

## Frequently Asked Questions Proforma

The proforma is one of three components in the Plan of Operation. The information contained within the proforma is used to project balance sheet and income statement amounts for companies who are forming a new insurer or redomesticating to a new state (primary application), expanding into a new state (expansion application) or amending their certificate of authority (corporate amendment – adding lines of business or merger of two or more foreign insurers). The proforma should include three full years of projected data that is relevant to the Applicant Company’s history of growth and losses. The proforma excel spreadsheets and additional instructions are included on the [UCAA website](#).

### Intro Tab:

**Question 1:** What does the Security Warning  at the top of the worksheet mean? or Do the Macros have to be enabled to use the worksheet?

**Answer:** The proforma workbook runs macro functions to create each state worksheet. Yes, click on the “Enable Content” button to run the necessary macros.

**Question 2:** Where and what years are entered for the proforma being completed? What years should I enter for the projections?

**Answer:** The Intro tab lists a table for years 1-3. Enter the first full year YYYY in the Year 1 line. The Year 2 and Year 3 will then populate with the next two consecutive years. These years will populate to the other pages of the proforma workbook.

Year 1:	2017
Year 2:	2018
Year 3:	2019

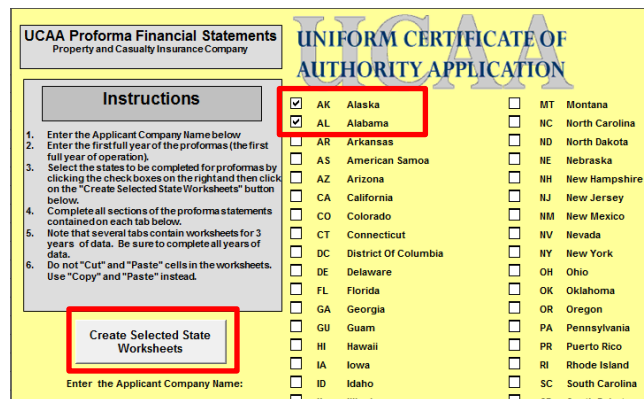
For example, if 2017 is entered in Year 1, then Year 2 and Year 3 will populate with 2018 and 2019.

**Question 3:** How are the individual state pages created for premiums and losses?

**Answer:** Select the check box next to each applicant state.

After selecting the states, click on the Create Selected State Worksheets button. This will run the macros and create an individual state page for selected state.

Hyperlinks will also be listed next to each state name on the Intro tab that will take the user directly to that state worksheet.



The screenshot shows the UCAA Proforma Financial Statements application. On the left, there is an 'Instructions' box with six numbered steps. Below the instructions is a button labeled 'Create Selected State Worksheets'. On the right, there is a list of states with checkboxes. The checkboxes for 'AK Alaska' and 'AL Alabama' are checked and highlighted with a red box. The 'Create Selected State Worksheets' button is also highlighted with a red box.

**Question 4:** How do I delete a state page?

**Answer:** If a state page is created in error, click on the check box of the state that needs to be deleted and then click on the Delete Selected State Worksheets button.

A warning screen will display, with x next to the state(s) that are to be deleted. Confirm that the state page should be deleted. Click Yes to confirm. The macros will run and the selected state(s) page(s) will be removed.

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### **Balance Sheet:**

**Question 5:** What does the balance sheet provide?

**Answer:** The balance sheet provides regulators with a high level review of the type and quality of assets that the Applicant Company holds, including the asset mix and liquidity levels and liabilities.

**Question 6:** Should projected reserves be included?

**Answer:** Projected reserves should be provided in concert with the appropriate actuarial methodologies and provided assumptions.

**Question 7:** What should the Capital and Surplus amounts reflect?

**Answer:** Capital and surplus amounts should meet the requirements of the applicant state(s) where the Applicant Company is seeking admission or licensure. It is recommended that the Applicant Company's initially funded capital and surplus reflect the amount needed in its first year of projected data. Be advised, that a state's required minimum capital and surplus quality is cash or cash equivalents and should be considered non-working capital. Funds in excess of the minimum capital requirements needed to operate the Applicant Company i.e. claim payments, claim handling expenses, and any other expenses that may be required prior to admission/licensure.

