

Group Supervision

**ICIR Conference on
Global Insurance Supervision
September 6, 2012**

Outline

- ▶ Concept of group supervision in U.S.
- ▶ NAIC Holding Company Model Act & Regulation
- ▶ Financial solvency monitoring
- ▶ Conglomerates
- ▶ Supervisory colleges
- ▶ NAIC peer review
- ▶ Improvements to group supervision
- ▶ Latest developments

Concept of group supervision in U.S.

- ▶ Windows and walls
- ▶ Focus on transactions and overall financial condition
- ▶ Approval of transactions
- ▶ Disclosure
- ▶ Authority to examine further

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

Protected
Policyholders

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

INTERNATIONAL
REGULATORS &
ENTITIES

NON-INSURANCE ENTITIES

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

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

NAIC Holding Company Act & Reg

- ▶ Change in control
- ▶ Registration statement
- ▶ Affiliated agreements
- ▶ Examination authority
- ▶ Authority to put insurer under its control

Financial Solvency Monitoring

- ▶ Financial analysis of group
 - Assess group:
 - Profitability
 - Financial position
 - Leverage
 - Liquidity
 - Change in governance/ERM
- ▶ Examination of group governance/group ERM
 - Assess both through:
 - C level interviews
 - Walkthroughs, documentation, testing
- ▶ Interaction with management

Conglomerates

▶ Gramm-Leach Bliley

- Focus on functional regulator
- Federal reserve/consolidated supervisor on 25 ins groups
- Insurers still subject to RBC, but also a group capital requirement
 - No specific insurance expertise
 - Functional regulator to generally deal with these issues

Supervisory Colleges

- ▶ Current Practice
 - US insurance regulators understand and embrace the use of supervisory colleges
 - Many aspects important to supervisory colleges are not new to U.S. state insurance regulators
 - Importance of communication
 - “Lead State” approach
- ▶ Holding Company supervisory colleges Best Practices document
 - Building on IAIS guidance
- ▶ Challenges: Working across many different systems, regulatory cultures and approaches

Supervisory Colleges (cont'd)

▶ Key Operational Aspects

- Attending:
 - Notification
 - Use of technology
 - Funding
 - Information sharing
- Convening:
 - Identification of a group-wide supervisor
 - Role of a group-wide supervisor
 - Terms of reference
 - Tiered members/regional colleges/subgroups
 - Company involvement

NAIC Peer Review

- ▶ NAIC Financial Analysis Working Group (FAWG)
 - Analyze nationally significant insurers
 - NAIC staff of approximately 15 complete quarterly reviews
 - Group of state regulators review analysis
 - Letters to domestic state(s) or lead state
 - Presentations to FAWG at each NAIC meeting
 - Additional questions to domestic state(s) or lead state
 - Ongoing analysis by FAWG
 - E Committee authority to require examination of company/state

Improvements to Group Analysis

- ▶ Accreditation requirements on group analysis
- ▶ Changes to the NAIC Holding Company Model Act & Regulation
 - ERM Filing (Form F) by group
 - Supervisory college expenses
 - Clarification of existing authority
- ▶ ORSA
 - Section 1-Description of insurers ERM
 - Section 2-Insurer assessment of risk exposure
 - Section 3-Group risk capital and prospective solvency assessment

Latest Developments

- ▶ Comframe
 - US Supportive of supervisory colleges
 - Communication and coordination and cooperation
 - Guide for supervisory colleges, but not mandated
- ▶ Supervisory Forum

Questions???