UNITED STATES

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DETAILED ASSESSMENT OF IMPLEMENTATION SELF-ASSESSMENT

INSURANCE CORE PRINCIPLES

Prepared By **Monetary and Capital Markets Department**	The template was prepared in the context of an IMF Financial Sector Assessment Program (FSAP) mission in the United States in October 2019–March 2020 led by Michaela Erbenova, IMF and overseen by the Monetary and Capital Markets Department, IMF. Further information on the FSAP program can be found at http://www.imf.org/external/np/fsap/fssa.aspx

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INTRODUCTION

Jurisdiction:	United States of America
Authority(ies):	Federal Insurance Office; Board of Governors of the Federal Reserve System, and insurance regulators for the 50 states, the District of Columbia, and 5 territories

This self-assessment questionnaire has been prepared with reference to the *Insurance Core Principles, Standards, Guidance and Assessment Methodology,* which was issued by the IAIS on 1 October 2011 and amended in November 2018 (ICP Materials).

Disclaimer: The self-assessment covers a subset of Principles deemed relevant for the scope of the 2020 United States FSAP exercise comprising the Principles 1, 2, 4, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 19, and 23, as well as the revised but not yet adopted Principles 24 and 25.

INTRODUCTORY STATEMENT

The insurance industry is a significant component of the U.S. economy. Over 700 licensed Life/Health (L/H) insurance entities and over 2,600 licensed Property/Casualty (P/C) insurance entities operate in the United States, and those figures exclude insurers licensed solely to write health insurance as well as other specialized firms such as title insurers. Some insurers based or doing business in the United States write a limited number of lines of business, while others are comprehensive providers. These insurance firms also vary with respect to scope, with firms having different levels of local, regional, national, and/or international business.

In 2018, net written premiums for the L/H sector were approximately $604 billion and net written premiums for the P/C sector were approximately $615 billion. As of December 31, 2018, the L/H sector held approximately $6.8 trillion of total assets (including $2.5 trillion held in separate accounts), while the P/C sector held approximately $2.0 trillion of total assets.[1]

The regulation of insurance in the United States has a long, established history. The first insurance company founded in the United States was established in 1752. Since the mid-nineteenth century, the insurance sector has been regulated and overseen by a state-based regulatory framework—not a federal one. Since the first FSAP in 2010, however, the U.S. system of insurance regulation, supervision, and oversight has evolved. Building on the established, state-based regulatory framework, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or DFA), passed in 2010, created an increased role for the federal government in the insurance sector. The U.S. system of insurance regulation now provides complementary, tiered regulation, supervision, and oversight by state and federal agencies.

The business of insurance continues to be regulated primarily at the state level in the United States. Each state's legislature enacts insurance laws and empowers agencies within that state with the implementation and enforcement of those laws. The National Association of Insurance Commissioners (NAIC) is the standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate their regulatory oversight.

A standard legal framework for state insurance regulation has been created over many years through the development and adoption of NAIC model laws, regulations, and other NAIC requirements, among other inputs. Although model laws require state legislative enactment to become effective, a core set of solvency regulation standards are effectively obligatory by operation of the NAIC Accreditation Program. The NAIC Accreditation Program was established to develop and maintain standards to promote sound insurance company financial solvency regulation. The NAIC Accreditation Program requires a state insurance department to demonstrate that they meet a wide range of legal, financial, functional, and organizational standards as determined by a committee of their peers. The NAIC Accreditation Program emphasizes: (1) solvency laws and regulations to protect consumers, including risk-based capital requirements; (2) financial analysis and examination processes based on priority status of insurers; (3) cooperation and information sharing with other state, federal, or foreign

[1] These data were collected by FIO from SNL Financial.

regulatory officials; (4) action when insurance companies are identified as financially troubled or potentially financially troubled; (5) oversight by department management; (6) organizational and personnel practices; and (7) processes for company licensing and review of proposed changes in control. All fifty states, the District of Columbia, and Puerto Rico are currently accredited.

At the federal level, the Board of Governors of the Federal Reserve System (FRB or Federal Reserve), the Federal Insurance Office (FIO) within the U.S. Department of the Treasury (Treasury), and the Financial Stability Oversight Council (FSOC) are active in the U.S. insurance sector.

The Federal Reserve is the primary, consolidated federal regulator of bank holding companies (BHCs), savings and loan holding companies (SLHCs), certain foreign banking organizations with U.S. operations (FBOs), and nonbank financial companies the FSOC has determined should be subject to supervision by the FRB and enhanced prudential standards (nonbank financial companies). In some instances, those supervised entities are predominately engaged in the business of insurance. The FRB regulates their operations, activities, and capital to varying degrees, among other things.

The FRB's authority to supervise these entities, including conducting examinations, is provided in the Bank Holding Company Act of 1956 (BHC Act), Home Owners' Loan Act (HOLA), International Banking Act, and Dodd-Frank Act, among others. Generally, the objective of FRB regulation and supervision of BHCs, SLHCs, and FBOs is to ensure that companies that control depository institutions operate in a safe and sound manner and in compliance with applicable laws and regulations. The objective of FRB regulation and supervision of a nonbank financial company is to ensure that the company operates in a safe and sound manner and to prevent or mitigate risks to U.S. financial stability that could arise from the material financial distress or activities of a nonbank financial company.

FIO was created by the Dodd-Frank Act. See 31 U.S.C. § 313(a). FIO has the authority "to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the United States financial system" and "to monitor the extent to which traditionally underserved communities and consumers, minorities . . . and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance." 31 U.S.C. § 313(c)(1)(A)-(B). FIO has authorities regarding financial stability through its work on and in support of the FSOC (discussed below), and through its representation of the United States at the International Association of Insurance Supervisors (IAIS). FIO's authority also extends to prudential aspects of international insurance matters: FIO is authorized "to coordinate Federal efforts and develop Federal policy on prudential aspects of international insurance matters, including representing the United States, as appropriate, in the IAIS" and "to consult with the States (including State insurance regulators) regarding . . . prudential insurance matters of international importance." 31 U.S.C. §§ 313(c)(1)(E) and (G).

The FSOC was established by the Dodd-Frank Act and is charged with: (1) identifying risks to the financial stability of the United States that could result from the material financial distress or failure, or ongoing activities, of large, interconnected bank holding companies or nonbank financial companies, or that could arise outside the financial services marketplace; (2) promoting market discipline by eliminating expectations that the U.S. government will shield shareholders, creditors, and counterparties from losses in the event of failure; and (3) responding to emerging threats to the stability of the U.S. financial sector. There are ten voting members and five non-voting members of the FSOC. The Chair of the FRB serves as a voting member of the FSOC and the Director of FIO serves as a nonvoting member. The FSOC also includes an independent member with insurance expertise who is appointed by the President and confirmed by the Senate for a six-year term (as a voting member), and a state insurance commissioner designated by the state insurance commissioners for a two-year term (as a nonvoting member). FSOC may designate nonbank financial companies, including insurers or their holding companies, for enhanced prudential oversight and supervision by the FRB. The FSOC itself does not directly supervise any insurance company (or other commercial entities).

On the international front, all 50 states, the District of Columbia, and five U.S. territories, NAIC, FRB, and FIO are members of the IAIS, holding leadership roles and supporting the IAIS's major standard setting initiatives by working with fellow regulators from around the world to improve standards of supervision for cross-border insurers, identifying systemic risk in the insurance sector, and setting international best practices.

This Self-Assessment provides a combined response by U.S. federal and state authorities (the states through the NAIC, FIO, and the FRB) as to the procedures, processes, and implementation aspects of the matters that are the subject of this FSAP. This introduction and the overview of the Preconditions for Effective Insurance Supervision are submitted jointly. Unless otherwise indicated, each authority has submitted an individual response herein to the ICPs and standards. Some ICPs and standards do not apply to all of the authorities; for such ICPs and standards, only the applicable authority or authorities have submitted a response.

PRECONDITIONS FOR EFFECTIVE INSURANCE SUPERVISION

Sound and sustainable macroeconomic and financial sector policies

The goals of monetary policy are spelled out in the Federal Reserve Act, which specifies that the FRB and the Federal Open Market Committee (FOMC) should seek "to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates." Stable prices in the long run as well as moderate long-term interest rates are preconditions for maximum sustainable output growth and employment. When prices are stable and believed likely to remain so, the prices of goods, services, materials, and labor are undistorted by inflation and serve as clearer signals and guides to the efficient allocation of resources and thus contribute to higher standards of living. Moreover, stable prices foster saving and capital formation, because when the risk of erosion of asset values resulting from inflation—and the need to guard against such losses—are minimized, households are encouraged to save more and businesses are encouraged to invest more.

Beyond influencing the level of prices and the level of output in the near term, the FRB can contribute to financial stability and better economic performance by acting to contain certain financial disruptions and to prevent their spread outside the financial sector. As noted in the most recent Monetary Policy Report to the U.S. Congress, the FRB stated:

> The U.S. financial system continues to be substantially more resilient than in the period leading up to the financial crisis. Asset valuations remain somewhat elevated in a number of markets, with investors continuing to exhibit high appetite for risk. Borrowing by businesses continues to outpace GDP, with the most rapid increases in debt concentrated among the riskiest firms. In contrast, household borrowing remains modest relative to income, and the debt growth is concentrated among borrowers with high credit scores. Key financial institutions, including the

> largest banks, continue to be well capitalized and hold large quantities of liquid assets. Funding risks in the financial system remain low relative to the period leading up to the crisis.

Monetary Policy Report to the U.S. Congress (July 5, 2019), available at https://www.federalreserve.gov/monetarypolicy/2019-07-mpr-summary.htm.

The U.S. financial market primarily consists of three sectors: (1) insurance; (2) banking; and (3) securities. As noted in the Introductory Statement, the insurance sector is primarily regulated by the states and the FRB, with FIO having a complementary monitoring and international role. The banking sector is regulated at the federal level by the FRB, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration. The U.S. financial regulatory structure is a system of a variety of federal and state regulators as well as self-regulatory organizations (SROs). Financial products or activities are generally regulated according to their function, no matter who offers the product or participates in the activity, whether considered in the insurance, banking, or securities sectors. At the federal level, the securities industry is regulated under a combination of self-regulation subject to oversight by the Securities and Exchange Commission (SEC). The SEC oversees the securities industry SROs, including securities exchanges, clearing agencies, and the Financial Industry Regulatory Authority, and the securities industry as a whole, and is responsible for administering federal securities laws and developing regulations for the industry. In addition to these regulatory bodies, the Commodity Futures Trading Commission (CFTC) polices the markets for futures, options on futures, and swaps, and works to ensure the protection of customer funds, including those held by certain financial institutions operating in those markets. In this regard, the CFTC oversees designated contract markets, swap execution facilities, derivative clearing organizations, swap data repositories, swap dealers, major swap participants, futures commission merchants, commodity pool operators, and other intermediaries.

The U.S. financial regulatory framework was enhanced by the enactment of the Dodd-Frank Act, the implementation of which included further strengthening of supervision, capital, and risk-management standards for financial companies and financial market utilities; procedures for periodic supervisory and company-run stress tests; rule-makings related to the orderly liquidation authority; regulation of the derivatives markets to reduce risk and increase transparency; new standards to protect mortgage borrowers and reduce risks in the mortgage market; and other measures to enhance consumer and investor protection.

A well-developed public infrastructure (including accounting, auditing and actuarial standards)

The United States has a well-documented, well-developed public infrastructure, with authorities at both the federal and state levels, as well as an efficient and independent judiciary at both the state and federal levels.

The United States also has a well-established infrastructure for financial reporting by market participants, including insurers. For general-purpose reporting to investors and creditors, U.S. firms follow Generally Accepted Accounting Principles (GAAP) as promulgated by the Financial Accounting Standards Board (FASB). For firms whose shares are traded on exchanges, the SEC provides additional reporting requirements, oversight and enforcement. In 2002, the Sarbanes-Oxley Act created the Public Company Accounting Oversight Board (PCAOB), which establishes auditing and related professional practice standards for registered public accounting firms to follow in the preparation and issuance of audit reports. The PCAOB has standards in place for auditing, attestation, quality control, ethics, and independence.

Insurance legal entity subsidiaries of insurance holding companies are also subject to additional financial reporting requirements by state insurance authorities. Such entities are generally required to file detailed annual and quarterly financial statements with supporting schedules and disclosures, which are made available to the public. Such financial statements are generally prepared on the basis of statutory accounting principles (SAP) as promulgated by the NAIC's Accounting Practices and Procedures Manual (APPM). SAP supports prudential oversight by state regulators with a focus on solvency. Insurance entities are also generally required to file annual independent audit reports on their SAP-basis financial statements with state insurance regulators.

State insurance regulations require insurers to have an "appointed actuary," who must meet regulatory requirements as a "Qualified Actuary." To be a Qualified Actuary, the individual must meet specific education, experience, and continuing education requirements, as well as various conditions established under the NAIC's Model Actuarial Opinion and Memorandum Regulation. The actuary issues an opinion as a public document that is submitted to the state supervisors, the NAIC, and to the company's Board of Directors. In addition to the public actuarial opinion, the actuary must prepare an Actuarial Memorandum and a Regulatory Asset Adequacy Issues Summary (for life insurance) and an Actuarial Report and Summary (for P&C insurance).

Effective market discipline in the financial sector

In the United States, institutions and marketplaces provide platforms for allowing pricing mechanisms to allocate scarce resources so willing buyers can be matched with willing sellers informed by disclosure regarding financial products. A diversified and large number of U.S. financial institutions comprise a competitive marketplace. Disclosure of financial information by institutions is mandated by rules emanating from prudential regulators such as the SEC, the CFTC, and prudential regulators such as the federal banking agencies, and state insurance departments. Publicly-traded companies are required under federal securities laws to provide annual, quarterly, and periodic disclosures of material information. As noted in the response to Precondition (b), insurers have additional requirements to complete regular disclosures to state insurance regulators. Forward looking market signals are a key aspect of market discipline provided by the financial markets. In addition, the proper pricing of default risk, typically through credit default swaps and other market based products, is now an essential component of market discipline.

