March 11, 2015

Mr. Danny Saenz
Chair, Group Solvency Issues (E) Working Group
NAIC Central Office
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Attn: Dan Daveline
Via E-mail: ddaveline@naic.org

Re: Proposed Revisions to the Financial Analysis Handbook Related to Group Supervision, Holding Companies and Supervisory Colleges

Dear Mr. Saenz:

The National Association of Mutual Insurance Companies (NAMIC) appreciates the opportunity to comment on the Proposed Revisions to the Financial Analysis Handbook.

NAMIC is the largest property/casualty insurance trade association in the country, serving regional and local mutual insurance companies on main streets across America as well as many of the country’s largest national insurers. 1,400 member companies serve more than 135 million auto, home and business policyholders, and write more than $196 billion in annual premiums that account for 50 percent of the automobile/homeowners market and 31 percent of the business insurance market. More than 200,000 people are employed by NAMIC member companies.

NAMIC has hundreds of members impacted by any changes to the Holding Company Analysis and several companies impacted by the supervisory college revisions. For this reason the changes proposed to the Financial Analysis Handbook include revisions that would significantly impact many NAMIC members. Our questions and recommendations for revisions and further discussion are included in the attached redlined versions of the documents. The general issues we propose include:

- **Further Coordination Needed.** There are several additions and deletions to the handbook that will require new language and/or further refinement. We are suggesting a second exposure to provide an opportunity for interested parties to coordinate on appropriate revisions.
- **Prospective Risks.** For any prospective risk submission or analysis by the Financial Analyst we request reference in the handbook to the appropriate requirement in state law and
confidentiality protections that apply to the information. Confidentiality of such information is paramount considering the speculative nature of the information.

- **No New Reporting Requirements.** We suggest that the proposed language needs to clarify that no new reporting requirements are anticipated since such could not be incorporated in the Handbook without a law or regulation outlining the new requirement.

- **International Standards.** The references to and quotations of international ICPs should always include citation and year of the ICP. In addition, it is important to clarify the U.S. model law requirements that are related to the ICP instead of implying that the ICP is a “requirement” that financial analysts need to adhere to.

- **Information Sharing.** It should be noted in the handbook that the execution of an MoU on either a bi-lateral or multi-lateral basis does not supersede state or federal law on disclosure of information. More legal research and investigation into this issue is required as the financial analysts should be well-informed of potential issues with information sharing.

The attached exposure drafts for the Holding Company Analysis and the Supervisory Colleges Section include our specific redlined recommended changes and explanatory comments in the margins.

We respectfully request an additional exposure period to work with industry on a coordinated list of revisions. Thank you for your consideration of these comments on this matter of importance to NAMIC members and their policyholders. If there are any questions please feel free to contact me at 317-876-4270.

Sincerely,

[Signature]

Michelle Rogers  
Director of Financial and Regulatory Policy  
National Association of Mutual Insurance Companies
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 with the prior knowledge analysis 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
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.

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

10.11. 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.

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

12.13. 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.

13.14. 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.

14.15. 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

15.16. 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.
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.

Procedure #1 is intended to be completed simultaneously, as each is anticipated to be informative to the other. In many cases, information obtained in prior years may not have changed, and may be best documented in a more permanent document regarding the insurance holding company system's analysis, 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 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 concern. 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) to understand 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 #2 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

Comment [MR5]: It is not well understood what is intended by a “more permanent document.” We question in this language whether the “more permanent document” is maintained in a repository as this creates additional risks to the continued confidentiality of the information. It seems that more clarity should be included about updating prior analysis submissions instead of proposing a “permanent document.” We would like to better understand the intentions of the language.

Comment [MR6]: This example could be deleted or better explained. We are not aware of a profitability measure that may be relevant in this example.
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.

Comment [MR7]: Since there is no requirement for consolidating financial statements, we assume you intend this practical method to only apply if such consolidating information is already produced and available from the group. The FAH should not create a new reporting requirement that is not part of state law. We would suggest the elimination or clarification of this sentence. Also is it unclear what “more simple methods” might be referring to. We believe further discussion about this description of Procedure 2 is warranted.

V. Group-wide Supervision—H. Supervisory Colleges

Special Note: The following procedures do not supersede state law or regulation, but are intended to provide guidance and best practices for supervisory colleges; but also to identify some specific minimum procedures to be used by all U.S. lead states when merely additional guidance a state may consider useful when organizing or attending leading a supervisory college.

OVERVIEW

Background Information

On November 12, 2009 the Group Solvency Issues (E) Working Group (the working group) of the Solvency Modernization Initiative (E) Task Force endorsed as guidance the IAIS Guidance Paper on the Use of Supervisory Colleges in Group-Wide Supervision [October 2009] (the IAIS guidance paper). The working group supported the IAIS guidance paper in part because it recognizes the need for flexibility in the design, membership and establishment of Supervisory Colleges in accommodating the organizational structure, nature, scale and complexity of the group risks, and the level of international activity and interconnectivity within the group. The IAIS guidance paper discusses factors to consider in the implementation of a Supervisory College framework, including its form and membership, the role and possible functions of a Supervisory College, and the interrelationship between a designated group-wide supervisor and the Supervisory College.

Regarding the role and duties of the group-wide supervisor, the primary role of the group-wide supervisor is to facilitate coordination and communication between regulators. State insurance regulators recognize that the legal framework with regard to the role of the group-wide supervisor differs significantly from one jurisdiction to another and, therefore, the role of a group-wide supervisor within a Supervisory College will depend on the jurisdictions involved and should be specifically outlined at the outset to meet the expectations of the members of the Supervisory College. The working group’s support for the IAIS guidance paper can also be attributed to the fact that Supervisory Colleges by definition are consistent with state insurance regulators view regarding group supervision.

Additionally, IAIS document literature indicates that a supervisory college is a mechanism that intends to foster cooperation, promote common understanding, communication and information exchange, and facilitate coordination for group-wide supervision. The IAIS has also documented that potential benefits of supervisory colleges include:

- improving all the relevant regulators’ understanding of the group and its risks
- building relationships between relevant regulators, sharing regulatory approaches, and promoting cooperation and consensus
- interacting more effectively with a group’s management to gain insights into the group and to reinforce regulatory messages

International Expectations

In the wake of the 2008 global financial crisis, As the business of insurance has expanded globally, insurance regulators worldwide have determined that increased levels of communication, coordination and cooperation among regulators at Supervisory Colleges is vital to understanding risk trends that could impact financial markets including domestic insurers and policyholders in an increasing global insurance market. Although insurance companies and policyholders fared reasonably well during the recent global financial crisis, global policymakers see the enhancement of As a result, the overall objective is to further

Comment [MR1]: Both laws and regulations will not be superseded by the FAH changes.

