & C, or recent examination reports with respect to affiliated transactions? (CR, LQ, OP, ST)
  - a. Management agreements
  - b. Third-party administrative agreements
  - c. Managing general agent agreements
  - d. Investment management pools
  - e. Reinsurance agreements and pools
  - f. Consolidated tax sharing agreements
  - g. Other
13. If any of the following forms have been filed with the domestic regulator since the last review, indicate if risks or concerns were noted in any of the reviews of these forms.
  - a. Form A (Acquisition of Control or Merger)
  - b. Form D (Prior Notice of a Transaction)
  - c. Form E (Pre-Acquisition Notification) or Other Required Information
  - d. Extraordinary Dividend/Distribution

**Assessment of Form F - Enterprise Risk Statement**

14. Obtain either the Form F from the lead state, if available, and/or the lead state's analysis of the Form F if it addresses the impact of the holding company on each-your state's domestic insurer(s).
15. Based on the analyst's review of Form F and/or the lead state's analysis of the Form F, and any additional information related to enterprise risk available (e.g., Form B, other filings), document any material concerns regarding enterprise risk that could impact the financial condition of the domestic insurer.

**V.A. Domestic and/or Non-Lead State Analysis – Holding Company Procedures (Non-Lead State)**

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16. Do any of the risks identified pose an immediate material risk to the insurer’s policyholder surplus or risk-based capital position, insurance operations (e.g., changes in writings, licensure, and organizational structure), balance sheet, leverage or liquidity?

**Assessment of Own Risk and Solvency Assessment (ORSA), if applicable**

- 17. Obtain the lead state’s analysis of the ORSA Summary Report (see section VI.F-Own Risk and Solvency Assessment Procedures).
- 18. Did the lead state document in its analysis any risks or concerns that in its opinion have an impact on the overall financial condition of the insurance holding company system? If so, do any of the risks or concerns identified pose a material risk to the domestic insurer?

**Assessment of Corporate Governance Annual Disclosure (CGAD), if applicable**

19. Obtain the lead state’s analysis of the CGAD and determine if it addresses corporate governance policies and practices of the group applicable to your state’s domestic insurer(s).

a. If the CGAD analysis does not address corporate governance policies and practices of the group applicable to the non-lead states’ domestic insurer, request the CGAD from the insurer.

20. Based on the analyst’s review of the CGAD or the lead state’s analysis of the CGAD, and any additional available information related to corporate governance, document any material concerns regarding corporate governance impacting the domestic insurer.

21. Do any of the concerns identified pose an immediate material risk to the domestic insurer’s financial condition (e.g., operations, policyholder surplus or capital position)?

**Communication & Follow-Up with the Lead State**

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- Notify the lead state of any additional material events or concerns applicable to the domestic insurer, or the group as a whole, that the lead state may not otherwise be aware of, and that should be considered in the evaluation of the overall financial condition of the holding company system.
- If any material risks or events were identified during your holding company analysis that were not discussed in the lead state’s holding company analysis, communicate those findings to the lead state.

**Update the Insurer Profile Summary**

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Update the Insurer Profile Summary of the domestic insurer with the summary and conclusion of the impact of the holding company system on the domestic insurer based on the above analysis performed.

Analyst:	Date:
Supervisor Review:	Date:
Supervisor Comments:	

VI.D. Group-Wide Supervision – Corporate Governance Disclosure Procedures

**Special Note:** The following procedures do not supersede state regulation, but are merely additional guidance an analyst may consider useful.

**The *Corporate Governance Annual Disclosure Model Act (#305)* and *Corporate Governance Annual Disclosure Model Regulation (#306)* provide a summary of an insurer or insurance group’s corporate governance structure, policies and practices to permit the Commissioner to gain and maintain an understanding of the insurer’s corporate governance framework. As of the date of this publication, most states had not adopted such legislation. The following procedures are applicable to only those states that have adopted such legislation.**

**All other states should instead consider completion of applicable questions within the Operational and Strategic risk repositories of this Handbook based upon the level of concern an analyst may have with management performance and the driving forces behind operations. The risk repositories may also be used by an analyst of a state that has obtained the disclosure for an insurer or insurance group subject to the aforementioned corporate governance disclosure. However, the analyst should avoid duplicate information requests.**