In the insurance sector, U.S. state insurance regulators took some initial steps to implement the advice of the Financial Stability Board related to reduction of the mechanistic reliance on credit rating agency ratings by engaging two a risk modeling firms to assist with evaluation of the residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) held by insurers. To ensure further market discipline, insurers writing business in the United States must submit each RMBS and CMBS eligible for financial modeling for a regulatory credit risk designation determined by the NAIC's Structured Securities Group (SSG) that feeds into the U.S. Risk-Based Capital (RBC) evaluation framework. This approach independently assesses the risk of these assets. In addition, the NAIC Securities Valuation Office (SVO) performs its own credit analysis on issues not rated by the credit rating agencies (e.g., private placements) and also assigns credit risk designations for regulatory use; including, feeding into the U.S. Risk-Based Capital (RBC) evaluation framework.

Mechanisms for providing an appropriate level of systemic protection (or public safety net)

As noted in the response to Precondition (a), the Dodd-Frank Act includes a number of provisions to strengthen the financial stability of the United States. Among these measures is the FSOC, which is chaired by the Secretary of the Treasury, and consists of 10 voting members and 5 nonvoting members. The FSOC brings together the expertise of federal financial regulators, state financial regulators, and an independent insurance expert appointed by the President. The FSOC is charged with identifying risks to the financial stability of the United States, promoting market discipline, and responding to emerging risks to the stability of the financial system of the United States. The Dodd-Frank Act also authorizes the FSOC to designate systemically important nonbank financial companies, including insurers, for enhanced prudential standards and supervision by the FRB. The FSOC is also authorized to designate systemically important financial market utilities (FMUs). To support the activities of the FSOC and its member agencies, the Dodd-Frank Act also created the Office of Financial Research (OFR), within Treasury, to collect and improve the quality of financial data and develop tools to evaluate risks to the financial system. The Dodd-Frank Act requires the FSOC to report annually to Congress. These reports are collectively drafted by FSOC members, and highlight significant financial market and regulatory developments and an assessment of the impact of those developments on the stability of the financial system, along with potential emerging threats to the financial stability of the United States. In addition, the reports provide recommendations to enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets; promote market discipline; and maintain investor confidence.

Any member of the FSOC may recommend to the FSOC that it designate an insurer, including the affiliates of such insurer, as a nonbank financial company subject to supervision by the FRB and enhanced prudential standards. Nonbank financial companies designated by the FSOC are assigned to the Large Institution Supervision Coordinating Committee (LISCC) portfolio within the FRB's Division of Supervision and Regulation. The LISCC is a Federal Reserve System-wide committee, chaired by the director of the FRB's Division of Supervision and Regulation, which is tasked with overseeing the supervision of the largest, most systemically important financial institutions in the United States. In addition, under section 165 of the Dodd-Frank Act, as revised by EGRRCPA, the FRB is directed to generally apply enhanced prudential standards to BHCs with more than $250 billion in total assets and may apply enhanced prudential standards to BHCs with total assets equal to or greater than $100 billion and less than $250 billion if the FRB determines that application of the prudential standard is appropriate to prevent or mitigate risks to the financial stability of the United States, or promote the safety and soundness of the BHC. Further, the application of enhanced prudential standards applies to nonbank financial companies designated by the FSOC, including those engaged in insurance activities, with respect to liquidity, risk management, and capital. These standards are required to be more stringent than those standards applicable to other BHCs that do not present similar risks to U.S. financial stability and must increase in stringency based on several factors, including the size and risk characteristics of a company subject to FRB regulations.

Title II of the Dodd-Frank Act provides additional systemic protection through the procedures for orderly liquidation authority set out therein. Under Title II, for an insurer or a holding company for which the largest subsidiary is an insurer, the Secretary of the Treasury (in consultation with the President) may, following a recommendation by the Director of FIO and the FRB made in consultation with the FDIC, make a systemic risk determination, pursuant to statutorily prescribed criteria, to place such company into receivership. Title II provides that the liquidation of an insurer shall be conducted under applicable state law. If the appropriate state regulator does not act within sixty days to begin orderly liquidation proceedings for the insurer, the FDIC has the authority to "stand in the place of the appropriate regulatory agency and file the appropriate judicial action in the appropriate State court to place such company into orderly liquidation under the laws and requirements of the State."

At the state level, guaranty funds have been established by each state to provide a safety net for policyholders and other claimants and beneficiaries of insurance coverage. Guaranty fund protection is triggered by a judicial finding of an insurance entity's insolvency, and serves to indemnify, up to the limits allowed by state law, policyholders and other claimants and beneficiaries of insurance coverage. Most personal lines insurance products are subject to some guaranty fund protection, the terms of which vary by state; however, some insurance lines, such as residential mortgage and credit insurance written by monoline insurers, are not subject to guaranty fund protection.

Efficient financial markets.

The United States has efficient, deep, liquid, and transparent financial markets. These markets include the New York Stock Exchange, NASDAQ, and futures exchanges, among others. These exchanges support the world's largest economy with significant capitalizations. The United States has a very reliable, effective, efficient, and fair legal and judicial system, where judgments are enforced.

The United States also maintains high standards for financial reporting activities, including actuarial and auditing activities. Publicly-traded U.S. corporations file extensive disclosures with the SEC. The SEC requires public companies to disclose a significant level of financial and other information to the public. This provides a common information source available for all investors to use to judge whether to buy, sell, or hold a particular security. The result of this information flow is an active, efficient, and transparent capital market that facilitates capital formation and economic development.

The insurance sector is an essential participant in the U.S. financial markets. The Introductory Statement lays out metrics showing the magnitude of the U.S. insurance sector. U.S. insurers offer a full range of insurance products in the L/H sector and the P/C sector. Information on U.S. insurers is available through SEC filings (for publicly held insurers) and through additional financial filings made with state insurance authorities.

DETAILED QUESTIONAIRE

The following standards have been developed by IAIS. To address them, the authorities should have as a reference the guidance accompanying each Principle and Standard, which provides detail on how to implement each Principle and Standard. **The questionnaire below covers the subset of Principles and Standards deemed relevant for the scope of the 2020 United States FSAP exercise.**

ICP/Std.	Description
ICP 1	**Objectives, Powers and Responsibilities of the Supervisor**
1	The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.
1	The U.S. system of insurance regulation provides complementary, tiered regulation, supervision, and oversight by state and federal agencies. **FIO:** FAs set forth in Title V of the Dodd-Frank Act (which enacts the Federal Insurance Office Act of 2010), "there is established within the Department of the Treasury the Federal Insurance Office." 31 U.S.C. § 313(a). FIO's authorities and objectives are clearly set out in Title V of the Dodd-Frank Act. Pursuant to Title V, FIO is authorized: (1) to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the U.S. financial system; (2) to monitor the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance; (3) to recommend to the FSOC that it designate an insurer, including the affiliates of such insurer, as an entity subject to regulation as a nonbank financial company supervised by the FRB; (4) to assist the Secretary of the Treasury in administering the Terrorism Risk Insurance Program established in the Department of the Treasury under the Terrorism Risk Insurance Act of 2002; (5) to coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters, including representing the United States, as appropriate, in the IAIS (or a successor entity) and assisting the Secretary in negotiating covered agreements; (6) to determine (in accordance with Title V) whether state insurance measures are preempted by covered agreements; (7) to consult with the states (including state insurance regulators) regarding insurance matters of national importance and prudential insurance matters of international importance; and (8) to perform such other related duties and authorities as may be assigned to FIO by the Secretary. See 31 U.S.C. § 313(c)(1). **FRB:** As noted in the introduction, the FRB is the consolidated supervisor of, among other companies, BHCs, SLHCs, FBOs, and nonbank financial companies designated by the Financial Stability Oversight Council for supervision by the FRB (designated nonbank financial companies) and conducts prudential regulation and supervision of such entities. The FRB's authority to supervise these entities, including conducting examinations, is provided in the BHC Act, HOLA, International Banking Act, and Dodd-Frank Act, respectively. The objective of FRB regulation and supervision of BHCs, SLHCs, and FBOs is to ensure that the entities operate in a safe and sound manner and in compliance with banking laws. The objective of FRB regulation

	and supervision of designated nonbank financial companies engaged in the business of insurance is to reduce the threat the insurer may pose to the financial stability of the United States. Consistent with U.S. legal and regulatory framework, the FRB works closely with other relevant state and federal regulators, including through appropriate consultation, and relies to the fullest extent possible on the examinations and other reports made by other federal and state regulators relating to supervised entities. For example, for insurers, the FRB relies significantly on legal entity examinations conducted by state insurance regulators. Certain BHCs, SLHCs, state member banks, FBOs, and designated nonbank financial companies directly engage in insurance activities or are affiliated with insurance companies or agencies. The primary supervisors of the insurance activities are the individual states in which the insurance companies are organized and operate. In carrying out its supervisory activities, the FRB routinely communicates and coordinates supervision with state insurance regulators, including those responsible for licensing, regulating, and supervising the insurance subsidiaries of the BHCs, SLHCs, state member banks, FBOs, and designated nonbank financial companies. **States:** Each U.S. state, district, and territory has established an executive branch department or division dedicated to the regulation of insurance.[2] The U.S. insurance supervisory framework is designed to meet two principal objectives: the protection of the insurance consumer and the maintenance of solvent insurance companies. The primary function of insurance regulation is to promote stable insurance markets, thereby protecting the public by ensuring fair contracts at fairly administered prices from financially strong companies. Laws enacted by the legislatures in each jurisdiction define the authority of the insurance regulator and govern the conduct of the insurance industry within that jurisdiction.[3] These comprehensive state insurance codes provide the requirements to do business in a state (whether as a domestic, foreign or alien insurer), financial solvency standards, licensing and conduct standards for insurance intermediaries (referred to as "producers" in the U.S.), and market conduct requirements. Laws are supplemented by administrative regulations developed pursuant to legislative authorization, department guidance issued through bulletins and circular letters, and administrative procedures. The insurance regulator is charged with enforcing those laws and generally supervising the conduct of the business of insurance within the jurisdiction. Generally, state insurance departments are organized around two important interrelated central areas of regulation: financial regulation and market regulation. Financial regulation encompasses licensing of companies, reporting and financial analysis, insurance holding company and group supervision, capital and surplus requirements, examinations of companies, regulation of reserves and investments, and insolvencies.

[2] "Regulate" and "supervise" are used interchangeably throughout this document. For the remainder of this document, "state" should be read to include districts and territories.

[3] For purposes of the state regulators' response, regulator, insurance regulator, state regulator, state insurance regulator, supervisor, insurance supervisor, commissioner, insurance commissioner, state insurance commissioner, insurance department, state insurance department are used interchangeably throughout the document.

	Market regulation focuses on prevention of unfair trade practices (including unfair claims settlement practices), analysis and approval of policy rates and forms, producer licensing, prevention of unlicensed insurance activities, antifraud efforts, and consumer complaints and assistance. The NAIC's Accreditation Program verifies that each state has the necessary laws in place to properly and appropriately regulate the financial solvency of its domestic multistate insurers that do business across state borders. In order to be accredited, a state must have in place various requirements via statute, regulation or administrative practice to provide it with adequate power to regulate its domestic and multistate insurers for financial solvency. These requirements relate to 20 topical areas determined by insurance regulators to provide the bulwark for sound financial regulation.
1.1	Primary legislation clearly defines the authority (or authorities) responsible for insurance supervision.
1.1	**<u>FIO:</u>** As set forth in FIO's response to ICP 1, the Dodd-Frank Act establishes the authorities of FIO. **<u>FRB:</u>** The FRB is the top-tier supervisor of the consolidated operations of all BHCs and SLHCs. See 12 U.S.C. § 1841, et seq., and 12 U.S.C. § 1467a. The FRB is also the top-tier supervisor of the consolidated operations of designated nonbank financial companies. See 12 U.S.C. § 5333. Congress has made clear that direct supervision of the insurance activities of BHCs, SLHCs, and designated nonbank financial companies occurs at the state level in the jurisdictions in which the activities are conducted. See, e.g., 12 U.S.C. § 1844(g)(1)(B). **<u>States:</u>** Through legislation enacted by state legislatures, the state insurance departments have legal authority, enforcement powers, and financial resources to exercise their functions and powers. Each state has the power to supervise any individual or entity that is transacting insurance business (within that state) as defined by the law, including insurers, reinsurers, captives, health maintenance organizations, and insurance producers. The comprehensive legal and regulatory framework set forth in state statutes gives each state the power to issue and enforce rules and other regulations, take appropriate actions as and when required, and discharge its supervisory responsibilities effectively. *See* Principle Statement 1 for additional information.
1.2	Primary legislation clearly defines the objectives of insurance supervision and the mandate and responsibilities of the supervisor and gives the supervisor adequate powers to conduct insurance supervision, including powers to issue and enforce rules by administrative means and take immediate action.
1.2	**<u>FIO:</u>** The response to ICP 1 sets forth the objectives that Titles I, II and V of the Dodd-Frank Act establish for FIO. In carrying out its functions, FIO is authorized to "receive and collect data and information on and from the insurance industry and insurers; enter into information-sharing agreements; analyze and disseminate data and information; and issue reports regarding all lines of insurance, except health insurance." 31 U.S.C. § 313(c)(1)(b). FIO "may require an insurer, or any affiliate of an insurer, to submit such data or information as the Office may reasonably require in carrying out the functions," provided that FIO first "coordinate with each relevant Federal agency and State insurance regulator (or other relevant Federal or State regulatory

