Lead State Holding Company Analysis

Name of Insurance Holding Company System ____________________

Understand the Insurance Holding Company System

1. Evaluate and document below an understanding of the insurance holding company system. Consider using the following if available and/or applicable: statutory Schedule Y, Form B Registration Statement, Own Risk and Solvency Assessment, and financial filings of the insurance holding company system and/or person. Document an understanding of the following:
   a. Ultimate controlling entity(ies) or person(s).
   b. Nature and level of complexity of structure (e.g., public, non-public, mutual, complex, simple, etc.).
   c. Business segments and percent of overall revenue per segment (Use segments as defined in the most current 10K).
   d. Number of insurers and respective jurisdictions.
   e. Level of international insurance activities (including branches).
   f. The existence of captive insurance vehicles within the insurance holding company system as well as their specific purpose and domicile. What type of financial reporting is available/provided to the state of domicile for the entities? What risks do these captives pose to the insurance holding company system?
   g. Nature and function of material non-insurance legal entities that pose a material risk to the insurance holding company system. Are there material risks presented by these non-insurance entities? (Note: It is recommended that the insurer supply information via the non-insurance company grid provided [Excel] to assist with this determination. See procedure 2 to determine how to tailor this grid to the risks of the group and therefore the focus of the remaining analysis)
   h. Recent news and press releases that identify changes in the holding company or financial results.
   i. Potential risks as a result of the aforementioned considerations.
   j. Obtain and review information to consider whether high-level management of the insurance holding company system is suitable for the respective positions held (For example, does the individual have the appropriate background and experience to perform the duties expected of him/her?). Any suitability and other governance-related concerns identified should be communicated in writing to other relevant regulators both domestically and internationally. Follow-up on any previously-identified corporate governance issues of the insurance holding company system.

2. Based upon the information obtained in procedure 1 (in particular procedure 1i), and in combination of prior knowledge of the group, determine the focus of this year’s annual holding company analysis by assessing the information received in procedure 1g. Specifically consider the information obtained regarding both insurance and non-insurance entities and their impact on the entire group. Additionally, include a summary within this analysis, or within some other
V. Group-Wide Supervision – C. Insurance Holding Company System Analysis (Lead State)

- Evaluate the Overall Financial Condition of the Insurance Holding Company System

For the following financial assessment procedures consider using the following, if available and/or applicable: Form B, shareholders' report, combined financial statements, quarterly and annual Securities and Exchange Commission (SEC) filings, International Financial Reporting Standards (IFRS) filings, personal net worth statements, audited financial statements, management assessment on internal controls, auditor’s assessment on management’s assessment on internal controls, media releases, confidential information from other regulatory/supervisory bodies, and any other available sources. If the domestic insurers in an insurance holding company system consist of only run-off companies, the domestic regulator, at his or her discretion, should determine the value, if any, of performing an insurance holding company system analysis. If it is determined that an insurance holding company system analysis would be of no added value, this determination should be documented.

2-3. If publicly traded, review the insurance holding company's stock price history. Has the value of common stock declined significantly over the past year? If "yes," explain the reasons for the negative trend.

3-4. Assess the insurance holding company’s sources of capital.

4-5. **Profitability:** Evaluate the insurance holding company system’s operating and net income over the past three years and document any trends as well as the primary drivers of those trends.

5-6. **Financial Position:** Evaluate the insurance holding company system’s shareholder’s equity (or equivalent), and document any negative deterioration.

6-7. **Leverage:** Review the insurance holding company system’s leverage positions, and document any negative trends and/or deteriorating ranges.

7-8. **Liquidity:** Evaluate the insurance holding company’s liquidity and document any negative trends and overall strength.

8-9. **Derivatives:** Evaluate the use of derivatives and their purpose. Are the derivatives being used for the hedging of business or to enhance investment yield? Does the level of collateral held for the derivatives contracts seem reasonable? Evaluate the trend of derivatives balances over the last two to three years and discuss any concerns.

Regulator/Supervisor Communication and Coordination and Supervisory College Considerations

9-10. Using the Lead State Report, identify the primary contact of other involved domestic states. Based on the analysis of the overall insurance holding company structure and the state’s preference, consider whether there is a need to request the confidential Insurer Profile Summary (IPS) report(s) from the applicable U.S. domestic states for insurers within the insurance holding company system, pursuant to the NAIC’s Insurer Profile Summary Sharing Best Practices. (For example: a state may consider using the NAIC Prioritization Summary Report to assess the need to request such reports.) If the IPS are requested, identify and document any material concerns or risks that were not covered elsewhere in this analysis.
Identify and document any other regulated entities within the insurance holding company system and the respective involved supervisor. (Note: Consider using General Interrogatories – Part 1, #8.1 through #8.4). Consider the following:

a. Does the size, complexity and/or interconnectivity of the entity with the insurance holding company system warrant communication with the respective regulator/supervisor? If “yes,” describe any communication between state, federal and international regulators that has been planned or initiated.

b. If there is international insurance activity, document which jurisdiction(s) is considered the group-wide supervisor(s) of the insurance holding company system.

c. Does the size, complexity and/or interconnectivity of the entity with the insurance holding company system warrant a potential supervisory college? If “yes,” describe any communication between state, federal and international regulators that has been planned or initiated.

d. Does the Department of Insurance (DOI) and/or other domestic state(s) within the group have a memorandum of understanding (MoU) to share confidential information with the involved supervisor(s)?

e. Have any federal and/or international regulatory action(s) been taken? If “yes,” describe.

f. Determine and document whether it is necessary to develop an overall understanding of the relevant regulatory and supervisory requirements of the authority and document accordingly.