Comment [MR2]: We do not agree that risk trends in financial markets should be the focus of a supervisory college. They should be focused on the solvency of international insurance groups and the impact that has on policyholders.
information exchange, cooperation and coordination amongst relevant supervisory regulators as a key component for enhancing the supervision of cross-border financial institutions.\(^i\)

In April 2008, the Financial Stability Forum (now the Financial Stability Board, or FSB) issued a report to the G7 Finance Ministers and Central Bank Governors setting out a comprehensive set of recommendations for strengthening the global financial system. One key recommendation therein was the operationalization and expanded use of Supervisory Colleges for certain global financial institutions.\(^ii\)

The International Monetary Fund (IMF) through its Financial Sector Assessment Program (FSAP) is assessing whether jurisdictions have enhanced regulatory cooperation and coordination through the development of Supervisory Colleges. The IMF 2010 FSAP of the U.S. financial sector made several recommendations for the insurance sector relating to this issue, stating that, “the U.S. should ensure that colleges of supervisory regulators for the U.S. groups with major international operations are established and functioning effectively—and led by U.S. regulators with appropriate insurance expertise.” The FSAP, relating to the insurance sector, assesses US compliance with the Insurance Core Principles (ICPs) of the IAIS. The NAIC’s Solvency Modernization Initiative (SMI) was put in place in 2008 and represents a critical self-examination of the U.S’ insurance solvency regulation framework and includes a review of international developments regarding insurance supervision, banking supervision, and international accounting standards and their potential use in U.S. insurance regulation. In this regard, state regulators have considered what international approaches are appropriate for the U.S. system by including aspects of ICP 23-Group-wide Supervision, and ICP 25-Supervisory Cooperation and Coordination.

Regarding the role and duties of the group-wide supervisor, the primary role of the group-wide supervisor is to facilitate coordination and communication between regulators. State insurance regulators recognize that the legal framework with regard to the role of the group-wide supervisor differs significantly from one jurisdiction to another and, therefore, the role of a group-wide supervisor within a Supervisory College will depend on the jurisdictions involved and should be specifically outlined at the outset to meet the expectations of the members of the Supervisory College. The working group’s support for the IAIS guidance paper can also be attributed to the fact that Supervisory Colleges by definition are consistent with state insurance regulators view regarding group supervision. The *Insurance Holding Company System Regulatory Act* (#440) provides a more specified approach to be used when determining a group-wide supervisor.

The following information is presented in order to describe issues related to supervisory colleges that may be necessary to understand the specific requirements found at the end of this section.

The various ICPs include requirements related to standards and guidance with respect to ICP 23-Group-Wide Supervision requires among other things, The following summarizes one of those key standards:

\(^i\) The statement from the G-20 Summit on Financial Markets and the World Economy, held in Washington, DC, in November 2008, states the following: “Supervisors should collaborate to establish Supervisory Colleges for all major cross-border financial institutions, as part of efforts to strengthen the surveillance of cross-border firms.”

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)

ICP 25 - Supervisory Cooperation and Communication provides among other things, the following:

- “At present, it is not generally possible to consider or establish international legislation which grants legal power and authority to a group-wide supervisor across jurisdictional borders. It is important, therefore, that there are clear agreements (formal or otherwise) between all involved supervisors in order to allow the group-wide supervisor to fulfill its tasks and to ensure support from involved supervisors.”

- “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).”

- “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 Supervisory College, where it is established.”

- “The designated group-wide supervisor establishes the key functions of the Supervisory College and other coordination mechanisms.”

- “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.”

- “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.”

- “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.”

- “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.”

In addition to these items identified in ICP 25, it’s important to recognize other expectations may exist from regulators and the US state should determine how to address such expectations. The following may be common examples of consistency with the Group Wide Supervisor:
V. Group-wide Supervision—H. Supervisory Colleges

- set reporting requirements for the college, including specifying frequency (e.g., annual, quarterly, etc.) and type (technical provisions, issues raised as a result of on-site inspections, intra-group transactions, outsourced activities).
- analyze data received from the group
- promote willingness to work together with other regulators
- provide guidance to other regulators on particular issues
- has the duty to improve college effectiveness as that is not within their purview. Therefore, it may be appropriate to encourage maximum participation from all members of the college.
- allowing college members to submit written comments prior to the college meeting if they are unable to attend due to resource constraints, timing of the meetings, language barriers, or any other reason, even though regulators of entities that are significant to the group are generally expected to attend.
- drafting minutes or action points for approval by the members
- circulating presentations and other materials for the meeting

U.S. Approach to Supervisory Colleges

The U.S. approach to group solvency assessment is discussed within the NAIC’s Financial Analysis Handbook—Holding Company Systems Analysis. This section contemplates a written summary analysis that considers any information available on the group, especially information from the 10K and 10Q Securities and Exchange Commissioner Filings for public companies (or similar financial information on non-public insurance groups). States looking for best practices in this area may wish to contact the NAIC Financial Analysis staff. Among other things, this section of the NAIC’s Financial Analysis Handbook requires the Lead State of all insurance groups operating in the U.S. to obtain an understanding of the entire holding company system; and evaluate the overall financial condition of the entire holding company system.

The evaluation of the overall financial condition of the entire holding company system includes assessing the profitability, leverage, liquidity, and overall equity position of the entire holding company system. This analysis places equal importance on each of these items as opposed to placing a higher emphasis on particular items. The equal importance is considered appropriate given that capital markets typically consider each of these elements equally in their consideration of a group. The perspective of the capital markets is considered appropriate because the regulator must understand the limitations and risks within the insurer’s business and financing strategy (i.e., how much capital can be accessed from the capital markets based upon their view of the group) to develop an approach for dealing with any concerns regarding the group. State insurance regulators analyze and examine separately the capital of the group. This is commonly completed within the context of the prospective risk assessment during an examination. Such assessment is typically based upon the examiner’s review of the insurance group’s risk management process and internal capital models where available. Through testing, the examiner is able to determine the appropriateness and effectiveness of such strategies, and make an overall assessment of the group’s risk management processes. Similar assessments are made by state insurance regulators regarding the group’s governance and internal controls. Some states update these assessments through periodic meetings with management when they inquire regarding strategic changes. The documentation of these assessments are formalized in the Group Profile Summary which will be updated once state insurance regulators begin to receive the Holding Company Form F report and Own Risk and Solvency Assessments (ORSA) summary report. However, state insurance regulators do not approve or deny the use of such strategies or models, but rather understand and consider them in their overall assessment of the risk of the group. State insurance regulators view the use of such strategies or models as management’s decision, and although the regulator may make recommendations for improvements including potentially missing elements or inappropriate assumptions, they generally do not require the group to use other methods unless the group’s processes and risks are deemed hazardous to policyholders.
State insurance regulators should be prepared to discuss the details of their examination of the group’s governance, risk management and internal controls processes, including their assessment of the risks inherent in the group’s processes. However, state insurance regulators have found that it’s equally important for the insurance group to provide its own overview of its processes so that all members of the college are familiar with the same general information. State insurance regulators find that specific discussion regarding regulators views of these risks is more beneficial to the Supervisory College.