## Introduction

Model #305 and #306 requires an insurer, or an insurance group, to file a summary of an insurer or insurance group’s corporate governance structure, policies and practices with the commissioner by June 1 of each calendar year. Model #305 allows the information to be at the ultimate controlling parent level, an intermediate holding company level and/or the individual legal entity level, depending upon how the insurer or insurance group has structured its system of corporate governance. Because most corporate governance is driven at a controlling or intermediate holding company level, this guidance is contained within this section dealing with group supervision. Although by inclusion in this section, reviewing the corporate governance disclosure of a group is a responsibility of the lead state, the approach on this is different from that taken with the Own Risk Solvency and Analysis (ORSA). This is because it’s common for most groups to have different layers of governance that is important in achieving the objectives of the group. More specifically, most groups have some level of governance at the individual legal entity level. However, because it is common for legal entity governance to be a less significant aspect of the governance objectives, even those companies that incorporate governance at the individual legal entity level are likely to include materially less documentation on such, may instead summarize such processes and list those entities for which they exist.

### **Non-Lead State Reliance on the Lead State Analysis of Corporate Governance Annual Disclosure:**

~~Because Model #305 allows requires the filing to be made with the lead state,; however, non-lead domestic states may request the CGAD filing from the insurer. Because the filing may be made on a group basis or legal entity basis, it may contain group information that applies to all insurers within the group or it may contain information applicable to a specific legal entity. it may be necessary for the lead state to share the filing with another state that has adopted a substantially similar law including similar confidentiality requirements. Alternatively, or i~~

~~n addition, i~~t may be necessary or acceptable for the lead state to share its work papers with another state, related to such filing, provided such information is shared in accordance with the confidentiality provisions of Model #305. This is because similar to other solvency regulation models, Model #305 contemplates both off-site and on-site examination of such information. The Lead State can share the analysis of the filing through NAIC tools (i.e., iSite+ Regulator File Sharing System) or other means deemed appropriate. Before a non-lead states requests the CGAD filing or conducts a full review of CGAD to determine its impact on their domestic insurers, non-lead domestic states should consider obtaining and reviewing the Lead State’s analysis of CGAD to reduce duplication of analysis efforts.

To the extent the Lead State’s analysis of the Corporate Governance Annual Disclosure (CGAD) addresses policies and practices of the group applicable to the non-lead state’s domestic insurer, that analysis may be leveraged by the non-lead state to reduce the analysis work of the non-lead state. If the Lead State’s analysis of CGAD does not assess the impact on the non-lead state’s domestic insurer or the CGAD is on a legal entity basis,

**VI.D. Group-Wide Supervision – Corporate Governance Disclosure Procedures**

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the non-lead domestic state should consider a review of CGAD. Analysis steps are included in the non-Lead State analysis procedures.

*Procedures #1 - 2* assist the analyst in reviewing the Corporate Governance disclosure for completeness and help guide the analyst through each of the major items of information required by Model #306.

*Procedures #3 - 5* assist the analyst in summarizing any concerns relative to the insurer or insurance group’s corporate governance and its impact.

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V.F. Domestic and/or Non-Lead State Analysis – Analyst Reference Guide

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## Non-Lead State Holding Company System Analysis Procedures

Refer to section VI.C. Group-Wide Supervision - Insurance Holding Company System Analysis Guidance (Lead State) for guidance on the Lead State’s holding company analysis procedures.

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**Procedures #5-17** assist the analyst in assessing the impact of the holding company system on the domestic insurer. This includes five primary segments of the analysis as follows.

- **#5-10 Assessment of the Group Profile Summary (GPS) from the Lead State:** If the Lead State is not your state, the Lead State should provide a GPS to the non-lead states in the group by Oct. 31. Using the GPS consider the risks identified and assessed by the Lead State to determine any material impacts on the branded risks of the domestic insurer, the interdependence of the holding company and its affiliated entities, including the domestic insurer, dividend obligations of the domestic insurer to service holding company debt or fund other holding company initiatives, and the holding company’s reputation.
- **#11 Assessment of Form B (and C):** Model #440 defines insurance holding companies and the related registration, disclosure, and approval requirements. Form B is the insurance holding company system annual registration statement. Model #440 requires every insurer, which is a member of an insurance holding company system, to register by filing a Form B within 15 days after it becomes subject to registration, and annually thereafter. Any non-domiciliary state may require any insurer that is authorized to do business in the state, which is a member of a holding company system, and which is not subject to registration in its state of domicile, to furnish a copy of the registration statement.

An insurance holding company system consists of two or more affiliated individuals, one or more of which is an insurer. An affiliate is an entity that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, another entity. Control is presumed to exist when an entity or person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies, representing 10 percent or more of the voting securities.