	agency, if any, in the case of an affiliate of an insurer) and any publicly available sources to determine if the information to be collected is available from, and may be obtained in a timely manner by, such Federal agency or State insurance regulator, individually or collectively, other regulatory agency, or publicly available sources." 31 U.S.C. § § 313(e)(2), (4). The Director of FIO has the power under Title V of the Dodd-Frank Act to require by subpoena the production of data or information from insurers and affiliates, "but only upon a written finding by the Director that such data or information is required to carry out [FIO's statutory] functions . . . and that the Office has coordinated with [relevant federal agencies, state insurance regulator or other regulatory agencies, individually or collectively, to determine if the information to be collected is available from, and may be obtained in a timely manner from the agencies, regulators or publicly available sources]." 31 U.S.C. § 313(e)(6). **FRB:** The FRB's supervision of banking organizations, including those engaged directly or indirectly in insurance activities, is focused on consolidated risk exposures, financial strength, capital adequacy, and liquidity. One of the primary goals of the FRB's consolidated supervision of banking organizations is to protect the depository institution (DI) subsidiaries from potential risks posed by the holding company and other affiliates. The scope of consolidated supervision for designated nonbank financial companies is focused on enhancing the resiliency of the firm to lower the probability of its failure or inability to serve as a financial intermediary reducing the impact that the firm's failure or material weakness could have on the financial stability of the United States. The primary supervisor of the insurance activities of BHCs, SLHCs, state member banks, FBOs, and designated nonbank financial companies are the states in which the activities are conducted. The FRB has authority to take enforcement actions against a BHC or SLHC. See 12 U.S.C. §§ 1818(b), 1844(e) and (f), and 1467a(e) and (g). The FRB may take enforcement action against a designated nonbank financial company and its subsidiaries pursuant to the Dodd-Frank Act. 12 U.S.C. § 5362. **States:** Laws enacted by the legislatures in each state govern the conduct of the insurance industry within that jurisdiction. State statutes defines the objective of the departments to ensure the continued solvency, safety and soundness of insurers and to ensure fair, timely and equitable fulfillment of the financial obligations of insurers. State statutes are supplemented by administrative rule-making authority, allowing state insurance regulators to apply their expertise in implementing legislatively-granted powers. Through rule-making, state insurance regulators can issue and revise legally binding rules enforceable by administrative and judicial means. Taken together, statutes and administrative regulations allow for comprehensive regulation of all aspects of insurance business.
1.3	The principal objectives of supervision promote the maintenance of a fair, safe and stable insurance sector for the benefit and protection of policyholders.
1.3	**FIO:** While FIO does not have general supervisory or regulatory authority, it does have specific statutory authority complementary to the roles of the FRB and the states. In addition to supporting work that promotes national financial stability by serving on and supporting the work of the FSOC, FIO has the authority "to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the United States financial system." 31 U.S.C. § § 313(c)(1)(A). FIO's financial stability role is further clarified through its

	authority to represent the United States, as appropriate, at the IAIS; the IAIS mission is "to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability." FIO also has the authority to "assist[] the Secretary in negotiating covered agreements" and "to determine . . . whether State insurance measures are pre-empted by covered agreements." 31 U.S.C. § 313(c)(1)(E), (F). Covered agreements are discussed further in FIO's response to ICP 13. FIO is also authorized "to monitor the extent to which traditionally underserved communities and consumers, minorities . . . and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance." 31 U.S.C. § 313(c)(1)(B). FIO publishes annual and special reports addressing this information. FIO also publishes annual reports regarding the state of the insurance industry, including national and international regulatory developments and issues of concern. **FRB:** The objective of FRB regulation and supervision of BHCs, SLHCs, and FBOs is to ensure that companies that control depository institutions operate in a safe and sound manner and in compliance with banking laws. This includes an assessment of the organization's risk-management systems, financial condition, and compliance with applicable banking laws and regulations. The primary objectives of the FRB's supervision of designated nonbank financial companies are two-fold: 1. To enhance resiliency of a firm to lower the probability of its failure or inability to serve as a financial intermediary, and 2. To reduce the impact on the financial system and the broader economy in the event of a firm's failure or material weakness. The primary supervision of insurance activities occurs at the state level. **States:** The state insurance regulatory framework is designed to meet two principal objectives: the protection of the insurance consumer and the maintenance of solvent insurance companies. Protection of the policyholder, beneficiaries and claimants is a top priority in all U.S. regulatory decisions. Yet regulators must continuously evaluate the optimum level of regulation in terms of the costs and benefits associated with facilitating effective and efficient markets for insurance products, the fair and equitable treatment of insurance consumers, and the financial stability and reliability of insurance institutions.
1.4	Where, in the fulfilment of its objectives, the supervisor identifies conflicts between legislation and supervisory objectives, the supervisor initiates or proposes correction in legislation.
1.4	**FIO:** FIO is authorized to monitor the insurance sector and its regulations, with particular authorities to identify areas appropriate for improved regulatory treatment. Pursuant to its authorities, FIO has identified conflicts between legislation and supervisory objectives. Through Treasury, FIO has recommended adoption of certain legislation at the state and federal levels in the report, *A Financial System That Creates Economic Opportunities: Asset Management and Insurance* (2017), https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-That-Creates-Economic-Opportunities-Asset_Management-Insurance.pdf. For example, this report recommends that the states promptly adopt the NAIC Insurance Data Security Model Law within 5 years, and recommends that if adoption and implementation of the

	Model Law do not result in uniform data security regulations within 5 years, Congress should pass a law setting forth requirements for insurer data security, but leaving supervision and enforcement with state insurance regulators. FIO has also publicly called for revised federal and state standards, regulations, and/or laws in several areas in its annual and periodic reports. See https://www.treasury.gov/initiatives/fio/reports-and-notices/Pages/default.aspx. **FRB:** The FRB's supervision of BHCs, SLHCs, designated nonbank financial companies, and other regulated entities is based upon federal statutes. The FRB does not believe there are any material conflicts between the fulfillment of its objectives and any current legislation. The FRB has a number of ways to communicate to the U.S. Congress. FRB members and staff often provide testimony to select committees and subcommittees of the U.S. Congress on a number of relevant issues, including in response to questions relating to proposed legislation or amendments to existing legislation. Speeches to the public and other public fora provide other avenues of communication. **States:** If there are any legislative changes needed to ensure that supervisory objectives can be achieved, state insurance regulators can make specific proposals for changes, including proposed amendments to legislation or new model laws, such as those jointly developed among regulators through the NAIC for consistency, to address such concerns. Either independently or in consultation with other executive branch officials, state insurance regulators promote legislation designed to correct potential conflicts and address new and emerging issues.
Comments	*Please Summarise the key strength and weaknesses*
ICP 2	**Supervisor**
2	The supervisor, in the exercise of its functions and powers: • is operationally independent, accountable and transparent; • protects confidential information; • has appropriate legal protection; • has adequate resources; • meets high professional standards.
2	**States:** The state insurance departments, and more specifically the commissioner and their offices, are granted authority under state statutes by their state legislative body(ies) to take various actions which collectively implement the function and powers of state insurance departments. The state insurance department is independent from the state's legislative body. The commissioner is either elected by the general population, appointed by the state governor, or overseen by an intermediate regulatory commission. The commissioner may serve for a fixed term of office or at the pleasure of the governor or appointing body.

The commissioner is generally the only employee within the state insurance department whose position is either elected or appointed.

The comprehensive legal and regulatory framework as set forth in statutes, regulations and other regulatory tools gives each state the power to gather and protect confidential information. For example, all states have adopted the NAIC Model Law on Examinations (Model #390), which sets forth these powers as they pertain to most of the financial information that is obtained by states in their function of monitoring the financial condition of insurers. The NAIC Accreditation Program also requires that the state insurance department have the regulatory authority to maintain the confidentiality of the information received from these other parties. In this regard, state insurance departments are required to have a documented policy to cooperate and share confidential information with officials of any state, federal agency or foreign country and the NAIC, as long as the other party has the authority and agrees to maintain the confidentiality of the information.

As verified under the NAIC Accreditation Program, each state must make an appropriate allocation of its available resources to effectively address its regulatory priorities. This requires each state to hire, train and maintain sufficient staff with high professional standards. This also requires each state to consider the need to hire external specialists to augment oversight of specialized areas. Part C of the NAIC Accreditation Program specifically addresses the issue of financial and human resources capabilities. The three standards in this area address professional development, minimum educational and experience requirements, and the ability to attract and retain qualified personnel.

FRB:

Independence – The FRB is composed of up to seven Governors, each of whom is appointed by the President with the advice and consent of the U.S. Senate. The Chair of the FRB serves a four-year term as chair, as do the governors designated to serve as Vice Chair of the FRB and the FRB's Vice Chair for Supervision. The full term of a Governor is 14 years; appointments are staggered so that one term expires on January 31 of each even-numbered year. The positions have no requirements for political affiliations, and there is no expectation that a Governor will resign at the conclusion of the term of the President who appointed him or her. In addition, the FRB is self-funded and, thus, is not subject to the federal budget process or congressional authorizations or appropriations.

Accountability – Members of the FRB can be removed for cause by the President. See 12 U.S.C. § 242. The FRB's response to ICP/Std. 2.1 contains additional information on accountability related to regular audits of the FRB and the Reserve Banks.

Transparency – The FRB prepares reports consistent with the Government Performance and Results Act of 1993, which requires certain federal agencies, in consultation with Congress and outside stakeholders, to prepare a strategic plan covering a multiyear period and to submit an annual performance plan and performance report. See 5 U.S.C. § 306 and 31 U.S.C. § 1115. The performance plans and assessments are incorporated into the FRB's annual report, which is required to be made public. The FRB is required, by separate statute, to report annually on regulatory and supervisory actions taken during the year. Together, these provisions provide tangible and transparent measures of agency performance against statutory and stated performance targets.

Protection of confidential information – Unless authorized by law, it is a crime for an employee of the U.S. federal government to divulge, disclose, or make known in any manner trade secrets or other confidential business information collected in the course of employment or official duties. See 18 U.S.C. § 1905. The FRB has detailed, clear rules regarding the availability of information and treatment of

	confidential information. See 12 CFR Part 261. These rules set forth the categories of information made available to the public, the procedures for obtaining documents and records, the procedures for limited release of exempt and confidential supervisory information, and the procedures for protecting confidential business information. In addition, the FRB has numerous, public supervisory policy letters (available on the FRB's website) concerning treatment of confidential and sensitive information, among other topics related to information handled by the FRB and its staff. **Appropriate legal protection** – The FRB and its staff are generally protected against lawsuits for actions and omissions made while discharging their duties in good faith. Sovereign immunity bars lawsuits without specific statutory authorization to pursue such litigation. Common law qualified immunity protects federal banking agencies' leadership and staff from liability for the violation of an individual's federal Constitutional rights in connection with employees' performance of discretionary functions, as long as the employees' conduct does not clearly violate established statutory or Constitutional rights. More detail is provided in the FRB's response to ICP/Std. 2.10. **Adequate resources** – The FRB is self-funded and has adequate resources to carry out its objectives. **Professionalism** – The FRB insists that all staff members maintain high professional standards and exhibit high integrity. Federal laws and regulations, as well as the FRB's conflict-of-interest rules and codes of conduct of, help to ensure that these standards are met. For example, FRB and its staff are subject to statutory restrictions on activities and affiliations that might raise conflicts of interests. See, e.g., 12 U.S.C. §§ 242 and 244 (prohibiting Federal Reserve governors from holding office in or stock of a member bank). Senior examination staff members of the FRB generally are subject to a one-year post-employment "cooling off" period with respect to entities they supervised. Examiners also are prohibited from accepting loans or gratuities from banks that they examine. See 18 USC § 213. These standards are reinforced by a number of criminal statutes, including those prohibiting corruption, bribery, theft, and fraud by agency employees. These laws are actively enforced. The FRB maintains administrative policies to ensure that appropriate codes of conduct are being followed. The policies outline the requirements for examiners and other supervisory staff concerning investment prohibitions, borrowing prohibitions, and recusal requirements based on considerations such as family, debt, or prior employment relationships. See Federal Reserve Administrative Manual, sections 5-041 and 5-035. The FRB has requirements related to the initial appointment of an examiner and promotion to commissioned examiner. In general, the guidance specifies standard information required for initial examiner appointments, such as professional qualifications, citizenship, and potential conflicts with depository institutions, their holding companies, or other affiliates (i.e., the prospective employee's completed conflicts of interest form), and outlines general requirements to be considered for appointment of an assistant examiner to commissioned examiners status, including proficiency tests that must be completed as well as practical supervisory work. The rigorous commissioning process for examiners promotes high standards of performance. See Federal Reserve Administrative Manual, section 5-040. **<u>FIO:</u>** Regarding independence, accountability, and transparency, as an office within the Treasury, FIO and its staff are bound by federal laws and regulations regarding the independence of decisions from external influences, including federal conflict of interest statutes, the Executive Branch Standards of Conduct, and Treasury's supplemental ethics regulations. In addition, FIO and its work are subject to the review of the U.S. Department of the Treasury Officer of the Inspector General; the General Accountability Office; and

	members and committees of Congress. FIO's work often occurs in a public forum or is disclosed to the public through various methods. The FSOC has adopted a transparency policy and promulgated regulations which govern its work, e.g. 12 CFR Part 1301 and 12 CFR Part 1310, and FIO's work on the FSOC is subject to these policies and procedures. FIO further informs the public of its work through notices published in the Federal Register, in its annual reports and special reports, through its advisory committee, and through direct engagement with stakeholders, and in public engagement, including through speeches and Congressional testimony. Regarding confidentiality, federal law, including Title V of the Dodd-Frank Act and the Federal Information Security Management Act (FISMA), affords protection of confidential information collected or otherwise obtained by FIO. Further, it is against federal law for FIO's staff members to divulge or disclose confidential business information collected in the course of employment or official duties. See 18 U.S.C. § 1905. FIO is also governed by various Treasury policies and procedures that afford protection of confidential information collected or otherwise obtained by FIO. See, e.g., Treasury Security Manual – TD P 15-71. Regarding legal protection, FIO and its staff are protected by the sovereign immunity of the U.S. government against lawsuits for actions taken in good faith while discharging duties. Regarding resources, FIO has adequate resources to attract and retain skilled and experienced staff. As an office within Treasury, FIO's staff members have the opportunity to receive training on a variety of subjects. Regarding professional standards, as an office of Treasury, FIO and its staff are held to high standards of integrity and professionalism, and are subject to the Standards of Ethical Conduct for Employees of the Executive Branch.
2.1	The governance structure of the supervisor is clearly defined. Internal governance procedures, including internal audit arrangements, are in place to ensure the integrity of supervisory actions. There is effective communication and prompt escalation of significant issues to appropriate levels within the supervisor. The decision-making lines of the supervisor are structured in such a way that action can be taken immediately in the case of an emergency.
2.1	**States:** Official actions of the insurance department typically occur in the name of the insurance commissioner, who is vested with the authority and oversight of the insurance department. Insurance departments are divided into sections with responsibility for direct regulation of certain areas (e.g., financial surveillance, rates and forms, producer licensing). The section heads report to the commissioner or deputy commissioner. Organizational charts define internal reporting and areas of responsibility. When combined with authority granted by law and regulation, subject matter experts can address issues while escalating matters internally that may require the attention of the section head and/or action of the commissioner. The NAIC Accreditation Program provides for a review of an insurance department's policies and procedures regarding regulatory actions and the timeliness and appropriateness of action taken by a department's chain of command. Most states have a state auditor's office which reviews the functions and procedures of state agencies, including the state's insurance department. **FRB:** The FRB is composed of up to seven governors, who are appointed by the President with the advice and consent of the U.S. Senate. The FRB appoints the directors of each of 14 divisions who supervise and coordinate the staff and activities of their respective divisions. Staff members meet regularly with each of the Governors. When appropriate, significant supervisory issues can be escalated promptly to appropriate