**STRUCTURE**

**Determining the Group-Wide Supervisor**

- “In principle the supervisor in the jurisdiction where the group is based and where that supervisor has the statutory responsibility to supervise the head of the group should be first considered to take the role of the group-wide supervisor.”

- “The location of the group’s head office, given that this is where the group’s Board and Senior Management is most likely to meet, and ready access of the group-wide supervisor to the group’s Board and Senior Management is an important factor.”

- “Where the registered head office is not the operational head of the group, the location where the main business activities of the group are undertaken; and/or main business decisions are taken; and/or main risks are underwritten; and/or group has its largest balance sheet total.”

In addition to the above, other criteria to consider include where the group has the most substantial insurance operations, the origin of the insurance business and regulatory resources available for serving as the group-wide supervisor. Once there is some clear distinction, to the extent the criterion suggests it’s a state insurance regulator, discussion with the insurance group should take place and the state insurance supervisor regulator should consider establishing the first Supervisory College. In general, once the group-wide supervisor is determined, it generally shouldn’t be changed, unless there is a material change in the group’s business or operations that were considered in originally determining the group wide supervisor.

In addition, once the state regulator has been determined to be the group-wide supervisor it may publish the determination and that it was endorsed by the Supervisory College for the group on its website.

**Organizational Procedures Performed Before Conducting a Supervisory College**

The information included in the above bullets under the heading ICP 25 show some of the key considerations of organizing a Supervisory College before the college meets for the first time. Although there is no international legislation that provides that the group-wide supervisor has any authority over the sovereign authority of the jurisdiction, insurance regulators across the world have agreed that having one group-wide supervisor that is responsible for coordination and communication among supervisors within the group strengthens the global insurance regulatory system. The international criterion for determining a group-wide supervisor (See model #440), and similar expectations internationally criteria, does not materially differ from the criteria contained within the NAIC Financial Analysis Handbook for determining the Lead State. Various information hence, the below is taken from the IAIS guidance paper is discussed throughout this document  and represents a summary of some of the factors to consider.

**Supervisory College Membership**

Supervisory College members are generally the states/jurisdictions where the largest insurance entities within a group are domiciled, premium underwritten and key corporate decision-makers in the organization are located. However, also worth considering is the materiality that the group has on a
particular jurisdiction. The determined state insurance regulator/supervisor should begin to consider who the appropriate members of the college are; recognizing that determining the materiality of a group to a particular jurisdiction may be difficult.

While there is a need to include as many members as possible, it must be balanced with the need to maintain a manageable, operational Supervisory College. In this regard, it may be appropriate to establish a tiered membership approach. This approach suggests that regulators that attend a Supervisory College be referred to as “Tier 1 or Tier 2” jurisdiction. If jurisdictions that have primary authority (e.g. state/country of domicile) for insurers that have direct or gross premium greater than 5% of the entire group it may be appropriate for this “Tier 1” cutoff. The state regulator should also consider requesting feedback from the insurance group regarding who it believes should be included in the “Tier 1,” since they will have more specific data on the premiums written in each jurisdiction. In most cases, this type of approach will limit the number of jurisdictions involved. However, it may also be appropriate to place a limit on the total number of individuals participating from each jurisdiction. Some state regulators suggest a maximum of 75 regulators attending a Supervisory College and believe that 50 is a more manageable number to maximize the effectiveness of the college.

In some cases, trying to maintain a specific size result in some smaller jurisdictions that may be small to the group, but whose market is materially impacted by the group, may be excluded from the actual college meeting. However, the group wide supervisor must determine a means for such jurisdictions to be involved with the college through other means (e.g. follow up correspondence with all jurisdictions after a college meeting has taken place which could include the use of different secure IT tools).

States who are group wide supervisors should consider developing, or requesting the group to develop, a map of all of the entities within the group and the corresponding jurisdiction for each entity. This mapping can be further enhanced by providing additional information that identifies the actual primary contact for each jurisdiction, as well as other participants from the same jurisdiction, and various contact information. When developing such a list, it’s important to consider branches or other aspects of the group that may not be included on an organizational chart. All of this information should be kept up to date at all times, and made available through correspondence to all college members, and may be more easily distributed through a secure IT tool.

The use of such tools are becoming more common, and in addition to requiring confidentiality of data and controls around the sharing and updating of information, they must also allow for the permanent storage of data and they must be efficient to administer. Similar issues may exist as it pertains to other forms of communication, such as conference calls.

Information Sharing Agreements

One of the most important tasks undertaken by the group-wide supervisor is drafting, distributing and obtaining executed information sharing agreements from the participating supervisory college membership. Having one information sharing agreement is preferred.

The group-wide supervisor is responsible for the regular information collected by the Supervisory College and any notifications that should be made to it (from both supervisors and the group). The Supervisory College should agree to the frequency of which information is provided and any information gathering should be coordinated in a way so as to avoid duplicative requests and to reduce the burden on a group.

Comment [MR6]: Language should be added early in this section that in the U.S. state law will always supersede the terms of an international information sharing agreement and in other countries their law will also likely supersede such agreements. Relying on MMoUs to override state law may not be a panacea if the state protections are not consistent and the other jurisdiction is agreeing to provisions they cannot assure as well. More thought needs to go into this issue.
State insurance regulators should understand the difficulty and the amount of time it may take to get these agreements in place. This difficulty can lead to significant delays in beginning a new Supervisory College and therefore, state insurance regulators should take action to complete these information sharing agreements as soon as possible. The group wide regulator must recognize however that such agreement is needed not only for college meetings, but also correspondence that may be made available to all college members (sometimes a wider group than jurisdictions attending the meetings) subsequent to a meeting.

A written information-sharing agreement between the involved supervisors must be agreed upon and entered into by all parties wishing to participate in the Supervisory College. This agreement can be achieved in various ways, such as: (1) through bilateral memorandums of understanding (MoUs) among all of the jurisdictions involved; (2) through a Supervisory College-specific agreement; or (3) through the IAIS multilateral memorandum of understanding (MMoU) which establishes a formal basis for cross-border cooperation and information exchange amongst supervisors around the world to enhance supervision of Internationally Active Insurance Groups (IAIGs).

The objective of the MMoU is for a signatory authority\(^\text{10}\) to be able to request from and provide to any other signatory authority having a legitimate interest, information on all issues relevant to regulated insurance companies (including licensing, ongoing supervision and winding-up where necessary) and to other regulated entities such as insurance intermediaries, where appropriate. The MMoU is essentially designed as an alternative vehicle for having every jurisdiction sign a bilateral confidentiality agreement with every other jurisdiction. Further, it facilitates the exchange of confidential information in the Supervisory College context. If all members of a Supervisory College are also signatory authorities of the IAIS MMoU, it would effectively eliminate the need for every Supervisory College member to enter into a bilateral agreement with every other Supervisory College member and/or the drafting of a Supervisory College specific agreement in order to ensure that confidential information can be freely exchanged between Supervisory College members. This mechanism has the potential to significantly improve and expedite the cross-border exchange of information between supervisors.