**Question 8:** Is a projected Risk Based Capital (RBC) required?

**Answer:** Yes, the total capital and surplus and authorized control level amount must be included on the balance sheet page. These amounts will then be used to calculate the projected RBC ratio. Any RBC ratio below 300% will be considered a hazardous financial condition

### **P & L Statement:**

**Question 9:** Are expenses included in the P&L page?

**Answer:** Yes, the nationwide P&L page should include the expenses.

## **Premium Ratios:**

**Question 10:** What is the purpose of the Premium Ratio worksheet?

**Answer:** Premium ratios are an important regulatory tool that allows regulators to analyze and evaluate the Applicant Company's writing leverage and how much an Applicant Company relies on reinsurance.

**Question 11:** What should be included on the assumptions page?

**Answer:** The assumptions page should include the name and credentials of the person preparing the projections.

The health proforma should include a schedule, charges or other information that addresses the rates and premiums used to establish written and earned premium.

**Question 12:** What should be included on the state pages?

**Answer:** For Expansion and Primary applications, the state pages should include all of the lines of business in which the company is applying for permission to write. For corporate amendment applications, the state pages should include all business that is currently being written and any lines that are being applied for permission to write.

## **Nationwide Premium by LOB (Aggregate of Authorized & Expansion/Add LOB):**

**Question 13:** What should be included in the nationwide page?

**Answer:** The nationwide page will include projected premiums by line of business for a three year period for those states in which the company is already licensed and authorized to write business and three years of projected premiums by line of business for those states in which the company is applying to be licensed and authorized.

**Question 14:** What should be included in the nationwide projections?

**Answer:** Nationwide Premiums by LOB (as expressed by line of business) should support the aggregate numbers reflected in the projected financial statements as an aggregate of projected activity in all States (both where the Applicant Company is applying and actively operating).

**Question 15:** What information should be included in the state pages?

**Answer:** Each state's projection (State Tab) as expressed by line of business should reflect activity only relevant for the state(s) where the Applicant Company is applying. Each state tab represents the business that will be written in that state. Each applicant state is concerned with their individual state and the overall nationwide business of the Applicant Company.

## **Tips and Tricks**

**Question 16:** What if a state requires more than three years of projected data?

**Answer:** If an applicant state requires more than three years of projected data, add the remaining years to a separate proforma workbook for that state.

- Question 17:** Our company plans to begin writing business on June 1. What years should be used in the proforma?
- Answer:** The proforma should include three full years of business. The state may want a partial year projection if the company plans to write for a partial year. An additional explanation on when the company plans to begin writing business can be included in the assumptions section of the proforma and in the plan of operation.
- Question 18:** Is a proforma needed for a Corporate Amendment – Deleting Lines of Business application?
- Answer:** A proforma is not required for a Corporate Amendment – Deleting Lines of Business application unless specifically requested by the applicant state. However, the Applicant Company must prove/indicate that all liabilities related to that line of business have been extinguished prior to applying for deletion of the line
- Question 19:** Why is the proforma needed for a Corporate Amendment – Merger of Two or More Foreign Insurers application?
- Answer:** The proforma is needed to show the assets, liabilities and writings of the merged surviving company. It should reflect the increase in liabilities taken on by the surviving company.
- Question 20:** Our company is licensed in only one state, but writes business as a surplus lines insurer in other states. We are now looking to expand into a new state as a licensed insurer. Should we only include business written for the states in which we are licensed, or should we also include the business written as a surplus lines insurer in the proforma?
- Answer:** Include all business written, including business written on a surplus lines basis. For regulatory review purposes, all business written that affects the insurer’s bottom line should be included in the proforma.
- Question 21:** Who should complete the proforma?
- Answer:** The proforma should be completed by statutory accounting or financial reporting professionals that should be available to answer any questions or concerns from reviewing regulatory staff.
- Question 22:** How long is the proforma valid?
- Answer:** Proformas should be valid during the course of the review, but may be used by regulators to compare an Applicant Company’s performance following admission/licensure. The proforma should be submitted based on current estimates projecting the first three years of business. If the application review continues into the following year, or other changes occur, new financials and proforma information may need to be submitted to the state.
- Question 23:** What proforma workbook should be used?
- Answer:** The proforma workbook used should be the same business type as the financial statement blank filed with the NAIC. ([Primary Application](#); [Expansion Application](#); [Corporate Amendment Application – Adding Lines of Business](#); [Corporate Amendment Application – Merger of Two or More Foreign Insurers](#))