

**To: Financial Regulation Standards and Accreditation (F) Committee**  
**From: Director Frohman (NE)/Danny Saenz (TX), Co-Chairs of the Group Solvency Issues (EX) Working Group**  
**Date: August 14, 2010**  
**RE: New Part B. Financial Analysis Review Team Guidelines Regarding Holding Company Analysis**

The Group Solvency Issues (EX) Working Group (GSIWG) of the Solvency Modernization Initiatives (EX) Task Force is charged with assessing the need to enhance group-wide supervision. During the GSIWG August 13, 2010 meeting, the Working Group unanimously approved a motion to forward a recommendation to the Financial Regulation Standards and Accreditation (F) Committee to adopt new Holding Company Analysis Review Team Guidelines for 2011 annual statement implementation. The proposed Review Team Guidelines and background are as below.

**Background**

The current Part B – Financial Analysis Review Team Guidelines language for the *Appropriate Depth of Review* standard requires holding company filings to be reviewed, but does not express the extent of the expectations on the degree of analysis taken with such documents. In response to the existing vague language, as well as, the NAIC solvency modernization initiatives, recent FSAP comments and International Association of Insurance Supervisor efforts that are all related to group-wide supervision, the GSIWG approved a recommendation that will provide a better roadmap for NAIC expectations regarding holding company analysis by creating Review Team Guidelines for the *Appropriate Depth of Review* and *Documented Analysis Procedures* standards.

**Recommendation**

GSIWG recommends the following language be immediately adopted for a 2011 annual statement implementation date. Additionally, if the FRSAC Committee approves, the GSIWG would like to direct GSIWG NAIC Support Staff to provide Accreditation Team Members tailored training with regard to the Working Group’s expectations for how this guidance should be interpreted. The recommendation is as follows:

Part B. Regulatory Practices and Procedures – 1. Financial Analysis

*e. Appropriate Depth of Review – Guidelines*

2) At a minimum, the following information should be analyzed, to at least some extent, by the Department for all domestic multi-state companies:

- Annual Statement
- Actuarial Opinion
- Management’s Discussion and Analysis
- Annual Audited Financial Statements
- Holding Company Filings, **such as Form A, B, C, D, E and external filings (e.g. SEC or IFRS filings), where applicable**
- Quarterly Statements (key financial data)
- Financial ratios, such as IRIS, FAST or other similar ratios

**4) Depth and frequency of the holding company analysis of an insurer in a holding company system will depend on the sophistication, complexity, financial strength of the holding company system (or parts thereof), availability of information (e.g. SEC 10Ks or 10Qs) and the existing or potential issues and problems found during review of the holding company filings. Departments may wish to use holding company checklists developed by the Department or obtained from the NAIC *Financial Analysis Handbook*, and these checklists may be tailored to the particular needs of the analyst and the group under review.**

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|------------------------------------|--------------------------------------|----------------------------|------------------|------------------|
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*f. Documented Analysis Procedures – Guidelines*

**8) The analysis work performed should document sufficient (or [State] adequate) evidence of a review of the holding company system. Additionally, a Department may choose to rely on the analysis work performed by the Lead State(s), another accredited domestic regulator within the respective holding company system, and/or international insurance supervisors (e.g. work products from a supervisory college). If such reliance takes place by a Department, communication with the applicable aforementioned regulator(s) must be documented in order to substantiate the Department's understanding of the holding company analysis that was performed and be included in either the annual or quarterly financial analysis workpapers of the respective domestic insurer on a yearly basis.**

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