To: Director Linda S. Hall, Chair
Financial Regulation Standards and Accreditation (F) Committee

From: Financial Condition (E) Committee

Date: October 14, 2011

Subject: 2010 Revisions to the Insurance Holding Company System Regulatory Act and Insurance Holding Company System Model Regulation with Reporting Forms and Instructions

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In December 2010, the NAIC membership adopted revisions to the Insurance Holding Company System Regulatory Act and Insurance Holding Company System Model Regulation with Reporting Forms and Instructions. The enhancements to the insurance holding company laws and regulations resulted largely as a result of lessons learned during the recent financial crisis. Key revisions include the following: disclosure of enterprise risk reporting within the holding company system; reimbursement for participation in supervisory colleges; modifications to the requirements for transactions within an insurance holding company system; clarifications with regard to the commissioner's authority to access to books and records; and enhancements to the requirements for divestiture and disclaimers.

A statement and explanation of how the potential standard is directly related to solvency surveillance and why the proposal should be included in the standards: The purpose of this act and regulation is to provide standards for regulation of insurance holding company systems and set forth rules and procedural requirements to carry out the provisions of the act. In addition, the act and regulation grant the commissioner enforcement measures when requirements of the act and regulation are not met. The model currently represents an accreditation standard, and based on the importance of group-wide supervision in the US and international community, as evidenced by the International Association of Insurance Supervisors Insurance Core Principles, G-20/Financial Stability Board activities, recent Dodd-Frank initiatives, and the International Monetary Fund recommendations from the Financial Sector Assessment Program (FSAP), it should remain such.

A statement as to why ultimate adoption by every jurisdiction may be desirable: Promoting the reliability and financial strength of insurance institutions is a primary objective of insurance supervision, and one that requires the state system to evolve to meet the changing realities of a dynamic marketplace. As such, revisions to the model act and regulation are considered necessary to meet these changing realities. As recommended by the Group Solvency Issues (EX) Working Group, the U.S. insurer solvency regime should consider enhancing certain prudential benefits of group supervision, including such enhancements as, disclosure of non-insurance activity that pose enterprise risk, better communication between regulators, stronger access to and collection of information, and enforcement measures. The model is currently an accreditation standard and has been adopted uniformly as a national standard. By requiring that certain critical revisions be adopted through a uniform standard, states will be able to maintain a level playing field in insurance regulation and hold companies to a uniform standard of financial solvency.

A statement as to the number of jurisdictions that have adopted and implemented the proposal or a similar proposal and their experience to date: Two states have adopted with revisions during 2011, however, there has not been sufficient time available to assess experience to date.

A statement as to the provisions needed to meet the minimum requirements of the standard. **That is, whether a state would be required to have "substantially similar" language or rather a regulatory framework. If it is being proposed that "substantially similar" language be required, the referring committee, task force or working group shall recommend those items that should be considered significant elements**: See the attached document.

An estimate of the cost for insurance companies to comply with the proposal and the impact on state insurance departments to enforce it, if reasonably quantifiable: No estimate of the cost for insurance companies to comply with the revised Model or impact on state insurance departments to enforce it was prepared, but the impact is assumed to be manageable based on information gathered during the exposure process. Most of the revisions represent improvements to existing provisions that are already in place.

Additional information: None.

