

Group Supervision in the US

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Presentation Overview



- Overview of Group Supervision in the U.S.
- Enhancing Group Supervision in the U.S.
- Issues - Challenges and Considerations

- Out of ~7,800 risk-bearing insurance legal entities supervised by the state insurance departments, approximately **75%** of those insurance legal entities are affiliated with a holding company system
- For those insurance legal entities that are affiliated with a holding company system, **15%** have an insurance legal entity as the top parent entity

- U.S. statutory holding company laws apply directly to insurers and indirectly to non-insurance holding companies
 - Provides for a Windows and Walls approach
 - Strong **walls** between insurers and other legal entities operating within a group and **windows** to enhance the understanding of risks, such as financial contagion, within a group
 - Standardized in the NAIC Insurance Holding Company System Regulatory Act and Regulation



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

FUTURE RISKS (Storms)

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



INTERNATIONAL REGULATORS & ENTITIES



STATE REGULATED U.S. INSURERS

Protected Policyholders

Insurance Policy

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

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

- Monitoring of holding company systems is routinely applied using three critical mechanisms: **Reporting, Analysis and Examination**

Reporting

- Holding company information is statutorily required and majority of the information is held in centralized NAIC databases
- Holding company reporting requests can be adhoc
- Use reporting of other regulators
 - E.g. Approx. 1,615 U.S. insurers are affiliated with 193 publicly traded holding companies, who are required to file extensive disclosure to the SEC

Analysis

- Coordinated holding company analysis is a routine part of the financial analysis process as outlined in the *NAIC's Financial Analysis Handbook*
 - Includes review of the upstream and downstream holding company entities (both financial or non-financial), such as structure, affiliated relationships, financial condition, management, etc.
 - The applicable “Lead state” will coordinate with other domestic supervisors within a group
 - States share “Insurer Profile Reports” and analysis workpapers

Examination

- For multiple insurance legal entities within the same group, states may engage in group examinations to maximize resources and create efficiencies
 - Workpapers are typically shared real-time via a server and common software

Overall

- U.S. has strong experience with cross border supervision and cooperation

Financial Analysis Working Group (FAWG)

- Analyze significant groups that exhibit characteristics of trending toward or being financially troubled
- Interact with domiciliary regulators and lead states to assist and advise as to what may be the most appropriate regulatory strategies, methods, and action(s)
- Monitor macro-prudential indicators and trends, and support multi-jurisdiction efforts in addressing related potential solvency problems

Benefits of FAWG

- Provides a strong check and balance on supervisory processes
- Encourages supervisory cooperation and communication
- Brings diversity of experience and perspective, including jurisdictions not directly involved with an insurer or event
- Builds stronger supervisory relationships and trust
- Results in convergence of supervisory review and reporting best practices and requirements
- Leads to early identification of issues
- Provides for timely and effective supervisory processes

NAIC has formed a Group Solvency Issues (EX) Working Group to consider possible enhancements to US Group Supervision

- Strengthening holding company laws and regulations
- Consider best practices for group supervision and group capital considerations
- Engage in and monitor supervisory colleges activities
- Enhance methods of communication and coordination amongst cross-border and cross-sectoral supervisors
- Provide into related IAIS standard and guidance papers and ComFrame as it relates to groups

GSIWG Accomplishments



- Enhanced Financial Regulation Standards and Accreditation Program Part B Guidelines regarding holding company analysis
 - Depth of Review and documentation guidelines
- Built a Web-based form to allow other jurisdictions to request U.S. state insurance regulator participation on supervisory colleges
- State supervisory college tracking documentation

GSIWG Accomplishments

Revisions to the Holding Company Models included the following:

- Enhancements to require disclosure of any enterprise risk within the insurance holding company system
- Clarification on the ability to access books and records and compelling production of information
- Notification of divestiture of any controlling interest
- Established expectation of funding with regard to regulator participation in supervisory colleges
- Enhancements in corporate governance, such as Board of Director and Senior Management responsibilities
- New requirements related to agreements for cost sharing services and management
- Enhanced requirements regarding amendments or modifications of affiliated agreements