	levels. As evidenced during the financial crisis, when the FRB took swift steps to address various financial system problems, supervisory decision-making lines within the FRB are structured in such a way that action can be taken immediately in the case of an emergency. The FRB is audited annually by a major public accounting firm. The Government Accountability Office (GAO) also generally exercises its authority to conduct a number of reviews each year to look at specific aspects of the FRB's activities. The audit report of the public accounting firm and a complete list of GAO reviews under way are available in the FRB's Annual Report. Finally, the FRB contracts with an accounting firm to conduct an audit of each Reserve Bank every year, and FRB staff members periodically review the operations of the Reserve Banks in key functional areas. The Office of Inspector General (OIG) was established by Congress as an independent oversight authority within the Board of Governors of the Federal Reserve System. The OIG operates a Hotline to facilitate the reporting of fraud, waste, or abuse in either agency's programs or activities. **FIO** FIO and its staff are bound by federal law and regulation regarding the independence of decisions from external influences. As explained in FIO's response to ICP/Std. 2.4, federal laws and Treasury regulations that address conflicts of interest and related ethical issues are intended to ensure the integrity of FIO's actions.
2.2	There are explicit procedures regarding the appointment and dismissal of the head of the supervisor and members of its governing body, if such a governing body exists. When the head of the supervisor or members of its governing body are removed from office, the reasons are publicly disclosed.
2.2	**States:** The commissioner is either elected by the general population, appointed by the state governor, or overseen by an intermediate regulatory commission. The commissioner may serve for a fixed term of office or at the pleasure of the governor or appointing body. The commissioner is generally the only employee within the state insurance department whose position is either elected or appointed. Regardless of the method of attaining office, the insurance commissioner and his or her staff are accountable to the public for their work in office. State statutes generally provide the criteria needed to be eligible to be appointed to the position of commissioner and also provide the general grounds for removal from office. State laws, executive branch ethical codes, and insurance department protocols and procedures govern the official conduct of the commissioner and insurance department employees in discharging official functions. Taken together, these sources provide the means of imposing civil and criminal penalties and internal discipline in the event of wrongdoing, including removal from office or termination of employment. If a public employee is removed from office for a violation of state law they are subject to investigation or potential prosecution and that information is generally in the public domain. **FRB:** Members of the FRB are appointed to a full or to an unexpired portion of a 14-year term. The President also appoints, with the advice and consent of the Senate, one of the members to serve as Federal Reserve Chair, Vice Chair, and Vice Chair for Supervision. Service in these positions is for a four-year term. The positions have no requirements for political affiliations, and there is no expectation that Governors will resign at the conclusion of the term of the President who appointed him or her. Members of the FRB can be removed for cause by the President. See 12 U.S.C. § 242.

	<u>FIO:</u> By statute, the Director of FIO is appointed by the Secretary of the Treasury and is a career reserved position. Initial career appointments must meet the competitive Senior Executive Service (SES) merit staffing provisions in 5 U.S.C. § 3393 at the time of selection. The individual's executive qualifications must be certified by an Office of Personnel Management (OPM) administered Quality Review Board (QRB) before appointment. The standard for action (removal or suspension) is taken against an executive in accordance with 5 U.S.C. § 7543 for misconduct, neglect of duty, malfeasance, or failure to accept a direct reassignment
2.3	The institutional relationships between the supervisor and the executive and judicial authorities are clearly defined and transparent. Circumstances where executive overrides are allowed are specified.
2.3	**<u>States:</u>** The institutional relationships between the supervisor and the executive and judicial authorities are clearly defined by law and transparent. The executive and legislative branch of government each has its areas of responsibility. State laws make specific references to the insurance commissioner being charged with carrying out the laws related to the regulation of the insurance business. While the insurance commissioner may have certain accountability to executive and legislative branch officials for his or her official actions, state law clearly vests the insurance commissioner with the official responsibility to regulate the business of insurance in that state. **<u>FRB:</u>** Members of the FRB are appointed by the President with the advice and consent of the Senate. The actions taken by the FRB are not subject to executive overrides. U.S. federal courts have authority to review agency actions made reviewable by statute as well as any final agency action for which there is no other adequate remedy in court. 5 U.S.C. § 704. The courts have recognized that this authority does not permit a review of everything done by an administrative agency. Much of what an agency does in anticipation of a final action is not reviewable by the courts. Final agency enforcement orders are generally subject to judicial review. See, e.g., 12 U.S.C. § 1818(h)(2). **<u>FIO:</u>** As an office within Treasury, FIO is a part of the executive branch of the U.S. government. Federal courts are part of the judicial branch of the U.S. government, which is independent from the executive branch. The relationship between FIO (as part of Treasury) and the judicial branch of the United States, as well as the judicial branches of the governments of the states, are defined by federal law and the U.S. Constitution.
2.4	The supervisor and its staff are free from undue political, governmental and industry interference in the performance of supervisory responsibilities. The supervisor is financed in a manner that does not undermine its independence. The supervisor has discretion to allocate its resources in accordance with its mandate and objectives and the risks it perceives.
2.4	**<u>States:</u>** The state insurance commissioner is clearly vested with official responsibility for carrying out and implementing the insurance laws of a state. Although state insurance regulators are subject to appropriate oversight or scrutiny their supervisory functions are defined by law and provide adequate safeguards regarding undue political, governmental, or industry influence to ensure their independence.

	Insurance commissioners possess legally-defined oversight and responsibility, thereby having discretion to allocate resources to address regulatory priorities, which is also assessed as part of the NAIC Accreditation Program. State statutes and department policies restrict gifts and/or require disclosures to prohibit the acceptance of inappropriate gifts and things of value. Insurance department employees may also be subject to post-employment restrictions on contacts between former employees and the insurance department. All state insurance departments have clearly defined sources of funding. Although sources of funding vary among the states, the most common method used by insurance departments is a "dedicated funding system" whereby specific amounts are placed in a separate fund established for the insurance department through the state budgetary process. A "quasi-dedicated" funding system is similar, except that the balance at the end of the year returns to the state's general fund, rather than being carried over to the next fiscal year. In a "general revenue" funding system, all revenue generated by the state insurance department is placed into the state's general fund. The state legislature then allocates an amount to the insurance department in the normal budgetary process. **FRB:** The supervisor and its staff are free from undue political, governmental and industry interference in the performance of supervisory responsibilities. The supervisor is financed in a manner that does not undermine its independence. The supervisor has discretion to allocate its resources in accordance with its mandate and objectives and the risks it perceives. **FIO:** FIO: As an office within Treasury, FIO is subject to criminal conflict of interest statutes, the Executive Branch Standards of Conduct, and Treasury's supplemental ethics regulations. These laws, rules, and regulations effectuate two core concepts: (1) employees shall not use public office for private gain; and (2) employees shall act impartially and not give preferential treatment to any private organization or individual. FIO is funded through Treasury's appropriations approved by the U.S. Congress. FIO is not funded by the insurance industry. FIO, subject to Treasury priorities, has discretion to expend the funds allocated to FIO by Treasury.
2.5	There are clear and transparent regulatory requirements and supervisory procedures which are appropriate for the objectives they are intended to meet. The supervisor applies them consistently and equitably, taking into account the nature, scale and complexity of insurers. These regulatory requirements and supervisory procedures are published.
2.5	**States:** All laws, regulations and rules operated under or issued by a state insurance regulator go through a public approval process, either at the legislative or administrative level, and are publicly available. Where legislation authorizes the insurance regulator to undertake rule-making, state administrative procedure acts govern that process. As a result, state insurance departments publish proposed rules or regulations in the state register and/or on state websites, accept public comments, and may hold public hearings prior to implementation or adoption. Regulatory actions taken by state regulators are typically matters of public record and are subject to administrative appeals processes and judicial review where appropriate. Further, insurance departments maintain industry- and consumer-related information on their websites, which include posting relevant notices and bulletins that may announce new rules or changes in existing

	regulatory or supervisory procedures and rules. In some instances, proportionality is applied to regulation based on the size and complexity of an insurer, such as a minimum threshold for application of the Own Risk Solvency Assessment (ORSA). **FRB:** The Dodd-Frank Act added authority for a regulatory and supervisory mandate for designated nonbank financial companies and SLHCs to the FRB's established authority for regulation and supervision of BHCs. Like its authorities over BHCs, the FRB's authority over designated nonbank financial companies includes, among others, the power to impose capital, liquidity, and risk management requirements, examine firms and their subsidiaries, require the creation of intermediate holding companies, and take enforcement action. See 12 U.S.C. § 5365. The FRB continues to tailor and refine its supervisory program concerning SLHCs significantly engaged in insurance activities. The framework for the supervisory program applicable to large BHCs and designated nonbank financial companies is set out in SR Letter 12-17. Additional supervisory guidance may be issued to examiners, the industry, and the public through the FRB's existing modes of communication, which include Supervisory and Regulations (SR) letters and other examination material. **FIO:** FIO operates in a transparent manner. For example, FIO's work with the FSOC is done pursuant to the FSOC's transparency policy and promulgated regulations which govern FSOC's work, e.g. 12 CFR Part 1301 and 12 CFR Part 1310. The Federal Advisory Committee on Insurance (FACI), which advises FIO, convenes only in public meetings, and all documents related to the FACI are publicly available. Many aspects of FIO's work, including rule-making, interpretations, and the announcement of FACI meetings, are publicized in Federal Register Notices. Finally, FIO informs the public of its mission and procedures through direct engagement and in speeches and Congressional testimony, primarily by the Director of FIO.
2.6	Regulatory requirements and supervisory procedures are reviewed regularly. All material changes are normally subject to prior public consultation.
2.6	**States:** Regulatory requirements are subject to review through several channels. NAIC model laws and regulations, which provide the basis for many state laws, are regularly reviewed and updated. This process, which is conducted openly, allows for regulators and stakeholders to consider changes through a deliberative process. For example, the NAIC's model Insurance Holding Company Systems Regulatory Act (Model #440) was significantly revised in 2010 in response to the financial crisis and in 2014 revisions were adopted that provide for the power to act as a group-wide supervisor (GWS) for identified internationally-active insurance groups (IAIGs). Additionally, state insurance regulators are accountable to the public's elected representatives in the state legislature; legislators may require public testimony or submission of evidence related to the continuing efficacy of regulatory policy as expressed through laws and rule-making. Similarly, the insurance department may initiate rule-making involving new regulations or existing regulations; as noted previously, the rule-making process is subject to a state's administrative procedure act. **FRB:**

	Substantive changes to the FRB's regulations are made through a public process. The FRB typically invites public comment on substantive changes to its regulations, as well as certain changes to supervisory procedures, prior to their implementation. The FRB regularly undertakes an internal evaluation process to ensure its staff meets its supervisory need. This includes evaluation of hiring and retention programs to attract and retain staffs that have the necessary critical skills. In addition, the agencies approve annual training budgets and insist that staff undergo adequate and relevant training. **FIO:** As set forth in the response to ICP 1, FIO's authorities are set forth in the Dodd-Frank Act, and subject to the federal law-making process. Changes to FIO's authorities would be carried out publicly through the federal legislative process. Further, as noted in its response to ICP/Std. 2.5, FIO publishes notices in the Federal Register relating to rule-making, interpretations, and other FIO oversight and policy-making activities. In addition, as set forth in its response to ICP/Std. 2.1, FIO is subject to a wide range of governmental oversight.
2.7	The supervisor publishes information on the insurance sector, about its own role and how it performs its duties.
2.7	**States:** All legal information defining the authority, responsibilities and duties of each insurance department is publicly available. Insurance department websites typically link to such information or provide it directly. Insurance departments generally publish relevant financial and statistical information about the state of the insurance industry and the respective state's insurance marketplace annually. Many states issue annual reports based upon information accumulated during the relevant and immediately past fiscal year. In addition to the annual report and website, states may also publish information about their roles and responsibilities in a Strategic Plan or similar publication. Additionally, the NAIC produces an annual publication, the Insurance Department Resources Report, which contains comprehensive state-by-state and national information on the state of the insurance marketplace and the resources available to insurance regulators. • 2017 Insurance Department Resources Report (Vol 1): https://www.naic.org/prod_serv/STA-BB-18-01.pdf • 2017 Insurance Department Resources Report (Vol 2): https://www.naic.org/prod_serv/STA-BB-18-02.pdf **FRB:** The FRB and its staff regularly publish and disseminate information on the U.S. banking system through supervisory guidance, white papers, speeches, testimony, and information posted to its website. As relevant, these publications cover, among other topics, insurance matters. These publications often discuss the FRB's supervisory role and how it performs its duties. **FIO:** FIO is required by statute to provide periodic and one-time reports on the U.S. and global insurance industry. See 31 U.S.C. § 313(n)-(p). These include: (i) annual reports regarding the insurance industry and other information deemed relevant by the Director of FIO or requested by the relevant Congressional committees; (ii) the Modernization Report; (iii) a report on the U.S. and global reinsurance market; and (iv) a