Chairing the Supervisory College/other Supervisory Duties

As previously noted, an immediate expectation of the group-wide supervisor is serving as the chair of all Supervisory Colleges. In addition to serving as the leader for the college, the chair is expected to

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\(^{10}\) A “signatory authority” is defined in the IAIS MMoU Article 2 as “any insurance industry supervisor who is an IAIS member or is represented by an IAIS member [reference made here to the NAIC per the IAIS Bylaws Article 6 No. 2(b)] and following a successful qualification procedure has acceded to the MMoU by its signature.” Each U.S. state insurance regulator, as an IAIS member or represented by an IAIS member (the NAIC), is eligible to be a signatory authority.
complete a number of activities prior to and subsequent to each college. The following lists some of these activities:

- Setting the date for the meeting (See below for further discussion).
- Setting the agenda for the meeting and distributing at least one week in advance (see below for further ideas).
- Record outcomes that are achieved at each meeting including points arising from the meeting, individual to whom each task is assigned and the deadline when an action should be complete, and consider documenting in the form of minutes. It will be the responsibility of the Supervisory College to track individual items to make sure that the necessary action has been carried out.
- Liaison with insurer management in obtaining information, their participation in the college and any related correspondence.
- Developing a preliminary crisis management plan (see below for further discussion).
- Consider for larger colleges preparing and updating a coordinated work plan (Consider using U.S. Supervisory Plan as starting point).
- Prepare, update and circulate as changes occur, a contact list of members.
- Requiring a periodic self-assessment of the effectiveness of the college (See below for further discussion).

In addition to these items identified in ICP 25, it’s important to recognize other expectations may exist from regulators and the US state should determine how to address such expectations. The following may be common examples of consistency with the Group Wide Supervisor:

- set reporting requirements for the college, including specifying frequency (e.g. annual, quarterly, etc) and type (technical provisions, issues raised as a result of on-site inspections, intra-group transactions, outsourced activities).
- analyze data received from the group
- promote willingness to work together with other regulators
- provide guidance to other regulators on particular issues
- has the duty to improving college effectiveness as that is not within their purview. Therefore, it may be appropriate to encourage maximum participation from all members of the college.
- allowing college members to submit written comments prior to the college meeting if they are unable to attend due to resource constraints, timing of the meetings, language barriers, or any other reason, even though regulators of entities that are significant to the group are generally expected to attend.
- drafting minutes or action points for approval by the members
- circulating presentations and other materials for the meeting

Understanding the Regulatory Roles of Supervisory College Members
It is important for all participants in a Supervisory College to have a clear understanding of the regulatory mission of each of the regulatory bodies which are being considered for any Supervisory College. There can be important and significant differences amongst regulatory bodies which may be encountered by a diverse group of regulators if comprised of federal agencies and members from other countries. The regulated group’s organizational structure and the personalities of the regulators involved will also have a large tendency to direct how the group organizes and conducts itself. This information could be accumulated and summarized into a Terms of Reference document, or some other related document.
Key Functions of the Supervisory College Including Terms of Reference and Work Plan

One of the primary purposes of Supervisory Colleges is to facilitate coordination and communication between regulators. Consequently, one of the key functions of the college is to create the means to facilitate communication. Making this happen begins with the actions, functions, and expectations of the group-wide supervisor. As previously stated, state insurance regulators should be aware that other regulators may have other expectations when it comes to the group-wide supervisor. Specifically, Article 248 of the European Union Solvency II Directive indicates that the group-wide supervisor has a significant planning and coordination role, but also a more defined supervision review and assessment role and significantly more decision-making capacity. State insurance regulators should understand the specific expectations of each supervisor through discussions in the first Supervisory College of the group. They need to be aware of these possible differences and seek to establish agreed upon expectations with the other involved supervisors. Understanding the specific expectations may be communicated through conference calls by the college members. These expectations once documented are often referred to as a “Terms of Reference.” A terms-of-reference document can serve as defining the expectations of the members of the purpose of the college, can include clarification on why a particular supervisor was determined to be the lead supervisor, group membership, agreement on frequency and location of meetings and finally, the role and responsibilities of the group-wide supervisor. As it relates to frequency and location of meetings members should strive to physically attend the meetings, however members should be given the ability to participate by conference call. A sample “Terms of Reference” is included in the appendix to this section. The supervisory work plan sets out timelines and deliverables and any tasks to be completed by college members based on key areas related to risks that are to be monitored within a certain time frame. Regular review and updating should be made to the supervisory work plan on a periodic basis.

Different Approaches to College Structures

In general, the majority of colleges that states attend and lead are known as inclusive colleges. Under an inclusive college, there are no differences for the group-wide supervisor and other college members regarding participation in college work or access to information. More specifically, under this approach, the college would not use sub-colleges (e.g., regional colleges) or topical colleges where only certain members participate. This approach does not preclude the use of joint-examinations between jurisdictions where two or more jurisdictions believe that they have a similar issue that applies to their legal entities. Other approaches can include a tiered approach, where there may be a US regional college, or a European college, or some other regional, with a separate world college. In these situations the group wide supervisor may be expected to attend each of these, or at least that has become the practice. Consequently, this may be more demanding. Finally, in some cases there may be core colleges that only involve the college members most significant to the business of the group. These may be useful in targeting discussions, but may also create additional work for communicating the results back to other members of the world college. States should also be careful to consider the ramifications of these types of approaches on the existing information sharing agreements, as they may require additional more inclusive agreements if jurisdictions carry that opinion.