GSIWG Accomplishments



Regulation - Enterprise Risk Report (Form F) – Include the following areas:

- Any material developments regarding strategy, internal audit findings, compliance or risk management affecting the insurance holding company system;
- Acquisition or disposal of insurance entities and reallocating of existing financial or insurance entities within the insurance holding company system;
- Any changes of shareholders of the insurance holding company system exceeding ten percent (10%) or more of voting securities;
- Developments in various investigations, regulatory activities or litigation that may have a significant bearing or impact on the insurance holding company system;
- Business plan of the insurance holding company system and summarized strategies for next 12 months;

Regulation - Enterprise Risk Report (Form F) – Include the following areas:

- Identification of material concerns of the insurance holding company system raised by supervisory college, if any, in last year;
- Identification of insurance holding company system capital resources and material distribution patterns;
- Identification of any negative movement, or discussions with rating agencies which may have caused, or may cause, potential negative movement in the credit ratings and individual insurer financial strength ratings assessment of the insurance holding company system (including both the rating score and outlook);
- Information on corporate or parental guarantees throughout the holding company and the expected source of liquidity should such guarantees be called upon; and
- Identification of any material activity or development of the insurance holding company system that, in the opinion of senior management, could adversely affect the insurance holding company system.

GSIWG ACCOMPLISHMENTS



Participated heavily in IAIS initiatives regarding group supervision, including principles, standards and guideline developments

- Guidance Paper on the Treatment of Non-Regulated Entities in Group-wide Supervision – April 2010
- Principles on Group-wide Supervision – 2008
- Guidance Paper on the Use of Supervisory Colleges in Group-wide Supervision - 2009
- Hosted North American Regional Roundtable on Supervisory Colleges in Kansas City in May 2011
- Issues Paper on Resolution of Cross-Border Insurance Entities

GSIWG CURRENT PROJECTS



- Drafting Holding Company & Supervisory College Best Practices document, which includes:
 - Cross Border & Other Financial Sectors Considerations
 - Information From Federal Agencies
 - Ownership and Control
 - Standards of Management
 - Affiliated Management & Service Agreements
 - Lead State Coordination & Communication
- Studying the need for more uniform holding company financial reporting
- Drafting Own Risk and Solvency Assessment requirements
- Drafting a group capital assessment process
- Proposed a new detailed holding company system schedule that will be data captured

GSIWG Current Projects



- Focus on Risk Management with an Own Risk and Solvency Assessment (ORSA)
 - Many US regulators believe that some form of ORSA would have regulatory value as companies' risk management process is integrated into assessment
- US exposed an ORSA requirement Feb. 11 with comments due March 18 (Based upon ICP 16)
- Initial sections proposed
 - Section 1 - Description of the Risk Management Policy
 - Section 2 - Quantitative Measurements of Risk Exposure in Normal and Stressed Environments
 - Section 3 - Prospective Solvency Assessment
- ERM Interim Meeting (July 21-22)
 - Insurance groups will introduce their ERM so regulators can observe the current state of practice

Challenges and Considerations

Different jurisdictional views

<u>U.S.</u>	<u>Other</u>
Functional regulator dependence and group coordination	Group supervisor with rights and duties
Holding company structures are endless	Insurance holdings limited to “Financial” holding company structures
Establishing group capital assessment practices	Establishing group capital “requirements”

Challenges and Considerations

- Understanding potential risks with non-insurance and/or international affiliates within the holding company system
 - Unique risks and challenges in global markets
 - Legal precedent varies by jurisdictions
 - Assessing interconnected activities of affiliates
- Identification of ultimate controlling person/entity
 - Direct/Indirect ownership, voting rights, common management, attorney-in-fact, influence, etc.
- Identifying the group supervisor(s) for a group
- Over reliance on management's group risk assessment and management's capabilities
- Over reliance on rating agency financial strength ratings
- Understanding supervisory approaches of other jurisdictions

The Future?

- Supervisory colleges will provide strong forum for functional regulator coordination and collaboration
- More supervision of areas not previously supervised or supervised well
- Supervisory practices must go beyond principles and rules
- Global understanding and some global modernization

QUESTIONS?