	report related to natural catastrophe insurance in the United States. In addition, FIO provides information about the insurance sector, its own role, and how it performs its duties through direct engagement with stakeholders, and in public engagement, including through speeches and Congressional testimony.
2.8	There are processes to appeal against supervisory decisions, including using judicial review. These processes are specific and balanced to preserve supervisory independence and effectiveness. However, they do not unduly impede the ability of the supervisor to make timely interventions in order to protect policyholders' interests.
2.8	**<u>States:</u>** There are legal and administrative processes in place to appeal supervisory decisions both to the insurance departments and through judicial review. These processes are outlined in statutes or agency rules. Generally supervisory decisions remain in effect until an appeal has been decided, but if specific conditions have been met, the supervisory decision may potentially be suspended or stayed. In addition, while a supervisory decision is on appeal a court could find that specific conditions of a supervisory decision have been met and order all or part of the decision suspended. Administrative safeguards allow for impartial review of such decisions; for example, where the insurance commissioner may be required to serve as a hearing officer in an administrative matter, internal "walls" will be utilized to ensure fairness and impartiality. While the appeals process affords recourse and review for the object of governmental regulatory action, they do not impede the ability of insurance departments to make timely interventions; in fact, many state laws provide specifically for such timely interventions where required by exigent circumstances. **<u>FRB:</u>** Process for internal supervisory review: Since 1995, the FRB has established an independent, intra-agency process to review appeals of material supervisory determinations consistent with Section 309 of the Riegle Community Development and Regulatory Improvement Act of 1994, 12 U.S.C. § 4806. Through this process, supervisory determinations made during the examination and inspection process may be appealed expeditiously to independent FRB personnel. Process for appeals of enforcement orders: As discussed more fully in the FRB's response to ICP 11, in instances where the FRB seeks to compel an institution or individuals within its jurisdiction to take certain action through issuance of a formal order, the persons may contest the matter in an administrative proceeding before the FRB. If those persons are dissatisfied with the final decision issued by the FRB in the administrative proceeding, they may pursue judicial review of that decision in the federal courts. **<u>FIO:</u>** FIO has a statutory role in the FSOC designation process and in the resolution process as set forth in Title II of the Dodd-Frank Act. Both of these processes include mechanisms for appeals. FIO has authority to recommend to the FSOC that it designate an insurer, including the affiliates of such insurer, as an entity subject to regulation as a nonbank financial company supervised by the FRB. The FSOC designation process includes a specific process to allow companies under consideration to challenge and appeal a proposed designation. See 12 U.S.C. § 5323(e). Under Title II of the Dodd-Frank Act, FIO and the FRB (in consultation with the FDIC) may recommend that the Secretary of the Treasury (in consultation with the President) make a systemic risk determination,

	pursuant to statutorily prescribed criteria, to place an insurer or a holding company for which the largest U.S. subsidiary is an insurer into receivership. (Title II, and FIO's authority under Title II, is discussed in further detail in FIO's response to ICP 12.) If the board of directors of the insurer does not acquiesce or consent to the Secretary's systemic risk determination, the Secretary shall petition the United States District Court for the District of Columbia for an order authorizing the Secretary's determination. The insurer has an opportunity to oppose the determination in a hearing before this court. If the district court rules in favor of the Secretary, the insurer may appeal to the Court of Appeals for the District of Columbia Circuit, and then to the United States Supreme Court. See 12 U.S.C. § 5382.
2.9	The supervisor, including its staff and any individual acting on its behalf (presently or in the past), are required by legislation to protect the confidentiality of information in the possession of the supervisor, including confidential information received from other supervisors. The supervisor maintains appropriate safeguards for the protection of confidential information. Wrongful disclosure of confidential information is subject to penalties. The supervisor denies any request for confidential information, other than when required by law, or when requested by another supervisor who has a legitimate supervisory interest and the ability to uphold the confidentiality of the requested information.
2.9	**States:** Confidentiality rules are specified in legislation and may be reinforced in other ways. Insurance departments maintain internal protocols and procedures governing the protection of information, including requirements that confidential information may be accessed only by those with a "need to know," information technology protocols governing access and security, and processes for the handling and safe storage of confidential information. State insurance regulators are able to protect from disclosure confidential information, including confidential information from other regulators; professional secrecy requirements, including penalties for breaches of such requirements; and processes for protecting confidential information from attempts at disclosure by third parties. There are 19 states that are signatories to the IAIS Multilateral Memorandum of Understanding (IAIS MMoU) with more in various stages of the validation process and several more in the process of applying. **FRB:** Unless authorized by law, it is a crime for an employee of the U.S. federal government to divulge, disclose, or make known in any manner trade secrets or other confidential business information collected in the course of employment or official duties. See 18 U.S.C. § 1905. To ensure that appropriate safeguards exist, the FRB has adopted detailed, clear rules regarding the treatment of confidential information. See 12 CFR Part 261. These rules set forth, among other things, the procedures for limited release of exempt and confidential supervisory information and the procedures for protecting confidential business information. In addition, the FRB has numerous, public, supervisory policy letters concerning treatment of confidential and sensitive information, among other topics related to information handled by the FRB and its staff. **FIO:** Federal law, including Title V of the Dodd-Frank Act, affords protection of confidential information collected or otherwise obtained by FIO. See 31 U.S.C. § 303(e)(5). Similarly, FIO, as an office within Treasury, is subject to FISMA, which requires that a federal agency review information and determine appropriate security controls over that information commensurate with risk. Further, it is against the law for FIO's staff members to divulge or disclose confidential business information collected in the course of employment or official

	duties. See 18 U.S.C. § 1905. In addition, as an office of Treasury, FIO is subject to Treasury policies and procedures regarding the treatment and protection of protected information. See, e.g., Treasury Security Manual – TD P 15-71. Inappropriate disclosure of confidential information may be subject to sanctions, depending on the circumstances. In addition, members of FIO's staff have entered into confidentiality agreements with the Bank for International Settlements (BIS) for ongoing work with the IAIS to perform field testing of proposals for enhanced requirements, including international capital standards, that would apply to Internationally Active Insurance Groups (IAIGs), as well as work involving the assessment of confidential insurer information in connection with the identification of Global Systemically Important Insurers (G-SIIs). Finally, FIO is also subject to the confidentiality rules of the FSOC, which are set out in the Dodd-Frank Act, the Rules of Organization of the Financial Stability Oversight Council (known as the Bylaws), a Memorandum of Understanding regarding the treatment of non-public information shared among its member agencies, and the FSOC Transparency Policy.
2.10	The supervisor and its staff have the necessary legal protection against lawsuits for actions taken in good faith while discharging their duties, provided they have not acted illegally. They are adequately protected against the costs of defending their actions while discharging their duties.
2.10	**States:** There are appropriate legal protections for the insurance department and its staff protecting them against lawsuits for actions taken in good faith while discharging duties. Any administrative or legal challenges to official actions are made in the name of the insurance commissioner in his or her official capacity, and such challenges are defended by insurance department counsel, the state's attorney general office, or a combination of the two. Costs incurred for actions taken in good faith while discharging duties are generally recoverable but may have to be repaid if it is subsequently found that such person was guilty of willful intent or gross negligence or was found by a court not to be acting in good faith. In the United States, the traditional doctrine of "sovereign immunity" limits claims that can be brought against state governments and employees acting as agents of the state. Although states have amended their laws over the years to provide avenues of redress for plaintiffs, many states still prescribe particular procedures for claims against the state and limits to damages. **FRB:** The FRB and its staff are protected against lawsuits for actions and omissions made while discharging their duties in good faith. Sovereign immunity bars lawsuits without specific statutory authorization to pursue such litigation. Common law qualified immunity protects federal banking agencies' heads and staff from liability for the violation of an individual's federal Constitutional rights in connection with employees' performance of discretionary functions, as long as the employees' conduct does not clearly violate established statutory or Constitutional rights. Lawsuits are permitted against federal banking agencies' employees for acts and/or omissions that cause injuries while acting within the scope of their employment pursuant to the Federal Tort Claims Act, 28 U.S.C. § 2679. In such a case, the United States would substitute itself as the defendant upon the Attorney General's certification that an employee was acting within the scope of his office or employment at the time of the incident giving rise to the tort claim. See 28 U.S.C. § 2679(d)(2). Moreover, an exception to the act protects employees from lawsuits involving the execution of a statute or regulation or the exercise or performance or the failure to exercise or perform a discretionary function or duty, whether or not the employee abused the discretion involved. See 28 U.S.C. § 2680(a).

	FIO: FIO and its staff are protected against lawsuits by the sovereign immunity of the U.S. government for actions taken in good faith while discharging duties.
2.11	The supervisor has adequate resources, financial or otherwise, sufficient to enable it to conduct effective supervision. Its staffing policies enable it to attract and retain highly skilled, competent and experienced staff. The supervisor provides adequate training for its staff. The supervisor has the ability to hire or contract the services of outside experts when necessary.
2.11	**States:** Insurance department revenues are derived primarily from taxes (premium, retaliatory, franchise and income-based); fees (filing, examination, licensing); and fines and penalties. These revenues are sufficient to fund the insurance departments and return additional revenues typically to the general fund of each state. The NAIC Accreditation Program provides a mechanism that can assess and verify whether each state insurance department can make an appropriate allocation of its available resources to effectively address its regulatory priorities. This requires the state insurance department to hire, train and maintain sufficient staff with high professional standards. This also requires the state insurance department to consider the need to hire external specialists when appropriate. The three standards in this area address professional development, minimum educational, and experience requirements, and the ability to attract and retain qualified personnel. Where needed, insurance departments are specifically authorized by law to retain outside experts (e.g., evaluation of complex financial transactions or actuarial reserve levels) with the costs to be borne by the insurer. Insurance departments have training programs in place and the NAIC offers regular regulator training, including the Insurance Regulator Professional Designation Program. The Designation Program's mission is to establish and uphold structured, rigorous credentialing requirements through which NAIC member insurance department employees (regulators) can acquire the necessary knowledge, skills and expertise in the areas of insurers' financial solvency regulation, market conduct regulation, product regulation and consumer protection. Many states also leverage resources available to them through the NAIC, such as staff to offer financial examination and analysis support. State regulators, through the NAIC, have also established an Examination & Analysis Peer Review program to assess and improve examination practices. **FRB:** The FRB is self-funded and is not subject to the federal budget process or Congressional authorizations or appropriations. The FRB undertakes an internal evaluation process to ensure its staff meets its supervisory responsibilities. This includes evaluation of hiring and retention programs to attract and retain staffs that have the necessary critical skills. The FRB has annual training budgets and insists that staff undergo adequate and relevant training. On occasion, the FRB hires or contracts with outside experts to provide services that assist the FRB in carrying out its supervisory objectives. **FIO:** FIO has adequate resources and staffing policies to attract and retain skilled, competent, and experienced staff members. As an office within Treasury, FIO's staff members have the opportunity to receive adequate training on a variety of subjects. The Director of FIO has the ability to hire or contract the services of outside experts when necessary.

2.12	The supervisor and its staff act with integrity and observe the highest professional standards, including observing conflict of interest rules.
2.12	**States:** States have ethics laws and codes of conduct, which ensure compliance with standards of professional conduct. Further, insurance department staff may be subject to internal conflict of interest rules and may be required to acknowledge the ethical codes in writing when hired and sign an annual statement of compliance. Additionally, insurance department employees who are members of certain professions (e.g., lawyers, actuaries) may be subject to additional relevant codes of conduct and disciplinary procedures specific to that profession. **FRB:** The FRB insists that all staff, including the staff of the Federal Reserve Banks (discussed in more detail in the response to ICP/Std. 2.13 below), maintain high professional standards and exhibit high integrity. Federal laws and regulations, as well as individual conflict-of-interest rules and codes of conduct, help to ensure that these standards are met. **FIO:** As an office of Treasury, FIO and its staff are held to high standards of integrity and professionalism, and are subject to the Standards of Ethical Conduct for Employees of the Executive Branch, which include rules regarding conflicts of interest, gifts from outside sources, impartiality, misuse of position, seeking other employment, and outside activities. See 5 C.F.R. Part 2635.
2.13	Where the supervisor outsources supervisory functions to third parties, the supervisor sets expectations, assesses their competence and experience, monitors their performance, and ensures their independence from the insurer or any other related party. Outside experts hired by the supervisor are subject to the same confidentiality rules and professional standards as the staff of the supervisor.
2.13	**States:** The use of third-party contractors may occur where and to the extent authorized by statute. In such cases, the insurance regulator controls the relationship, manages contacts, and oversees the work of the contractor. The contract between the insurance department and the contractor requires the contractor to confirm the lack of conflicts of interest and to meet certain performance expectations, including adhering to state rules on ethics and government procurement. As a result, contractors are generally bound by the same rules or codes of professional standards including confidentiality, as if that contractor was an insurance department employee. **FRB:** The FRB delegates certain supervisory functions to twelve Federal Reserve Banks (Reserve Banks) and their branches located throughout the United States. This system of coordinated supervision is not traditional outsourcing, but Reserve Bank employees are not FRB or federal government employees. The FRB sets expectations for the Reserve Banks' supervision of entities subject to FRB supervision, regularly assesses the competence and experience of Reserve Bank staff, monitors the performance of Reserve Bank staff, and ensures the independence of the Reserve Bank from supervised entities by, among other things, prohibiting

	the Reserve Bank from acting on applications and notices filed by supervised entities whose directors are also directors of the Reserve Bank. **FIO:** FIO has not outsourced, and does not currently envision outsourcing, any of its authorities.
Comments	*Additional comments that are not captured in responses to each standard*
ICP 4	**Licensing**
4	A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.
4	**States:** All insurance activities, except those exempted under legislation, must be conducted by entities that are either licensed in or, subject to legislation or written agreement, licensed in another domestic jurisdiction. States have statutes that require an entity to be licensed before operating in its jurisdiction. The NAIC has accreditation standards related to a state insurance department's review of an application for initial licensure which require the department to have documented licensing procedures that include a review and/or analysis of key pieces of information included in a primary licensure application. To create a national uniform application, the Uniform Certificate of Authority Application (UCAA) was created by the NAIC, and a majority of states (and Puerto Rico) accept the UCAA. The application can be used for all lines of insurance except the Health Maintenance Organization (HMO). A company may need additional authorizations beyond receiving a Certificate of Authority to actually operate a business in some states. These additional state licensing requirements are based on either statutory or state specific requirements developed by the individual state. Specific state licensing requirements are generally available on the NAIC/UCAA web site, the state web sites or can be readily ascertained by contacting the state insurance department. UCAA website: https://naic.org/industry_ucaa.htm **FRB:** The FRB is not a licensing authority for insurance companies, thus the response for all questions under ICP 4 is "Not Applicable." **FIO:** FIO is directly involved in the issues raised by ICPs 4 – 10, 13 – 18, 20 – 21, and 23 through its representation of the United States at the IAIS and through its authority to monitor all aspects of the insurance industry, including its regulation.
4.1	The insurance legislation: • includes a definition of insurance activities which are subject to licensing; • prohibits unauthorised insurance activities; • defines the permissible legal forms of domestic insurance legal entities; • allocates the responsibility for issuing licences; and