MINIMUM COLLEGE EXPECTATIONS (FOR U.S. STATES DETERMINED TO BE THE GROUP WIDE SUPERVISOR)

College Requirements for U.S. States Determined to be the Group-Wide Supervisor

The following sets forth a minimum set of regulatory procedures to be used by U.S. lead states when leading a supervisory college. Many of these items are further discussed in prior parts of this document but some are not, and require additional judgment.
Initial College Procedures (most likely not applicable after first college meeting)

- Identify the entities which would fall within the scope of the group, either based upon information from annual holding company filings or through direct communication with the group, or both
- Determine through various means if your jurisdiction may be considered the group-wide supervisor, and proceed under this assumption
- Make initial contact with other regulators that may also be considered the group-wide supervisor and informally suggest you may be the group-wide supervisor. If no objections, proceed to planning the first supervisory college
- Develop and execute information sharing agreements necessary for the protection of confidential information that will be shared among college members
- At the college, present an initial Terms of Reference agreement that summarizes various important aspects of the college collected prior to the college meeting, then discuss and adjust as deemed appropriate by members
- At the college, present an initial Crisis Management Plan for discussion, then adjust as deemed appropriate by members
- At the college, direct a short discussion by each jurisdiction of their respective legal entity(ies), and the impact that they may have on the group. This type of discussion is not to be repeated after the initial meeting unless the impact is material, or if it’s from the perspective of what is driving particular performance for the group as a whole
- Develop a preliminary Supervisory Work Plan based on information gathered at the college with input from the college members
- Propose a Budget for the work to be accomplished by the College

Initial and Ongoing College Meetings

- Begin to plan all of the relevant logistical items that are important to a successful college, including considering the schedule of other supervisory colleges as posted to the Supervisory College Calendar on I-SITE.
- Contact the executive management team of the group to make certain they are available for a large portion of the college meeting before finalizing the date
- Send out to all of the appropriate jurisdictions, initial information regarding the potential for a supervisory college meeting approximately 6-9 months before the intended date (2-3 months for conference calls), and modify the date to fit the needs of as many regulators as possible
- Develop an agenda and distribute within 3 weeks of the college to all other regulators who plan to attend, asking for changes in order to ensure each jurisdiction's needs are met
  - The agenda should be focused on a regulators shared view of the primary risks of the group. At the end of the meeting, college members should reach consensus upon the updated shared view of the primary risks of the group.
    - The primary risks of the group will vary, but will require the same general understanding of the group’s business strategy, risk management, and governance processes, in addition to its financial, legal, and regulatory position. Therefore, initial colleges should have an agenda that develops this same general understanding of each of these items. Primary risks can be determined prior to such an understanding, but such a list is...
expected to be modified over time as the college gathers more information each meeting.

- The agenda should include presentations from the group regarding those topics selected by the regulators when voting on the agenda (either to the entire group or breakout sessions on more specific topics). This can include things such as the following:
  - strategic and financial overview;
  - material changes to the group since last meeting;
  - material plans and projects for the coming year;
  - governance and risk management;
  - identification of key risks;
  - capital planning and management;
  - stress testing;
  - interconnectivity;
  - non-regulated entities;
  - succession planning;

- The meeting should include targeted discussions on the primary risks of the group, or trends which suggest a modification to such a list. The lead state should consider utilizing a Group Profile Summary, or a similar document in a form similar to such document or the Insurer Profile Summary, to meet this objective. This specifically includes a document that would focus on the branded risk classifications of the group.
  - Exchange/discuss qualitative and quantitative information and data either prepared by the regulator or by the group. The information shared should be based upon the regulators shared view of the primary risks of the group, including any evolving or new potential material risks identified by any member. Discuss at each college if the information is adequate or if further information is appropriate for ongoing review of the group.
  - The group should present on the implications and readiness of the group for work adopted within various jurisdictions (e.g. ORSA, reporting or model development for Solvency II, etc.)

- Discuss and agree upon feedback to the group and where appropriate, solo/legal entities.
- Update and reach consensus upon a modified Terms of Reference Agreement
- Update and reach consensus upon a modified Crisis Management Plan
- Update and agree upon a modified Supervisory Work Plan including updates to risks and identification of individuals and the jurisdiction to whom each task is assigned and the deadline or frequency when an action should be complete. The updated Supervisory Work Plan should be updated and distributed to all members of the college within approximately three weeks of the college meeting, or something more flexible if that is agreeable to college members.
Record a summary of each meeting, documenting decisions that were reached and distribute to the participants within approximately two weeks of the college meeting, or something more flexible if that is agreeable to college members.

Distribute an updated contact list of members within approximately one week of the college meeting, or something more flexible if that is agreeable to college members.

Have each member of the college meeting discuss the effectiveness of the college and the need for any changes, and have each member complete a survey of its effectiveness.

Using the information from the survey, prepare a summary of the self-assessment of the effectiveness of the college and distribute to all members of the college within approximately four weeks of the college meeting, or something more flexible if that is agreeable to college members.

Approve and/or update the Budget for the work to be completed by the College.

With regard to agendas, the above tries to capture the need for agendas that are focused on the risks of the group, which can be different from one group to the next. However, as supervisory colleges are intended to be best practices in themselves since participating members are expected to attend other colleges, emphasis should be placed on asking all jurisdictions to providing suggestions to draft agendas.

**General College Guidance for U.S. State Determined to be the Group-Wide Supervisor**

As colleges evolve, providing consistency for what is appropriate in order that colleges are functioning effectively is important. Therefore, it’s appropriate that the NAIC enhancements for supervisory colleges be updated to reflect the most current views. This handbook encourages all states that have participated in international supervisory colleges to consider on an ongoing basis, the changes that should be made to this section of this handbook, and to submit them to the NAIC staff for discussion and possible adoption.

**Understanding the Group Risks Perspective from the View Point of Each Supervisory College Member**

As discussed previously, the terms of reference document is intended to capture the specific expectations of each supervisory regulator. Understanding each member’s expectation is critical to having a successful college. In order to meet the majority members expectations it is suggested that the state insurance regulator consider having some time set aside at one of the very first colleges where each college member is afforded the time to discuss their perspective of the group. The following is a list of the things items that the college may want to ask each member to provide, perhaps in a 5-10 minute presentation.

**Presentation of the Entities**

- Simplified holding company chart of the local entities
- Premium written by local regulated insurer by line of business and/or by product
- Affiliated relationships and any major transactions, including pooling arrangements and other reinsurance relationships

**Market Share**

- Major lines of business
- Gross written if not identified above
- Share of the local market (at the branch or state level if possible) and rank in the country

**Key Financial Information**

- Size of the balance sheet for most recent two years (or more current if available)

V. Group-wide Supervision—H. Supervisory Colleges

- Profit and loss statement for most recent two years (or more current if available)

Risks
- Reserves-Gross and net of reinsurance for most recent two years
- **Primary**Main risk to which the entity is exposed
- Exposure to other entities within the group
- Any other material risks

Specific Issues of the Insurer
- Status of any current or recent financial or market conduction examinations
- Any recent or pending material transactions including mergers, acquisitions and reorganizations
- Any regulatory action

Crisis Management Plan
Many regulators believe that Supervisory Colleges are most effective when mutual cooperation and mutual trust is achieved. This attribute proves most beneficial and perhaps needed in times of financial difficulties or financial distress for the company. Although regulators are constantly trying to avoid situations of distress on the company, they must all be prepared that they could occur. To that end, the Supervisory College should engage in a conversation about the issue and how the college will work in these situations. The intent is for these discussions to occur at the inception of the college itself, and then be documented and approved formally as early as possible. Such plans should attempt to be flexible and should consider the need to adapt to the particular individual company situation. In fact, in most Supervisory Colleges, it’s difficult to define a crisis plan because it’s impossible to know how the college will react. In most cases, the college will agree that a physical meeting would be desirable as soon as practical, but that it may be necessary to meet by conference call as soon as possible.