- **#12-13 Assessment of Affiliated Risks on the Domestic Insurer:** Affiliated risks may exist due to interdependence of the holding company and its affiliated entities through affiliated transactions. Consider also the guidance included in the Operational Risk Analyst Reference Guide as well as guidance in this section regarding supplemental form filings for review of affiliated agreements.
- **#14-165 Assessment of Form F – Enterprise Risk Statement:** The purpose of the Form F is to identify if there is any contagion risk within the group, and domestic states should not be discouraged from reviewing such information because ultimately they are required to relate the financial condition of the group to their domestic state. The Form F must be reviewed by the lead state but other domestic states are also expected to review it. To the extent the Lead State’s analysis of Form F assesses the impact of any contagion risk of the group on the non-lead state’s domestic insurer, that analysis may be leveraged by the non-lead state to reduce the analysis work of the non-lead state. If the Lead State’s analysis of Form F does not assess the impact of the group on the non-lead state’s domestic insurer, consider a review [as noted in Procedures #15 and #16, or](#) similar to the procedures in section VI.G. Group-Wide Supervision - Form F - Enterprise Risk Report Procedures for reviewing Form F.
- **#176-187 Assessment of Own Risk and Solvency Assessment (ORSA):** If the Holding Company files an ORSA Summary Report, it is the responsibility of the Lead State to review and perform analysis of the report. At the completion of this review, the lead state should prepare a thorough summary of its review, which would include an initial assessment of each of the three sections. The lead state should also consider and include key information to share with other domestic states that are expected to place significant reliance on the

**V.F. Domestic and/or Non-Lead State Analysis – Analyst Reference Guide**

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lead state's review. Non-lead states are not expected to perform an in-depth review of the ORSA, but instead rely on the review completed by the lead state. The non-lead state's review of an ORSA should be performed only for the purpose of having a general understanding of the work performed by the lead state, and to understand the risks identified and monitored at the group-level so the non-lead state may better monitor and communicate to the lead state when its legal entity could affect the group. Any concerns or questions related to information in the ORSA or group risks should be directed to the lead state.

- [#19-21 Assessment of Corporate Governance Annual Disclosure \(CGAD\): Analysis of CGAD only applies where states have enacted such legislation as that in the Corporate Governance Annual Disclosure Model Act \(#305\) and Corporate Governance Annual Disclosure Model Regulation \(#306\). The purpose of the CGAD is to provide a summary of an insurer or insurance group's corporate governance structure, policies and practices to permit the regulator to gain and maintain an understanding of the insurer's corporate governance framework. The CGAD must be filed to the lead state if on a group basis or the domestic state if on a legal entity basis, but other domestic states are may request the filing. To the extent the Lead State's analysis of a group CGAD assesses the impact of corporate governance practices and procedures of the group on the non-lead state's domestic insurer, that analysis may be leveraged by the non-lead state to reduce the analysis work of the non-lead state. If the Lead State's analysis of CGAD does not assess the impact of the group on the non-lead state's domestic insurer, review the filing to identify and assess any material concerns and determine if any material immediate risks impact the domestic insurer's financial condition.](#)

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## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

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### Form F-Enterprise Risk Report

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The 2010 revisions to Model #440 and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450) introduced a new filing requirement for a Form F. The Form F requires the ultimate controlling person to identify the material risks within the insurance holding company system that could pose enterprise risk to the insurer. The Form F may be completed using information contained in the financial statement, annual report, proxy statement, statement filed with a governmental authority, or other documents if such information meets the disclosure requirements. Form F is focused on disclosing the enterprise risk associated with the entire insurance holding company system including non-regulated entities. The Form F is filed with the lead state commissioner of the insurance holding company system for every insurer subject to registration under Model #440. Adoption of the applicable Form F and related confidentiality provisions outlined in the 2010 revisions to Model #440 is required for a state to be designated the lead state for Form F filings. Lead states and other domestic states receiving and sharing the Form F must have in place confidentiality agreements as prescribed in #Model 440.

#### **Non-Lead State Reliance on the Lead State Analysis of Form F:**

Although by inclusion in this section, reviewing the group Form F report is a responsibility of the lead state, the approach on this is different from that taken with the ORSA. Generally speaking, a non-lead state should not review the ORSA with the same level of depth as the lead state. However, that same approach is not encouraged with respect to the Form F. The entire purpose of the Form F is to identify if there is any contagion risk within the group, and domestic states should not be discouraged from reviewing such information because ultimately they are required to relate the financial condition of the group to their domestic state. Most believe that the ORSA is much more detailed and less related to contagion as it is the group's actual risk management processes used to mitigate risk.