	• sets out the procedure and form of establishment by which foreign insurers are allowed to conduct insurance activities within the jurisdiction.
4.1	**States:** Regulated insurance activities are fully defined in legislation; the lines of business that are permitted to be licensed in a state are defined in each state's statutes. Unauthorized insurance activities are explicitly prohibited and subject to specified sanctions (the level and type of sanction depends on the severity of the violation). The permissible legal forms of domestic insurers and procedures and form for establishment of foreign insurers are defined through a combination of insurance legislation and other legislation, such as state corporate law. In general, the state's responsibility for issuing licenses is explicitly specified in legislation.
4.2	A jurisdiction controls through licensing which entities are allowed to conduct insurance activities within its jurisdiction.
4.2	**States:** The permissible legal forms of domestic insurers are explicitly defined in insurance legislation. The permissible legal forms of domestic insurers are defined through a combination of insurance legislation and other legislation, such as corporate law.
4.3	Licensing requirements and procedures are clear, objective and public, and are consistently applied. At a minimum, the applicant is required to: • have sound business and financial plans; • have a corporate or group structure that does not hinder effective supervision; • establish that the applicant's Board Members, both individually and collectively, Senior Management, Key Persons in Control functions and Significant Owners are suitable; • have an appropriate governance framework; and • satisfy Capital requirements
4.3	**States:** Licensing requirements are printed in the UCAA Manual and posted on the NAIC/UCAA web site or state sites, which are publicly available. The UCAA application is the most universal licensing form currently being used by the majority of the states; the application information can be used as a basis for all general company licensing requirements in the United States. The following forms shall be included with a UCAA application: an original executed application form identifying all lines of insurance the applicant is requesting authority to transact and is currently licensed to transact and is transacting in all jurisdictions. The UCAA application includes a business profile of the applicant. Any other management offices that exercise control over insurance operations in any state in which an applicant is applying for admission must also be included. Additional charts should be provided to depict any operation that is delegated to an affiliate or third party, and any situation where resources are pooled among affiliates. The plan of operation portion of the business profile presents, in detail, the product lines currently sold and planned by the applicant, the applicant's marketing plan, a description of the applicant's current and expected competition (both regionally and nationally), and a discussion of how each state in which

	admission has been requested fits into that plan. A verification form and brief questionnaire should accompany the applicant's plan of operation. The UCAA also requires that the applicant show it meets each state's statutory minimum paid-in capital and surplus requirements. The level of surplus required is determined after considering the applicant's product line, operating record and financial condition. Compliance with the statutorily prescribed minimum surplus requirement may not be sufficient for all applicants. The UCAA application shall include a copy of the applicant's most recent Annual Statement. A copy of the applicant's actuarial opinion certification must also be included. The UCAA application includes an audited report, performed by a Certified Public Accountant (CPA) who is not an employee of the applicant. The application shall include the applicant's most recent Report of Examination from the insurance supervisor. If the applicant, its parent or its ultimate holding company, is not publicly traded, the application will also need to include a copy of the applicant's most recent consolidated financial statements, prepared in accordance with U.S. GAAP. The UCAA application requires the applicant to submit an NAIC Management Discussion Analysis and a Risk-Based Capital Report. Applicants who are members of a holding company system will need to include a comprehensive debt-to-equity ratio statement. A summary of the applicant's reinsurance program, listing all reinsurance agreements and providing a basic explanation of each agreement shall also be included with the application. The suitability of the applicant's Board members and Senior Management is considered at the individual level and collective level. Suitability of Significant Owners and Key Persons in Control Functions is always considered when assessing applications. Applications are reviewed to ensure applicants satisfy capital requirements; have a sound corporate or group structure and governance framework and that the applicant has sound business and financial plans. The application review process is described in detail in the NAIC Company Licensing Best Practices Handbook, which is publicly available. UCAA Instructions: https://www.naic.org/prod_serv/UCA-OPA-16.pdf NAIC Company Licensing Best Practices Handbook: https://www.naic.org/prod_serv/CLH-OP-2018.pdf
4.4	The supervisor assesses applications, makes decisions and informs applicants of the decision within a reasonable time, which is clearly specified, and without undue delay.
4.4	**States:** The UCAA instructions and Company Licensing Best Practices Handbook clearly specify a timeline for review. Each state adheres to the timeline established if they do not have specific wording in their statute/legislation. The NAIC adopted accreditation standards related to timelines for company licensing, which became effective January 1, 2012. The standards relate to a state insurance department's review of an application for initial licensure. The standards are used to verify that license applications are reviewed in a timely manner and that the insurance department has sufficient, qualified staff to perform this review. Further, the standards require that the state have appropriate and sufficient procedures to perform this review, including an analysis of many of the items discussed above. The time period typically required is publicly communicated; this timeframe is contained in the Company Licensing Best Practices Handbook and in the UCAA Manual.
4.5	The supervisor refuses to issue a licence where the applicant does not meet the licensing requirements. Where the supervisor issues a licence, it imposes additional requirements, conditions or restrictions on an applicant where appropriate. If the licence is denied, conditional or restricted, the applicant is provided with an explanation.

4.5	**States:** State insurance departments do not issue a license if the licensing requirements are not met. State insurance departments have the power to impose additional requirements, conditions or restrictions on the applicant, as necessary to ensure the consistent application of licensing requirements; these powers are broadly addressed by legislation and further elaborated by supervisory guidelines. If an application is denied or restricted, a letter is sent to the Applicant Company after the review process.
4.6	A licence clearly states its scope.
4.6	**States:** The insurance license provides sufficient information to identify the types and classes of insurance business that may be underwritten and describes any conditions or restrictions.
4.7	The supervisor publishes a complete list of licensed insurance legal entities and the scope of the licences granted.
4.7	**States:** Company information for licensed insurance legal entities is considered public record and is readily obtainable on the state's website or via the NAIC.
4.8	In deciding whether and if so on what basis, to license or continue to license a branch or subsidiary of a foreign insurer in its jurisdiction, the supervisor consults the relevant supervisor(s) as necessary.
4.8	**States:** If the state of domicile has concerns regarding an applicant's plans, such concerns are communicated to the senior financial regulator in the applicant state(s) or foreign jurisdiction. Similarly, after receipt and an initial review of an application, the applicant state or foreign jurisdiction may contact the senior financial regulator in the domiciliary state to open a dialogue regarding the applicant. The Master Information Sharing and Confidentiality Agreement, to which all 50 U.S. states, the District of Columbia, Puerto Rico and Guam are signatories, generally prescribes the protocols and procedures for information sharing among U.S. state regulators. The Agreement facilitates ongoing sharing of information between the signatory parties. In this manner, the Agreement operates similarly to the IAIS Multilateral Memorandum of Understanding (IAIS MMoU) of which 19 states are signatories with several more in various stages of the validation process.
4.9	Where an insurance legal entity is seeking to conduct cross-border insurance activities without a physical presence in the jurisdiction of the host supervisor, the host supervisor concerned consults the home supervisor, as necessary, before allowing such activities.
4.9	**States:** The UCAA instructions and Company Licensing Best Practices Handbook state that if an insurer is seeking to conduct cross border insurance activities without a physical presence in a state, the state insurance department will consult the home supervisor on licensing matters as appropriate.
Comments	*Additional comments that are not captured in responses to each standard*
	States:

	States that do not post specific licensing guidance directly on their own website do provide links to the NAIC/UCAA website so that instructions, forms and state specific requirements are clearly defined and transparent.
ICP 7	**Corporate Governance**
7	The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognises and protects the interests of policyholders.
7	**States:** Criteria regarding corporate governance issues are covered by state insurance and commercial codes through statute, regulation and administrative orders, including the prudent requirements of the Duty of Care, which requires directors to act in good faith on an informed basis, and the Duties of Loyalty, Obedience and Candor. In general, the U.S. insurance supervisory approach for corporate governance of insurers is based upon a proportionality principle whereby larger and more complex entities (including publicly traded insurers) are subject to more stringent requirements in the application of corporate governance standards. However, all U.S. insurers are subject to governance requirements and close review and assessment by their domestic supervisor. U.S. insurance supervisors review compliance with corporate governance criteria at the licensing stage for new insurers, in requiring and reviewing annual statements and supplemental reporting, in conducting periodic financial and market condition reviews, in approving mergers or other changes of control, and in applying other requirements of solvency oversight. One of the primary means by which U.S. insurance supervisors address corporate governance criteria is through on-site inspections. The NAIC Financial Condition Examiners Handbook recognizes corporate governance assessment as a critical step in conducting a financial examination. In order to complete each full-scope examination, an insurer's corporate governance and risk management processes must be reviewed and assessed in detail, regardless of the size of the entity or level of concern. In understanding and evaluating corporate governance, the examiner obtains information on the quality of oversight provided by the insurance company's Board and the effectiveness of its management by conducting interviews, reviewing policies and procedures, and evaluating Board minutes and reporting packages. In addition to on-site inspection, the Corporate Governance Annual Disclosure Model Act (NAIC #305) and accompanying Corporate Governance Annual Disclosure Model Regulation (NAIC #306), which will become an accreditation requirement on Jan. 1, 2020, requires insurers to report detailed information on governance practices to supervisors on an annual basis for use in off-site monitoring. This information allows for closer scrutiny and assessment of insurer governance practices and provides a mechanism for ongoing reporting and monitoring. If significant concerns and issues are identified by the supervisor in an insurer's governance practices, the authority granted through the Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in a Hazardous Financial Condition (NAIC #385) can be utilized to require corrective action. This regulation grants the commissioner authority to require the insurer to "correct corporate governance practice deficiencies and adopt and utilize governance practices acceptable to the commissioner." In addition, issues of governance can also be referred to the State Attorney General for prosecution under state corporate law such as those dealing with the board members not meeting the requirements of Duty of Care, Duty of Loyalty, and other principle requirements under such laws. **FRB:**

	The FRB has an established supervisory program that requires supervised institutions, including those with insurance operations, to establish and implement a corporate governance framework. Corporate governance expectations for all Federal Reserve-supervised firms with assets over $50 billion are detailed as part of the consolidated supervision framework guidance issued in 2012. See SR Letter 12-17. This guidance supports a tailored approach that accounts for the unique risk characteristics of each firm. The guidance in SR Letter 12-17 covers core areas of supervisory focus. The guidance specifies the Federal Reserve's expectations around two main areas: 1) enhancing the resiliency of a firm, including guidance on capital and liquidity planning and positions; corporate governance; recovery planning; and management of core business lines, and 2) reducing the impact of a firm's failure, including guidance on management of critical operations; support for banking offices; resolution planning; and additional macroprudential supervisory approaches to address risk to financial stability. The FRB regularly conducts targeted reviews of corporate governance at supervised entities, including those with material insurance operations.
7.1	The supervisor requires the insurer's Board to: • ensure that the roles and responsibilities allocated to the Board, Senior management and Key Persons in Control functions are clearly defined so as to promote an appropriate separation of the oversight function from the management responsibilities; and • provide oversight of the Senior Management.
7.1	**<u>States:</u>** State corporate law broadly defines the roles and responsibilities of Board members. These are expanded and elaborated on through established case law and court rulings. Specific oversight responsibilities for insurance company Boards are further outlined in various laws, regulations and orders including regular review and approval of investment practices, annual oversight of reserve setting, ongoing oversight of the ERM function and various mandatory oversight responsibilities for the audit committee (internal/external audit functions and internal controls). Publicly-held insurers are subject to additional SEC requirements holding the Board accountable for various oversight responsibilities, including the effectiveness of internal controls and oversight of management compensation. The Corporate Governance Annual Disclosure Model Act and supporting regulation require specific reporting and disclosure to supervisors on the Board's oversight of Senior Management and other key persons. For example, the disclosure requires discussion of the policies and practices for directing Senior Management, including processes for performance evaluation, compensation and corrective action to ensure effective senior management. Guidance in the NAIC financial analysis and examination handbooks provides additional expectations regarding appropriate roles and responsibilities in these areas, which are regularly assessed through solvency monitoring processes. An assessment of how roles and responsibilities have been allocated is conducted during each full-scope examination, even if no supervisory concerns have been identified. Concerns are addressed with the company and referred to off-site monitoring (analysis) for ongoing review and follow-up. **<u>FRB:</u>** As noted in ICP 7, above, the expectations outlined in SR Letter 12-17 apply to all Federal Reserve supervised firms that meet the relevant size threshold, including those with insurance operations. SR Letter

	12-17 includes specific expectations that the "board of directors…should provide effective corporate governance with support of senior management." In addition to the FRB's role as the consolidated supervisor, the individual states in which insurance companies are domiciled act as the primary supervisor for the company's insurance operations. The direct regulation of activities and operations of individual insurance companies, including corporate governance, is conducted at the state level.
7.2	The supervisor requires the insurer's Board to set and oversee the implementation of the insurer's corporate culture, business objectives and strategies for achieving those objectives, in line with the insurer's long term interests and viability.
7.2	**States:** Corporate law sets requirements for the legal duties of individual Board members and overall Board responsibilities. A wide range of case law decisions have further interpreted these duties to outline expectations for the Board in this area. In relation to the Board's role in overseeing risk culture and business objectives/strategies, the Risk Management and Own Risk and Solvency Assessment Model Act (NAIC #505) outlines standards in this area. Insurers subject to the act are required to discuss risk culture and governance as one of the 5 key principles of Section I of the ORSA. In addition, another key principle of Section I is risk appetite, tolerances and limits, which requires the insurer to address how its business objectives and goals tie in to its ERM practices. An insurer that is subject to ORSA must conduct an ORSA consistent with a process comparable to the ORSA Guidance Manual, which provides additional guidance in this area. The Corporate Governance Annual Disclosure Model Act and supporting regulation require additional reporting and disclosure to regulators on the Board's oversight of critical risk areas impacting the insurer's business activities. These disclosures provide additional information on how the board goes about overseeing its culture, business objectives and strategies on an ongoing basis. All of the disclosures and board practices in these areas are subject to further review and assessment during ongoing financial analysis and examination activities. **FRB:** Please see the FRB's publicly available guidance contained in SR Letter 12-17, December 17, 2012 (2.a: Corporate Governance), which states, in part: In order for a firm to be sustainable under a broad range of economic, operational, legal or other stresses, its board of directors…should provide effective corporate governance with support of senior management. The board is expected to establish and maintain the firm's culture, incentives, structure, and processes that promote its compliance with laws, regulations, and supervisory guidance. Each firm's board of directors and committees, with support from senior management, should: a) Maintain a clearly articulated corporate strategy and institutional risk appetite. The board should set direction and oversight for revenue and profit generation, risk management and control functions, and other areas essential to sustaining the consolidated organization.