Regular Assessment of Effectiveness
At the outset of establishing a Supervisory College, the group-wide supervisor should discuss the need to regularly assess the effectiveness of the Supervisory College. Such an evaluation may consider the original Terms of Reference as these are the participating member expectations. In addition, the college should determine the extent to which it believes there could be some regulatory gaps in the supervisory process, or areas of the group that have not been considered. Once the group-wide supervisor completes this assessment, it should share with all members of the college allowing the involved regulators to provide input into the assessment.

**COLLEGE MEETINGS—AS THE GROUP WIDE SUPERVISOR**

**PLANNING AND LOGISTICS**

Setting the Date for the Meeting
Setting the date for the Supervisory College is critical and requires extensive planning. It is suggested by state regulators that have planned supervisory colleges that plenty of advance notice is given to participants of each meeting to attendees and 90 days should represent the minimum notice. However, many of these same regulators have suggested that it’s better to establish the date of the college, or approximate date, six months in advance. As a result, it is suggested that state insurance regulators start planning the Supervisory College nine months before its expected date. The below section on other logistical aspects for the meeting demonstrate the significance of the various items that must be considered in planning the meeting, and therefore the need for extensive planning to occur far in advance of the actual meeting.
Experienced regulators have also noted that the length of the meeting should be specific and consideration should be given to allow each member to fully explain its viewpoints, methods and processes. Supervisory college meetings should always have a clear purpose (see note regarding the chairs responsibility to record outcomes/assignments for each meeting).

Planning other Logistical Aspects for the Meeting

Many state insurance regulators suggest that a supervisory college only be scheduled during the spring or the fall to avoid potential weather related cancelations. The primary reason it is important to schedule a college during the spring or the fall is to increase the chances of regulators from other countries to attend the college and therefore have a successful one. Clearly, the amount of work and costs that must be undertaken to administer a college is significant, therefore it’s unreasonable to think that another Supervisory College could be administered on short notice due to a lack of participation from a couple of other countries.

Another reason to schedule a college well in advance of its expected date is to ensure that senior management of the insurance group is available the entire time that the college is taking place. Most state insurance regulators believe that it is critical that the CEO, CFO, CRO and Chief Legal Counsel are all available to the college during the college. The scheduling of the college should begin with establishing a range of dates to ensure attendance of these officers. If the management/officers are not in attendance at certain times of the college, it should be communicated and made clear that they need to be available to supervisors if questions arise that requires their immediate explanation.

Once the general dates are established with the insurance group officials, immediate steps should be taken to reserve a space for the meetings. Most state insurance regulators believe that strong consideration should be given for using the insurance group’s facilities. While large insurance groups have facilities that are designed for these types of meetings, other participating members should be asked if they are comfortable with that as an option. The results of such inquiry should be communicated with the group. This would allow for immediate access to insurance group officials within a short notice to respond to questions that arise.

The college must be set up in a way that would allow means and refreshments to be brought into the meeting, which would reduce the need for participants to travel away from the site for meals, that allows meals and refreshments to be brought into the meeting, thus preventing the possibility that supervisors go in different directions to find local eateries. Further, consideration should include facilities that allow participants to communicate with their home office and include breakout rooms with The college must also be set up in a way that does allow individual supervisors to break for short periods to make short calls in private. Most suggest at least 3 breakout rooms be available for such use, with a phone and computer, and printer capabilities that can also be used for subgroup meetings as needed. It has also been suggested that the meeting space be set up in a “U” shape to maximize the ability to engage each of the participants. A “U” shape room also works well with the need for projectors and screens (for presentations) and use of whiteboards and markers for discussion points.

Once the location of the meeting is identified, the state insurance regulator should immediately proceed to obtain accommodations that can support all of the attendees and is in close proximity to the meeting location. Seeking assistance from the group is ideal. State insurance regulators suggest the use of a hotel that provides for a portal website that gives each participant the ability to make their reservations online throughout the world is ideal. It is suggested that the hotel The dates selected should allow available to attendees adequate travel time to and from the meeting site and the ability to come into the college a couple days before and after the college, to allow for personal time around the meeting dates.
Once the hotel is identified, it is recommended that a group dinner for at least one night be organized for all of the attendees to allow individuals the opportunity to better acquaint themselves with each other thus maximizing the ability to have an engaging college. An evening group dinner is an excellent way for supervisory college participants to better acquaint themselves and enhance the flow of communication both during and after the supervisory college. Another important point is to determine the communication that will be provided. Specifically, it will be important to establish that most of the college communication will occur in English. However, it may be appropriate to arrange for translators to be engaged for some other languages, and then for booths to be established for where such communication will occur within the room set-up. Again, this may be necessary to consider before establishing the location, and as evidenced with the various important details above, may require the type of lead time suggested previously for establishing such logistics.

One final issue that is extremely important to understand is the process under which non-Lead States As part of its preliminary duties, the group wide supervisor should determine if the other supervisory college participants will seek to recoup expenses for attending the Supervisory College, and if so, how will the group wide supervisor be involved with this activity. Many jurisdictions do not seek direct reimbursement for expenses associated with attending a supervisory college. Although the NAIC’s model #440 provides the authority for a state to recoup its expenses related to a Supervisory College, the process for collecting may be handled differently by each Lead State since states may have different processes for settling expenses with employees as well as billing such amounts to insurers. It is suggested the Lead State—group wide supervisor should identify the process it will use early in the planning stages of a supervisory college, and communicate this to the other states that will be participating in the college.

Setting Agendas

In the initial college, the focus will be on establishing the college, the group-wide supervisor, the membership, Terms of Reference, and related details. Some state regulators may wish to complete these activities of the college via conference calls, or e-mail in order to minimize costs and maximize effectiveness by fitting the college into busy schedules. However, some believe that face-to-face communication cannot be replaced in order to make sure every member of the college is completely engaged in the discussion and issues. Some even suggest that a phone-in number should not be an option for attending a college since it’s likely that a phone attendee would not be as engaged and would be easily distracted. One downfall to full engagement by all members is the difficulty in setting an agenda that can be adhered to within the allotted time. In some cases, this may result in the need to establish approximate time allotments per topic. Most state insurance regulators agree with the practicality of setting such limits, provided the discussion on a particular important topic is not artificially ceased and that the chair attempts to find an appropriate place to end the discussion on a topic.