If applicable, identify and document contact information for federal or international involved supervisor(s).

Establish a plan for communicating and coordinating with the domestic state(s) and other involved supervisors if significant events, material concerns, adverse financial condition or prospective risks are identified.

If your state is leading or participating in a supervisory college of the insurance holding company system, review the most recent information obtained as part of the supervisory college to determine if there are any areas of risk that require follow-up or additional analysis.

If applicable, review the insurance holding company system’s independent public audit report. Comment on the following:

- Auditor’s Opinion
- Notes to Financial Statements
- Management’s Assessment on Internal Controls
- Auditor’s Assessment on Management’s Assessment on Internal Controls

Document in this analysis any concerns that arose during the lead state’s evaluation of its domestic insurer(s) that in the opinion of the lead state, have an impact on the evaluation of the overall financial condition of the insurance holding company system.
V. Group-Wide Supervision – C. Insurance Holding Company System Analysis (Lead State)

Summary and Conclusion

Develop and document the insurance holding company analysis, including a summary and conclusion. In addition to each of the previously identified items, the summary and conclusion should identify the group’s:

- Significant events.
- Overall financial condition.
- Key strengths and weaknesses.
- Material concerns.

In developing a conclusion, consider the above procedures, as well as any other procedures that, in the analyst’s judgment, are relevant to evaluating an insurance holding company system under the specific circumstances involved.

Recommendations for further action, if any, based on the overall conclusion above:

- Obtain the insurance holding company system’s business plan.
- Obtain the insurance holding company system's economic capital assessment, if available.
- Meet with the insurance holding company system’s management team and/or board of directors.
- Immediately communicate any concerns to the other domestic states to determine a plan of action to address concerns.
- Contact the insurer seeking explanations of additional information.
- Require additional interim reporting from the group.
- Refer concerns to the examination section for targeted examination.
- Meet with the insurance holding company system’s management team and/or board of directors.
- Other (explain).

Summary Recommendations/Conclusion

Analyst ________________ Date ________

Comments as a result of supervisory review.

Reviewer ________________ Date ________
Specific Procedures in Completing the Insurance Holding Company Analysis

Core Analysis Procedures

The insurance holding company analysis performed by either the lead state, or an agreed upon other designated state(s) is not required to follow any particular form. However, a narrative may be seen as the best form.

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

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

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

Procedure #2 assists the analysts in determining the focus of this year’s annual holding company analysis. A practical method of determining the entities to focus on may begin with some type of internal unaudited consolidating financial statements prepared by the group, although other more
simple methods could be used once the lead state had a better recognition of the size and risks of the individual legal entities. The analyst should also consider if there are other entities that are not included within the consolidated statements that pose a risk to the group, and for which the lead state analyst can only obtain qualitative information from the group in better evaluating such risks (such entities and these situations are presumed to be rare but can occur under some unique situations). The purpose of this step is to consider if there any individual legal entities that can be excluded from the scope of group-wide supervision, since individual legal entities that are negligible to the group should be excluded. This procedure also assists the analyst in putting together a summary for other domestic states that would implicitly represent documentation to such states and therefore used as a starting point of a process that ensures there are no gaps or duplication in regulatory oversight between all of the states. Such process would conclude when the holding company analysis is distributed and reviewed by the other domestic states and the lead state receives no feedback which would suggest otherwise. Although duplication is expected to be rare, obtaining input from other domestic states regarding the focus of the analysis is considered appropriate since the group can have an impact on each of the domestic insurance entities.

Procedures #23–89 assists the analyst in determining and understanding the overall financial condition of the insurance holding company system which includes understanding profitability, financial position, leverage, liquidity and the organization’s use of derivatives (if applicable). These procedures, and any additional/supplemental procedures that are chosen from the list below, are generally the most critical aspect of the insurance holding company analysis. The following summarizes some approaches/issues for the analyst to consider when completing these procedures. In most cases, the analyst will require further information from the group in order to complete his or her evaluation of these key areas. Such information is necessary in part because no two groups are the same, and no two groups manage themselves in the same way. This includes, but is not limited to requesting individual company information where such information is necessary to understand the risk area to the group and where the focus of the analysis should be placed. This is the primary reason the states approach to group reporting requires only limited information. Consequently, much of the information that should be requested is centered more on the way the group manages itself and its risks.