7.3	The supervisor requires the insurer's Board to have, on an on-going basis: • an appropriate number and mix of individuals to ensure that there is an overall adequate level of competence at the Board level commensurate with the governance structure; • appropriate internal governance practices and procedures to support the work of the Board in a manner that promotes the efficient, objective and independent judgment and decision making by the Board; and • adequate powers and resources to be able to discharge its duties fully and effectively.
7.3	**<u>States:</u>** Existing legislation with regard to Boards focuses primarily on an individual board member's legal duty as discussed above. However, additional case law interpretations provide broader Board expectations and responsibilities in discharging its duties. The Corporate Governance Annual Disclosure Model Act and supporting regulation requires reporting to the supervisor on the insurer's or insurance group's corporate governance framework and structure. This includes rationale for the current Board size and structure, duties of the Board and its significant committees and a description of policies and practices addressing various items listed above. In addition, there is guidance included in the NAIC's financial analysis and examination handbooks that outline expectations for the Board as a whole, which are regularly reviewed and assessed. Some of the areas outlined in the *Financial Condition Examiners Handbook* to be considered in the assessment of the Board include: • Membership criteria and terms; • Knowledge and experience of directors; • Independence from management; • Extent of monitoring and oversight of management activities; • Sufficiency of Board committees, in subject matter and membership; • Oversight in determining the compensation of executive officers and the appointment and termination of those individuals; Sufficiency and timeliness of information provided to the Board; and • The Board's role in establishing the appropriate "tone at the top" including the development and enforcement of a code of conduct. **<u>FRB:</u>** The guidance in SR Letter 12-17 (2.b: Corporate Governance) states, in part: "Ensure that the firm's senior management has the expertise and level of involvement required to manage the firm's core business lines, critical operations, banking offices, and other material entities. These areas should receive sufficient operational support to remain in a safe and sound condition under a broad range of stressed conditions."
7.4	The supervisor requires that an individual member of the Board: • act in good faith, honestly and reasonably; • exercise due care and diligence;

	• act in the best interests of the insurer and policyholders, putting those interests ahead of his/her own interests; • exercise independent judgment and objectivity in his/her decision making, taking due account of the interests of the insurer and policyholders; and • not use his/her position to gain undue personal advantage or cause any detriment to the insurer.
7.4	**States:** These requirements are generally spelled out in state corporate law and further interpreted through case law. Common duties applicable to Board members include, but are not limited to: • Duty of Care • Duty of Loyalty • Duty of Obedience Publicly-held insurers are subject to SEC requirements holding board members accountable for their actions under the Sarbanes-Oxley Act of 2002. Public disclosures are included in the annual statement regarding whether the board and management are maintaining the appropriate ethical standards and properly managing conflicts of interest. The Corporate Governance Annual Disclosure Model Act and supporting regulation requires reporting to the supervisor on the insurer's or insurance group's code of business conduct and ethics, including compliance with laws, rules, and regulations and proactive reporting of any illegal or unethical behavior. Directors are responsible for their behavior in meeting the ethics standards set forth in the Act. **FRB:** The guidance in SR Letter 12-17 (2.c: Corporate Governance) states in part: "Maintain a corporate culture that emphasizes the importance of compliance with laws and regulations and consumer protection, as well as the avoidance of conflicts of interest and the management of reputational and legal risks."
7.5	The supervisor requires the insurer's Board to provide oversight in respect of the design and implementation of Risk Management and internal controls.
7.5	**States:** In addition to the legal requirements in place, assessment of the Board's oversight in respect of the design and implementation of sound risk management and internal controls is a key element of all full-scope, on-site financial exams. The adequacy of an insurer's risk management framework and internal control practices are subject to in depth review through the identification and testing of a company's key solvency risks. In addition to a review of the governance structure during the financial examination, the Model Holding Company Act requires entities to disclose in their annual Form B filing a statement with respect to the board of directors' oversight over governance and controls. The Risk Management and Own Risk and Solvency Model Act (NAIC #505) requires large insurers (those writing more than $500 million in premium on an annual basis) to maintain a risk management framework to assist the insurer with identifying, assessing, monitoring, managing and reporting on its material and relevant risks. The act also requires a copy of the annual ORSA Summary Report that is filed with the Lead State supervisor to be provided to the insurer's board of directors or the appropriate committee thereof.

	ORSA Summary Reports are reviewed and assessed on an annual basis by the Lead State Supervisor and include consideration of the Board's role in risk management. The Annual Financial Reporting Model Regulation (NAIC #205) requires large insurers to prepare a report of the insurer's or group of insurers' internal control over financial reporting on an annual basis. The regulation also outlines specific oversight requirements for the audit committee of all insurers (internal and external audit function) and requires independent membership on the committee for larger insurers. **<u>FRB:</u>** The guidance in SR Letter 12-17 (2.d: Corporate Governance) states in part: "Ensure the organization's internal audit, corporate compliance, and risk management and internal control functions are effective and independent, with demonstrated influence over business-line decision making that is not marginalized by a focus on short-term revenue generation over long-term sustainability."
7.6	The supervisor requires the insurer's Board to: • adopt and oversee the effective implementation of a written remuneration policy for the insurer, which does not induce excessive or inappropriate risk taking, is in line with the corporate culture, objectives, strategies, identified risk appetite, and long term interests of the insurer, and has proper regard to the interests of its policyholders and other stakeholders; and • ensure that such a remuneration policy, at a minimum, covers those individuals who are members of the Board, Senior Management, Key Persons in Control functions and other employees whose actions may have a material impact on the risk exposure of the insurer (major risk–taking staff).
7.6	**<u>States:</u>** The Corporate Governance Annual Disclosure requires insurers to describe the general objectives of significant compensation programs and what the programs are designed to reward. The description is required to be at a sufficient level of detail to allow the commissioner to understand how the organization ensures that compensation programs do not encourage and/or reward excessive risk taking. In addition, the disclosure requires discussion of the Board's role in overseeing executive compensation. These annual disclosures are reviewed and evaluated by regulators on an annual basis through the financial analysis process. In addition, compensation practices are reviewed as part of the corporate governance assessment performed during each full-scope financial examination. For publicly-held insurers, the SEC mandates a number of similar disclosure requirements, which are made public. This includes information on executive salaries, stock awards, how compensation relates to risk and the Board's role in overseeing executive compensation. Additional rules that apply to publicly-held insurers under the Dodd-Frank Act include a shareholder vote on compensation, a fully independent compensation committee, additional executive compensation disclosures and the recovery of improperly awarded compensation. **<u>FRB:</u>** The guidance in SR Letter 12-17 (2.e: Corporate Governance) states, in part: "Assign senior managers with the responsibility for ensuring that investments across business lines and operations align with corporate strategies, and that compensation arrangements and other incentives are consistent with corporate culture and institutional risk appetite."

7.7	The supervisor requires the insurer's Board to ensure there is a reliable financial reporting process for both public and supervisory purposes that is supported by clearly defined roles and responsibilities of the Board, Senior management and the external auditor.
7.7	**States:** Extensive financial reporting is required under U.S. insurance regulation through a process that provides information to the public and regulator based on applicability. Additional reporting standards are placed on publicly-traded companies by the SEC. The Annual Financial Reporting Model Regulation (NAIC #205) outlines requirements for companies relating to the audit function as well as internal controls over financial reporting. Roles and responsibilities for the Board's designated audit committee, senior management and both external and internal auditors are specified in this regulation. Reporting requirements and compliance in this area is reviewed by financial analysis; supporting work is reviewed and utilized during onsite exams. The Insurance Holding Company System Regulatory Act (NAIC #440) and its accompanying regulation require an annual Form B and Form F filing which require, among other things, financial statements of the ultimate controlling person/entity and information on group-wide enterprise/ contagion risk (including an annual group business plan) respectively. **FRB:** The guidance in SR Letter 12-17 (2.d: Corporate Governance) states, in part: "Ensure the organization's internal audit, corporate compliance, and risk management and internal control functions are effective and independent, with demonstrated influence over business-line decision making that is not marginalized by a focus on short-term revenue generation over long-term sustainability."
7.8	The supervisor requires the insurer's Board to ensure that there is adequate governance and oversight of the external audit process.
7.8	**States:** The Annual Financial Reporting Model Regulation (NAIC #205) outlines requirements for the insurer's Board's Audit Committee in overseeing the external audit function. The audit committee is to be comprised of Board members that are directly responsible for the appointment, compensation and oversight of the work of the external auditor. For larger insurers, a certain percentage of audit committee members must be independent from company management. The external auditor is required to report the results of the annual audit to the audit committee, including any internal control weaknesses identified or other reportable conditions. **FRB:** Under the Sarbanes-Oxley Act of 2002, the audit committee is directly responsible for overseeing the work of the independent auditor. Section 301 of the Act declares that the audit committee is "directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm" employed by the firm.
7.9	The supervisor requires the insurer's Board to have systems and controls to ensure appropriate, timely and effective communications with the supervisor on the governance of the insurer.
7.9	**States:** The Corporate Governance Annual Disclosure Model Act and supporting regulation requires insurers to report detailed information on governance practices to supervisors on an annual basis for use in off-site monitoring. In addition, the insurer is required to provide additional communications on governance

	practices to the supervisor through annual statement reporting, supplemental reports and holding company filings. In addition to information provided to insurance regulators, publicly held insurers are required by the SEC to file a public proxy statement providing detailed information on the corporate governance practices of these insurers. **FRB:** The guidance in SR Letter 12-17 (2.f: Corporate Governance) states, in part: "Ensure that management information systems (MIS) support the responsibilities of the board of directors to oversee the firm's core business lines, critical operations, and other core areas of supervisory focus."
7.10	The supervisor requires the insurer to ensure that Senior Management: • carries out the day-to-day operations of the insurer effectively and in accordance with the insurer's corporate culture, business objectives and strategies for achieving those objectives in line with the Insurer's long term interests and viability; • promotes sound risk management, compliance and fair treatment of customers; • provides the Board adequate and timely information to enable the Board to carry out its duties and functions including the monitoring and review of the performance and risk exposures of the insurer, and the performance of Senior Management; and • maintains adequate and orderly records of the internal organisation.
7.10	**States:** State corporate law generally outlines responsibilities of the Board but allows the Board to delegate certain activities to Senior Management under business judgment rules. The Corporate Governance Annual Disclosure requires discussion of how oversight and management responsibilities are delegated between the Board, its committees and Senior Management. The role of Senior Management is reviewed extensively on each full-scope examination, with concerns targeted for follow-up review during the analysis process. If significant concerns and issues are identified during an examination, the authority granted through the Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in a Hazardous Financial Condition (NAIC #385) can be utilized to require corrective action. This regulation grants the commissioner authority to require the insurer to "correct corporate governance practice deficiencies and adopt and utilize governance practices acceptable to the commissioner." Examination standards require an assessment of Senior Management through discussions with management (including C-Level interviews), review of the organizational structure, observation of the assignment of authority and review of adherence to internal controls in place at the company. Some of the specific areas outlined in the Financial Condition Examiners Handbook to be considered in the assessment of Senior Management include: • Knowledge and experience of management; • Turnover in key management positions; • The nature of business risks accepted and the company's risk assessment processes; • Access to adequate financial and operating information to identify trends or variations from budgets;

	• Attitudes and actions towards financial reporting and internal controls; and • Management's role in developing, communicating and enforcing a code of conduct. **FRB:** The guidance in SR Letter 12-17 (2: Corporate Governance) states, in part: • "Maintain a corporate culture that emphasizes the importance of compliance with laws and regulations and consumer protection;" • "Ensure that the organization's internal audit, corporate compliance, and risk management internal control functions are effective and independent, with demonstrated influence over business-line decision making that is not marginalized by a focus on short-term revenue generation over longer-term sustainability;" • "Assign senior managers with the responsibility for ensuring that investments across the business lines and operations align with corporate strategies;" • "Ensure that management information systems (MIS) support the responsibilities of the board of directors to oversee the firm's core business lines, critical operations, and other core areas of supervisory focus." In addition to the FRB's role as the consolidated supervisor, the individual states in which insurance companies are domiciled act as the primary supervisor for the company's insurance operations. With respect to the fair treatment of customers, the FRB relies on the licensing and other supervisory work of the individual states in which the insurance companies operate to ensure compliance with relevant state laws.
7.11	The supervisor requires the insurer to demonstrate the adequacy and effectiveness of its corporate governance framework.:
7.11	**States:** The Insurance Holding Company System Regulatory Act (NAIC #440) requires an attestation in the annual registration statement that the insurer's board of directors oversees corporate governance and internal controls and that the insurer's officers or senior management have approved, implemented, and continue to maintain and monitor corporate governance and internal control procedures. The Corporate Governance Annual Disclosure requires the insurer to demonstrate the effectiveness of its framework by providing detail on practices and procedures for supervisor review on an annual basis. Additionally, corporate governance practices of insurers are reviewed during on-site examinations and off-site analysis work. If deficiencies are identified, the regulator may adjust its ongoing monitoring plan and recommend that the insurer take steps to correct the problems identified. If concerns are left unaddressed or become more significant in nature, the supervisor can utilize authority granted under the Hazardous Financial Condition Model Regulation to require corrective action. **FRB:** The guidance in SR Letter 12-17 (C: Conduct of Supervisory Activities) states, in part: "The Federal Reserve uses a range of supervisory activities to maintain a comprehensive understanding and assessment of each firm, including:

	b. Firm-specific examination and continuous monitoring activities are undertaken to maintain an understanding and assessment across the core areas of supervisory focus for each firm. These activities include review and assessment of changes in strategy, inherent risks, control processes, and key personnel, and follow-up on previously identified concerns (for example, areas subject to enforcement actions or other supervisory issues), or emerging vulnerabilities. c. In developing and executing a detailed supervisory plan for each firm, the Federal Reserve generally relies to the fullest extent possible on the information and assessments provided by other relevant supervisors and functional regulators. The Federal Reserve actively participates in interagency information sharing and coordination, consistent with applicable laws, to promote comprehensive and effective supervision and limit unnecessary duplication of information requests. Supervisory agencies continue to enhance formal and informal discussions to jointly identify and address key vulnerabilities, and to coordinate supervisory strategies for large financial institutions. d. In certain instances, supervisors may be able to rely on a firm's internal audit or internal control functions in developing a comprehensive understanding and assessment." The supervisory activities outlined above apply to all FRB supervised firms, including those with insurance operations. The reliance "on the information and assessments provided by other relevant supervisors and functional regulators" quoted above specifically includes the state insurance supervisors for FRB supervised institutions involved in the business of insurance. The FRB relies on the state insurance supervisors to require firm's to demonstrate the adequacy and effectiveness of their corporate governance framework at the operating insurance company level.
Comments	*Additional comments that are not captured in responses to each standard*
	States: The Corporate Governance Annual Disclosure Model Act (NAIC #305) and supporting regulation (NAIC #306) began to be implemented by states in 2016 and will become a required element of the NAIC Accreditation Program at 1/1/2020.
ICP 8	**Risk Management and Internal Controls**
8	The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters, and internal audit.
8	**States:** The Risk Management and Own Risk and Solvency Model Act (NAIC #505) requires large insurers to maintain a risk management framework to assist the insurer with identifying, assessing, monitoring, managing and reporting on its material and relevant risks. The act also requires an own risk and solvency assessment to be performed with an ORSA Summary Report to be filed with the Lead State supervisor on an annual basis. The Insurance Holding Company System Regulatory Act (NAIC #440) requires an attestation in the annual registration statement that the insurer's board of directors oversees corporate governance and internal controls and that the insurer's officers or senior management have approved, implemented, and continue to maintain and monitor corporate governance and internal control procedures. The Annual Financial Reporting Model Regulation (NAIC #205) outlines requirements for companies relating to the internal audit function as well as internal controls over financial reporting.