There are a number of other considerations for what should be discussed and considered within the first initial Supervisory Colleges. The following enumerates some potential agenda items for the group-wide supervisor to consider:

Initial Supervisory College Agenda Topics

- Introductions.
- Voting on the group-wide supervisor.
- Discussion and voting on the Supervisory College membership.
- Initial discussion regarding frequency and location of meetings.
- Individual college members’ views regarding role and responsibilities of the group-wide supervisor.
- Plans for documenting agreements into a Terms of Reference document.
V. Group-wide Supervision—H. Supervisory Colleges

- Discussing/establishing a crisis management plan.
- Initial high level presentation from the insurance group regarding its business structure, significant operations, interconnectivity (including non-insurance affiliates), including ownership and management structure and overall operating results.
- Begin to discuss material risks of the group and format for future discussion.
- Discuss a preliminary Supervisory Work Plan.
- Discussing/establishing a crisis management plan.
- Discuss Budget for the work of the College.
- Set the date and time for the next meeting.

Next Meeting of Supervisory College Agenda Topics
- Introductions.
- Review and reach consensus on Terms of Reference document.
- Recap discussions regarding material risks of the group.
- Secondary presentation/deeper dive from the insurance group regarding its business plan, financing strategy and perceived risks and risk mitigation strategies. Consider requesting specific presentations regarding:
  - Underwriting strategies.
  - Investment strategy.
  - Reinsurance strategy and program.
  - Capital adequacy at group level including discussion of internal model development and assumptions (group’s own risk and solvency assessment).
  - Corporate governance and internal fit and proper requirements.
  - Interconnectivity (including reinsurance, guarantees, securities lending, non-insurance affiliates).
  - Updated operating results.
- Consider closed session with external auditors regarding discussion of their audit approach, and material risks (obtain clearance from insurance group before proceeding).
- Initial discussions from the group-wide supervisor regarding their assessment of the group.
- Share views and assessments of both specific insurers and on the group as a whole for those risks deemed significant to the members.
- Develop common understanding amongst supervisors on the overall group-wide risk profile relative to the major insurance aspects of the group.
- Identify a consensus regarding any changes in the assessments of the Company’s group-wide risks (strengths and weaknesses).
- Identify any group-wide efforts that the members need to focus on.
- Update the Supervisory Work Plan.
- Identify any correspondence deemed necessary to be distributed to all members of the group.
- Set the date and time for the next meeting.

Ongoing Meetings of the Supervisory College Agenda Items
- Introductions.
- Recap discussions and follow up from past meeting.
- Group-wide supervisor to share their assessment of the group.
  - Continue to share views and assessments of both specific insurers and on the group as a whole on those risks deemed significant.

Comment [MR9]: See previous comment.
V. Group-wide Supervision—H. Supervisory Colleges

- Discuss modifications to the preliminary group-wide assessment by the group-wide supervisor, including changes to the format of the assessment regarding business structure and overview, assessment of profitability, leverage, liquidity and overall financing position/capital adequacy.
- Consider added documentation for discussion of reinsurance and other forms of risk transfer where material to the perceived risks of the group.
- Consider added documentation for other intragroup transactions and exposures, including intragroup guarantees and possible legal liabilities and any other capital or risk transfer instruments.
- Consider added documentation for internal control mechanisms and risk management processes, including reporting lines and fit-and-proper assessment of the Board, Senior Management as well as the propriety of significant owners.

- Ongoing presentation from the insurance group regarding its risks and changes. This includes but should not be limited to having each of the business unit heads present on each of their areas.
- Continue to refine the assessments of the Company’s group-wide risks (strengths and weaknesses).
- Identify any group-wide efforts that the members need to focus on.
  - Consider coordinated efforts (examinations) of a particular area (i.e. internal audit, actuarial function or risk management processes).
  - Consider break out groups to hear presentations on specific topics (e.g. specific product or economic trends in the industry and company plans for addressing).
  - Breakout groups can also be used as a mechanism for focused discussion. These can be organized by region, type of business, risks, and can represent brainstorming issues where the group lists various issues or concerns, prioritizes them, and then the breakout groups separately present their views to all of the supervisors attending the college meeting.

- Update the Supervisory Work Plan.
- Identify any correspondence deemed necessary to be distributed to all members of the group.
- Discuss the effectiveness of the Supervisory College.
- Set the date for the next meeting.

OUTPUT

Output from Each Meeting

Most state insurance regulators agree that it’s important that each participant of a Supervisory College leave with clear outcomes and takeaways. Specifically, the college members should identify and agree on the primary risks of the group and how the supervisors are going to monitor such risks. Additionally, most state insurance regulators believe that each insurance group should set up a secure website where the insurance group can post information that may have been requested by the college, or that the insurance group believes is important to provide an update to the various college participants. As part of the supervisory college, the group-wide supervisor should obtain contact information for each participant and share this information with all the participants during or immediately after the college. It should also consider requesting that all participants provide their name, title, phone number, and e-mail address (or bring their business card), so that a listing of such information can be provided to all participants of the college subsequent to the meeting. State insurance regulators may want to consider providing such information to the insurance group so they can tabulate such information to minimize the resource impact of this effort. This information can be used for different uses, including announcing information from the...
group (e.g. date, time and/or directions to listen to next investor call) or announcing information from the regulators such as the next scheduled examination. Useful and valuable in facilitating subsequent communication with members regarding follow-up issues.

**General College Guidance for U.S. State Determined to be the Group-Wide Supervisor**

**COLLEGE MEETINGS—AS THE LEAD STATE BUT NOT THE GROUP WIDE SUPERVISOR**

The following are suggestions relating to the role of the lead U.S. state to function as the U.S. contact for parent holding companies domiciled in other countries.

- Consistent communication with applicable international regulators through the voluntary submission of information via the web-based NAIC International Supervisory Colleges Request Form;
- The lead state should be available to attend supervisory colleges and for informal conference calls;
- Consistency in who participates in the supervisory college is recommended for continued building of international relationships;

The U.S. lead state plays a key role in coordinating communication to and from the international holding companies to the non-lead states.

Lead state’s financial review of the international holding companies:

- Good understanding of the holding company organizational structure.
- Keep current of the financial review of the ultimate controlling person’s financial statements and those of key subsidiaries.
- Keep current of the significant events that impact the holding company system (e.g., financial, market, stock, catastrophic, etc.)
- Maintain contact with the international holding companies and the international regulators;
- Coordinate the sharing and requesting of information where appropriate.

**Summary and Conclusion**

Develop and document an overall summary and conclusion regarding the college.

- Describe structure of college, attendees, key risks identified, etc.
- Identify key observations and risk noted during the supervisory college.
- Coordinate and communicate follow up on key takeaways and any important information to relevant regulators, including in-house state departments (such as Examination, Actuarial, Rates and Forms, etc) the non-Lead States.
- The analyst should update the Holding Company System Analysis if there are observations from the college that have a material impact on the view of the group.
- The analyst should update the –Group Profile Summary and Supervisory Plan if there are observations from the college that have a material impact on the view of the group.
- The analyst should communicate to the examiner-in-charge any prospective risks identified.
Comments as a result of supervisory review.