The Form F must be reviewed by the lead state and significant findings incorporated into the GPS. ~~but~~However, other domestic states are also expected to review the Form F in order to assess the impact of the group on their domestic insurer~~it~~. One exception for non-lead states should be noted. **To the extent the Lead State's analysis of Form F assesses the impact of any contagion risk of the group on the non-lead state's domestic insurer, that analysis may be leveraged by the non-lead state to reduce the analysis work of the non-lead state.** If the Lead State's analysis of Form F does not assess the impact of the group on the non-lead state's domestic insurer, the non-lead domestic state should review Form F. The Lead State can share the Form F and its analysis through NAIC tools (Form F Sharing Tool for the filings and the iSite+ Regulator File Sharing System for the analysis). Analysis steps are included in the non-Lead State analysis procedures with that in mind. To reduce duplication, domestic states should consider obtaining and reviewing the Lead State's analysis of Form F before determining if a full review of the filing is necessary to determine its impact on their domestic insurers.

#### **NAIC Enterprise Risk Report (Form F) Implementation Guide**

In March 2018, the Group Solvency Issues (E) Working Group adopted *the NAIC Enterprise Risk Report (Form F) Implementation Guide*, which is located at:

[https://www.naic.org/documents/committees\\_e\\_isftf\\_group\\_solvency\\_related\\_form\\_f\\_guide.pdf?97](https://www.naic.org/documents/committees_e_isftf_group_solvency_related_form_f_guide.pdf?97)

As outlined in the Guide, it is intended to assist insurers and regulators in maximizing the usefulness of the Form F by proposing best practices for consideration in preparing and reviewing filings. Therefore, while the Guide does not constitute authoritative guidance for information to be included in a Form F filing, filers are requested to consider the best practices outlined within the Guide when preparing their Form F filing. By adhering to the best practices outlined within the Guide, registrants will be able to reduce the extent of regulator follow-up and correspondence necessary to utilize the information provided, which should lead to a more effective and efficient

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

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process. The regulators' goal in developing this document was to provide some consistency and uniformity across states in reviewing and utilizing information obtained through the Form F. Therefore, it is recommended that states utilize the best practices outlined in the Guide to support their review and feedback process.

### Procedures

*Procedures #1 - 2* assist the analyst in reviewing the Form F filing for completeness and help guide the analyst through each of the major items of information required by Form F. The analyst should review Form F in conjunction with a review of Form B and should document any nondisclosure of information.

*Procedures #3 - 7* assist the analyst in evaluating the risks described within Form F. The analyst should consider whether any enterprise risks not reported in Form F exist, and for all risks identified both within Form F and by the analyst, the analyst should review information available and document any concerns. The analyst should also evaluate whether the risks identified result in an impact to the insurers financial condition (e.g., surplus, RBC, insurance operations, ~~or~~ balance sheet, leverage and liquidity).

# **Attachment C**

***Comments on Proposed Revisions to NAIC  
Financial Analysis Handbook***



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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DATE: June 22, 2019

TO: Judy Weaver, Chair – Financial Analysis Solvency Tools (E) Working Group  
Justin Schrader, Chair – Group Solvency Issues (E) Working Group  
Bruce Jenson, Assistant Director-Solvency Monitoring – NAIC

FROM: Amy Malm, Director  
Kristin Forsberg, Member – Financial Analysis Solvency Tools (E) Working Group  
Steven Junior – Member - Group Solvency Issues (E) Working Group

SUBJECT: FASTWG/GSIWG Joint Exposure on Holding Company Analysis Guidance – Insurer is UCP

The proposed changes to the Holding Company Analysis Guidance to address expectations for intercompany pooling and situations where the ultimate controlling party of an insurance group is a licensed insurer will promote efficiency and an improved work product. We do have one suggested amendment to the proposed guidance that extends the guidance to situations in which the ultimate controlling person is a mutual holding company whose only significant function is holding company system governance. This should not extend to situations in which the mutual holding company engages in significant financial transactions or holds non-insurance interests of any significance.

We propose the following change to the proposed guidance:

**“UCP is an Insurer:** If the ultimate controlling person (UCP) of the holding company is a U.S. domiciled insurance company with a cocode **or is a mutual holding company whose only significant function is holding company system governance**, the analyst may consider preparing one document that includes all the elements of the IPS and the GPS, in order to promote efficiency in the overall analysis....”

We appreciate the time and consideration of the Financial Analysis Solvency Tools (E) Working Group and the Group Solvency Issues (E) Working Group in preparing valuable additions to the financial analysis guidance used by NAIC members.