

NAIC National Association of
Insurance Commissioners

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U.S. Approach to Group Supervision

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U.S. Supervisory Monitoring Approaches for Groups

- U.S. statutory holding company laws apply directly to individual insurers and indirectly to holding companies
 - Provides for a Windows and Walls approach
 - Standardized in the NAIC Holding Company Act and Regulation

FUTURE RISKS (Storms)

- Potential federal & international regulatory changes
- Global environmental or economic catastrophe
- Contagion effects of group affiliate/holding company failure

REGULATORY ENHANCEMENTS (Windows)

- Strengthened review/access to group affiliate information
- Increased cooperation between regulatory jurisdictions
- Expand use of supervisory colleges
- Group financial assessment
- Improve standards across regulatory jurisdictions

STATE REGULATED U.S. INSURERS

U.S. SYSTEM OF STATE BASED REGULATION (Walls)

- Insurance Holding Company Model Laws & Regulations
- Quarterly financial analysis
- Conservative statutory accounting practices & principles
- Strong legal entity approach
- Lead state coordination approach
- State financial regulation standards & accreditation program
- Risk-focused examinations

NON-INSURANCE ENTITIES

- Federal or state regulated financial institutions
- Non-regulated group affiliates

INTERNATIONAL REGULATORS & ENTITIES

GROUPS: More than one business entity and type, controlled by a single holding company. Within each group, entities can be regulated through different jurisdictions.

U.S. Supervisory Monitoring Approaches for Groups

Overall

- U.S. has strong experience with cross border supervision and insolvencies (Multi-state supervision is analogous to multi-national supervision)
- Moderate insurance legal entity reliance on parent and affiliates
- Strong legal entity capitalization

U.S. Supervisory Monitoring Approaches for Groups

- NAIC formed a Group Solvency Issues (EX) Working Group to consider possible enhancements to US Group Supervision
 - Strengthening holding company laws and regulations
 - Discuss group-wide supervision and capital considerations
 - Monitor supervisory colleges activities and other methods of communication and coordination amongst cross-boarder and cross-sectoral supervisors
 - Input into related IAIS standard and guidance papers and ComFrame as it relates to groups

Recent Accomplishments

- In December 2010 the NAIC adopted the revised *Insurance Holding Company System Regulatory Act* (Model #440) and the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (Model #450).
- The revised models still contain previous requirements that included authorization to acquire an insurer, commissioner approval of certain material transactions (e.g. large investment or reinsurance transactions and extraordinary dividends), and access to books and records.

Recent Accomplishments

- However, key modifications to the models include the following:
 - Enhanced disclosure of enterprise risk within the holding company system (e.g. new Form F).
 - Clarification of insurer liability for expenses resulting from participation in supervisory colleges. While easily able to participate in supervisory colleges today, this language in the Act will provide US state insurance regulators the ability to easily keep reimbursement to participate in supervisory colleges.

Recent Accomplishments

- Enhancements in corporate governance and in Board of Director and Senior Management responsibilities – in line with the current NAIC Model Audit Rule and state laws and legal practices.
- Additional standards have been proposed for reviewing affiliated agreements. Generally these are found in regulation for cost sharing and management services, providing additional required minimum terms and conditions, to assist regulators in determining whether transactions are fair and equitable to insurers.

Recent Accomplishments

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- In August 2011, the Group Solvency Issues (EX) Working Group adopted the substantially similar provisions of the revised Insurance Holding Company System Model Act (#440) and Regulation (#450). These elements will be reviewed by the Financial Condition (E) Committee and then sent to Financial Regulation Standards and Accreditation (F) Committee. When adopted by the F Committee, these designated elements will be required to be included in the laws and regulations of a state in order to be deemed accredited.
- During 2010, the Group Solvency Issues (EX) Working Group proposed Accreditation guidelines to clarify the documentation expectations and depth of the holding company system analysis that should be undertaken. The proposal was unanimously adopted by the Financial Regulation Standards and Accreditation (F) Committee for 2012 implementation.

Recent Accomplishments

- During 2010, the Group Solvency Issues (EX) Working Group built a web-based form to allow other jurisdictions to request U.S. state insurance regulator participation on supervisory colleges
- During 2010, the Group Solvency Issues (EX) Working Group developed a supervisory college tracking documentation, which is continuously updated.
- During early 2011, the Blanks Working Group adopted a proposal effective year-end 2011 to enhance the current Schedule Y – Information Concerning Activities of Insurer Members of a Holding Company System (i.e. Organization Chart) to include more detailed information about the holding company system and be data captured.

Recent Accomplishments

- During 2010, the Financial Analysis (E) Handbook Working Group released a new NAIC Financial Analysis Holding Company Supplement Chapter on Management and Corporate Governance Considerations to be performed on certain priority insurers.

Current Activities

- During 2011, the Financial Analysis (E) Handbook Working Group proposed enhancements to the Holding Company Analysis Procedures Checklist, which is used by states when performing group analysis.

Current Activities

- In 2011, the Group Solvency Issues (EX) Working Group, has been working on the following activities:
 - Continues to draft the Holding Company Best Practices for US regulators.
 - Drafting requirements and guidelines for an Own Risk and Solvency Assessment (ORSA).
 - Reviews and provides input on IAIS Insurance Groups and Cross-Sectoral Issues Subcommittee issues and papers.

Challenges and Considerations

Supervisors are accountable to different constituencies and public policy alternatives

<u>Balancing</u>	<u>With</u>
Conservative capital rules	Capacity development or fungibility of capital
Policyholder protection	Export and trade
Competitive Impact Concerns	Pressures for Concentration

Challenges and Considerations

Supervisory practices must go beyond principles and rules

- Over reliance on management's risk assessment and management's capabilities
 - E.g. Current financial crisis
- Fungibility of capital within groups is problematic
- Impossible to ensure all risks are captured and information is accurate in a principle based “reporting” environment

Other Considerations

- Legal precedent varies by jurisdictions
- Accountings standards vary by jurisdictions

The Future

- Supervisory colleges may provide strong forum for functional regulator coordination
- More regulation of areas not previously regulated or regulated well
- Global modernization or understanding with regard to the following:
 - Enhanced approach to risk-based capital and financial analysis with “group capital” considerations
 - Critical scrutiny of internal models and enterprise risk management
 - Expansion of corporate governance standards