Reviewer _______________ Date_______

Analyst _______________ Date_______
Possible Terms of Reference document for the group

TERMS OF REFERENCE

COMPANY NAME Supervisory College

General Statement: The purpose of this Supervisory College is the development and implementation of an ongoing flexible mechanism to coordinate the exchange of valuable information pertaining to COMPANY NAME and its subsidiaries, amongst and for the benefit of those regulatory supervisory authorities responsible for the financial regulation of COMPANY NAME and its subsidiaries. The Supervisory College serves as a permanent platform for facilitating the exchange of information, views, and assessments enabling its members to gain a common understanding of the risk profile of the group.

Terms of Operation: Supervisory College members shall ensure the safe handling of confidential supervisory information by signing the Confidentiality Agreement specific to the College of Supervisors of COMPANY NAME (the Confidentiality Agreement) thereby facilitating the efficient exchange of information among its members. The Supervisory College has the flexibility in its operation to identify and address immediate, developing, actual and prospective risks. The Supervisory College will discuss efforts to involve its members in possible future coordinated supervisory actions and arrangements when deemed suitable.

Membership: Supervisory College membership will change over time due to modifications in COMPANY NAME’s operations, size and complexity. A current listing of the Tier I, Tier II, and Tier III members are identified in Schedule A attached hereto. The Tier I members will continually evaluate whether any changes in membership are required based on modifications related to the nature, size and complexity of COMPANY NAME.

Chair of the College: Tier I members will appoint a supervisor (group-wide chair) as the Chair of the Supervisory College, and may appoint subgroup chairs when deemed appropriate. The Chair is responsible for organizing and scheduling meetings as well as ensuring that appropriate information is disseminated to members. The Chair should propose the agenda for the meetings and incorporate the views and opinions of other Supervisory College members. The Chair need not be a specific person as the chair could be a particular jurisdiction or title of a position within the jurisdiction.

Scope of Activities: The Supervisory College will aim for a central focus on the following issues at a group level:

- Solvency and financial stability of the insurance group.
- Assessment of intragroup transactions and exposures.
- Internal control and risk management within the insurance group.
- Appropriate actions to mitigate risks identified.
- Crisis management.

To assist in these central activities, the Supervisory College members will discuss possible arrangements for managing crisis situations based on the risk profile of the group. In addition, Supervisory College members will discuss possible procedures for dealing with issues when relevant, such as breaches of solvency positions and the crystallizing of risk exposures.
The Supervisory College will attempt to reference the applicable information of the stated overall strategic plan(s) of COMPANY NAME and its insurance subsidiary.

Supervisory College members are encouraged to continuously notify their fellow Supervisory College members through the Supervisory College mechanism on any matters deemed relevant to enhance risk-based supervision.

Frequency and Locations of Meetings: The Tier I members will negotiate meeting dates and locations that will ensure the involvement of as many of the members as possible. When it is unfeasible for supervisors to be present at a meeting, a best attempt will be made to allow participation via conference calls or web broadcasting. Tier I members will plan to meet every quarter prospectively; one meeting will be held in person annually tentatively. The Tier I members may call a meeting together on short notice in the event of an emergency situation. Participation or involvement or both of Tier II and Tier III members will be addressed annually at minimum.

TERMS OF REFERENCE
for the COMPANY Supervisory College

General Statement: The purpose of this Supervisory College is the development and implementation of an on-going flexible mechanism to coordinate the exchange of valuable information pertaining to COMPANY and its subsidiaries, amongst and for the benefit of those regulatory supervisory authorities responsible for the financial regulation of COMPANY and/or its subsidiaries. The Supervisory College serves as a permanent platform for facilitating the exchange of information, views, and assessments enabling its members to gain a common understanding of the risk profile of the group to enhance risk-based supervision and thereby enhance solo supervision efforts.

Terms of Operation: Supervisory College members shall ensure the safe handling of confidential supervisory information by signing the Confidentiality Agreement specific to the College of Supervisors of COMPANY (the “Confidentiality Agreement) thereby facilitating the efficient exchange of information amongst its members. The Supervisory College has the flexibility in its operation to identify and address immediate, developing, actual and prospective risks. The Supervisory College will discuss efforts to involve supervisory college members in possible further coordinated supervisory actions and/or arrangements when deemed suitable.

Membership: Supervisory College membership will change over time due to changes in COMPANY operations, size and complexity. A current listing of the Tier I, Tier II, and Tier III members are identified in Schedule A attached hereto. The Tier I members will continually evaluate whether any changes in membership are required based on changes related to the nature, size and complexity of COMPANY.

Chair of the College: Tier I members will appoint a supervisor (group-wide chair) as the chair of the Supervisory College, and may appoint sub-group chairs when deemed appropriate. The chair is responsible for organizing and scheduling meetings as well as ensuring that appropriate information is disseminated to members. The Chair should propose the agenda for the meetings and incorporate the views and opinions of other supervisory college members. A chair need not be a specific person as the
chair could be a particular supervisory authority or the title of a person at such supervisory authority.

**Scope of Activities:** The Supervisory College will strive to have a central focus on the following issues at a group level:

- solvency and financial stability of the insurance group;
- assessment of intra-group transactions and exposures;
- internal control and risk management within the insurance group;
- appropriate actions to mitigate risks identified; and
- crisis management.

To assist in these central activities, the Supervisory College members will discuss possible arrangements for managing crisis situations based on the risk profile of the group. In addition, where applicable, Supervisory College members will discuss possible procedures for dealing with issues such as breaches of solvency positions and/or the crystallizing of risk exposures.

Information from the Supervisory College will attempt to incorporate references towards the applicability of COMPANY and its insurance subsidiary’s stated overall strategic plan(s).

Supervisory College members are encouraged to continuously notify their fellow Supervisory College members through the supervisory college mechanism on any matters deemed relevant to enhance risk based supervision.

**Frequency and Locations of Meetings:** The Tier I members will attempt to agree to meeting dates and locations that are likely to ensure the participation of as many of the members as possible. When it is not feasible for supervisors to be present at a meeting, best endeavors will be made to allow participation by other means such as by conference call or other electronic means. Tier I members will attempt to meet quarterly, and will attempt to conduct at least one meeting annually in-person. The Tier I members may call a meeting together on short notice in the event of an emergency situation. Participation and/or involvement of Tier II and Tier III members will be addressed at least annually.

**Meetings:** At each meeting, each Tier I member should attempt to provide an update on any relevant material event(s) and/or any new information which could have a significant impact on the group-wide risk profile.
Schedule A
(Supervisory College Members)

as a part of the

Terms of Reference
for the COMPANY Supervisory College

Tier I Members:
1. COUNTRY
2. COUNTRY
3. UNITED STATES – STATE
4. UNITED STATES - STATE

Tier II Members:
1. COUNTRY
2. UNITED STATES - STATE

Tier III Members:
1. COUNTRY
2. UNITED STATES - STATE