	Regulators require companies to appoint a qualified actuary (appointed actuary) to opine on the reasonability or appropriateness of company reserves on an annual basis through the Standard Valuation Law (NAIC #820) and Actuarial Opinion and Memorandum Regulation (NAIC #822) for life insurers and through the NAIC's Annual Statement Instructions for property/casualty and health insurers. A description of board and senior management oversight of all of these functions is required to be included in the Corporate Governance Annual Disclosure, which is filed with and reviewed by the supervisor on an annual basis. All of the critical functions are reviewed in-depth during the onsite inspection process. The NAIC Financial Condition Examiners Handbook (Exam Handbook) requires review and consideration of five overarching control principles, which are applicable to all critical activities of an insurer. These principles include: 1. An active board and senior management oversight; 2. Adequate risk management, monitoring and management information systems; 3. Adequate and clear policies, authorization limits and procedures; 4. Comprehensive internal controls; and 5. Processes to assure compliance with laws and regulations. **FRB:** The FRB has a supervisory program that establishes and implements a framework for assessing risk management and internal controls at institutions under its jurisdiction. Supervisory guidance with respect to corporate governance at the largest BHCs, SLHCs, and designated nonbank financial companies is set out in SR Letter 12-17. The FRB assesses the condition, performance, and activities on a consolidated basis in a manner that is consistent with the Board's established risk-based supervisory approach, taking into account, to the greatest extent possible, any unique characteristics of institution engaged primarily in the business of insurance, and any applicable statutory requirements As with BHCs, the FRB's objective is to ensure that an SLHC and its non-depository subsidiaries are effectively supervised and can serve as a source of strength for, and do not threaten the safety and soundness of, its subsidiary depository institution(s).
8.1	The supervisor requires the insurer to establish, and operate within, an effective Risk Management system.
8.1	**States:** Insurers must comply with risk management standards required through actuarial and risk-based capital requirements and the insurer's risk management function is subject to review during the financial examination process. The Risk Management and Own Risk and Solvency Model Act (NAIC #505) requires large insurers to maintain a risk management framework to assist the insurer with identifying, assessing, monitoring, managing and reporting on its material and relevant risks. The act also requires an own risk and solvency assessment to be performed with an ORSA Summary Report to be filed with the Lead State supervisor on an annual basis. **FRB:**

	The guidance in SR Letter 12-17 (4: Management of Core Business Lines) states, in part, that each core business line should have "an independent and strong risk-management framework that supports identification, measurement, assessment, and control of the full spectrum of risks." The FRB relies on the work of the state insurance supervisors in their capacity as the primary supervisors of the firm's insurance operations to ensure that the firm's insurance operations operate within the established risk management system.
8.2	The supervisor requires the insurer to establish, and operate within, an effective system of internal controls.
8.2	**States:** The Annual Financial Reporting Model Regulation (NAIC #205) outlines standards and requirements for financial reporting, internal controls and the audit function. All insurers are subject to an annual financial statement audit by a qualified external auditor that includes a review and evaluation of internal controls. Deficiencies in internal controls are required to be reported to the audit committee of the board and to the supervisor if deemed to be a material weakness. In addition, large insurers are required to attest to the effectiveness of their internal controls over financial reporting to the supervisor on an annual basis. Furthermore, large insurers are required to maintain an effective internal audit function that is charged with providing independent, objective and reasonable assurance to the audit committee and insurer management regarding the insurer's governance, risk management and internal controls. For publicly-held insurers, the SEC requires internal controls over financial reporting to be subject to extensive reporting requirements under Sarbanes-Oxley for all but the smallest public issuers. Such reporting includes an attestation on the effectiveness of internal controls by the external auditor. Details regarding internal control practices may also be reported through an insurers ORSA Summary Report or Corporate Governance Annual Disclosure, both of which are received annually and subject to review by financial analysts. The internal control systems are subject to extensive review during each full-scope financial examination, including tests of the effectiveness of internal controls in mitigating the significant solvency risks identified for review by the exam team. **FRB:** In addition to the response to 8.1 above, the guidance in SR Letter 12-17 (2: Corporate Governance) states, in part, that each firm should "ensure the organization's…internal control function are effective and independent, with demonstrated influence over business-line decision making." The FRB relies on the work of the state insurance supervisors in their capacity as the primary supervisors of the firm's insurance operations to ensure that the firm's insurance operations operate within an effective system of internal controls.
8.3	The supervisor requires the insurer to have effective control functions with the necessary authority, independence and resources.
8.3	**States:** See discussion under 8.2 above. If concerns regarding the authority, independence or resources of an insurer's control functions are identified, the supervisor will make recommendations to the insurer and/or adjust the priority rating and supervisory plan in place to address. If the concerns increase and become more significant, the supervisor can utilize authority from the Hazardous Financial Condition Model Regulation to require corrective action.

	FRB: See response to 8.2 above.
8.4	The supervisor requires the insurer to have an effective Risk Management function capable of assisting the insurer to • identify, assess, monitor, mitigate and report on its key risks in a timely way; and • promote and sustain a sound risk culture.
8.4	**States:** The Risk Management and Own Risk and Solvency Model Act (NAIC #505) requires large insurers to maintain a risk management framework to assist the insurer with identifying, assessing, monitoring, managing and reporting on its material and relevant risks. The act also requires an own risk and solvency assessment to be performed with an ORSA Summary Report to be filed with the Lead State supervisor on an annual basis. The RMORSA Model Act references the ORSA Guidance Manual for guidance and instructions on performing and reporting on an ORSA. The Guidance Manual requires discussion of the five key principles of an effective ERM framework: • Risk Culture and Governance • Risk Identification and Prioritization • Risk Appetite, Tolerances and Limits • Risk Management and Controls • Risk Reporting and Communication The Guidance Manual also requires detailed descriptions and explanations of the material and relevant risks identified by the insurer, the assessment methods used, key assumptions made, risk-mitigation activities and outcomes of any plausible adverse scenarios assessed. Finally, the Guidance Manual requires a description of how the insurer combines the qualitative elements of its risk management policy with the quantitative measures of risk exposure in determining the level of financial resources needed to manage its business through a group risk capital assessment. All of these elements are reviewed and evaluated by supervisors on an annual basis after the ORSA Summary Report is received. A deeper evaluation and assessment are performed during subsequent onsite examination activities. Insurers that are not subject to ORSA requirements must still comply with risk management standards required through actuarial and risk-based capital requirements and the insurer's risk management function is subject to review during the financial examination process. For publicly-held insurers, the SEC requires that information be disclosed on the issuer's leadership structure, risk management practices and the Board's role in overseeing risk management. ORSA Guidance Manual: https://www.naic.org/documents/prod_serv_fin_recievership_ORSA-2014.pdf **FRB:**

	The guidance in SR Letter 12-17 (4: Management of Core Business Lines) states, in part, that each core business line should have "an independent and strong risk-management framework that supports identification, measurement, assessment, and control of the full spectrum of risks." The FRB relies on the work of the state insurance supervisors in their capacity as the primary supervisors of the firm's insurance operations to ensure that the firm's insurance operations operate within an effective risk management function.
8.5	The supervisor requires the insurer to have an effective compliance function capable of assisting the insurer to: • meet its legal, regulatory and supervisory obligations; and • promote and sustain a compliance culture, including through the monitoring of related internal policies.
8.5	**States:** Insurers are required to comply with a wide-range of legal and regulatory requirements; however, the nature of the function an insurer uses to achieve compliance is not prescribed. Compliance with regulatory requirements is monitored on a number of levels through both solvency and market conduct monitoring processes. The Corporate Governance Annual Disclosure requires an insurer to describe how reporting responsibilities are organized for the compliance function, to allow the supervisor to understand the frequency at which information on compliance is reported to and reviewed by Senior Management and the Board. The Exam Handbook provides guidance to be considered in assessing the compliance function of insurers – both compliance with laws and regulations as well as internal policies and limits. The effectiveness of the compliance function is reviewed during each exam with concerns followed-up on through the analysis process. **FRB:** The guidance in SR Letter 12-17 (2: Corporate Governance) states, in part, that the firm should "maintain a corporate culture that emphasizes the importance of compliance with laws and regulations and consumer protection, as well as the avoidance of conflicts of interest and the management of reputational and legal risks." Additionally, the guidance in SR Letter 12-17 (4: Management of Core Business Lines) states, in part, that each core business line should have "timely identification and resolution of audit, compliance, and regulatory issues." The FRB relies on the work of the state insurance supervisors in their capacity as the primary supervisors of the firm's insurance operations to ensure that the firm's insurance operations operate within an effective compliance function.
8.6	The supervisor requires the insurer to have an effective actuarial function capable of evaluating and providing advice regarding, at a minimum, technical provisions, premium and pricing activities, Capital adequacy, Reinsurance and compliance with related statutory and regulatory requirements.
8.6	**States:** Regulators require companies to appoint a qualified actuary (appointed actuary) to opine on the reasonability or appropriateness of loss reserves on an annual basis through the Standard Valuation Law (NAIC #820) and Actuarial Opinion and Memorandum Regulation (NAIC #822) for life insurers and through

	the NAIC's Annual Statement Instructions for property/casualty and health insurers. Minimum qualifications for the appointed actuary are outlined within the regulation/instructions and supported by additional detail in U.S. actuarial professional standards. The Appointed Actuary is also required to provide advice to the board on an annual basis through the presentation of the reserve assessment. This presentation typically addresses compliance with reserve requirements as well as an assessment of reserves on both a gross and net basis (taking reinsurance into consideration). State rate filing requirements typically require actuarial support for rate requests, which requires actuarial involvement in the pricing process. These requests are generally subject to review and approval by the supervisor, which typically involves a regulatory actuary in evaluating actuarial methods and results. The actuarial function is subject to further review through off-site analysis of various annual actuarial filings and reports. In addition, the function is subject to review through on-site examination activities, which typically involve a regulatory actuary in evaluating, testing or reperforming the results of the insurer's actuarial function. **FRB:** The FRB relies on the work of the state insurance supervisors in their capacity as the primary supervisors of the firm's insurance operations to ensure that the firm's insurance operations have an effective actuarial function.
8.7	The supervisor requires the insurer to have an effective internal audit function capable of providing the Board with independent assurance in respect of the quality and effectiveness of the insurer's Corporate Governance framework.
8.7	**States:** As discussed above in 8.2, the Annual Financial Reporting Model Regulation (NAIC #205) outlines requirements for the audit committee and audit function. This includes a requirement for large insurers to establish an internal audit function providing independent, objective and reasonable assurance to the Audit committee and insurer management regarding the insurer's governance, risk management and internal controls. This assurance shall be provided by performing general and specific audits, reviews and tests and by employing other techniques deemed necessary to protect assets, evaluate control effectiveness and efficiency, and evaluate compliance with policies and regulations. The head of the internal audit function shall report to the audit committee regularly, but no less than annually, on the periodic audit plan, factors that may adversely impact the internal audit function's independence or effectiveness, material findings from completed audits and the appropriateness of corrective actions implemented by management as a result of audit findings. The internal audit function is required to be organizationally independent from other areas of Senior Management to ensure that internal auditors remain objective. Internal audit functions are reviewed during the financial examination and recommendations for improvement in the internal audit function are made when deemed appropriate. The Exam Handbook provides additional guidance and evaluation criteria regarding the appropriate role for an internal audit function. **FRB:** The guidance in SR Letter 12-17 (2: Corporate Governance) states, in part, that each firm should "ensure the organization's internal audit…[is] effective and independent, with demonstrated influence over business-line decision making."

	Additionally, the guidance in SR Letter 13-1 states that "internal audit should evaluate governance at all management levels within the institution, including at the senior management level, and within all significant business lines." The FRB relies on the work of the state insurance supervisors in their capacity as the primary supervisors of the firm's insurance operations to ensure that the firm's internal audit function provides effective independent assurance with respect to the corporate governance framework implemented at the insurance operating company level.
8.8	The supervisor requires the insurer to retain at least the same degree of oversight of, and accountability for, any outsourced material activity or function (such as a control function) as applies to non-outsourced activities or functions.
8.8	**States:** The Model Holding Company Act and Regulation (NAIC #440 & 450) include regulatory approval requirements relating to outsourcing functions to affiliates. However, all material outsourced functions are subject to review during examination. A number of NAIC Model Laws address the outsourcing of critical functions including services provided by MGAs (NAIC #225), Producers (NAIC #218), Controlling Producers (NAIC #325), Investment Custodians (NAIC #295 & 298) and other Third-Party Administrators (NAIC #90); the MGA (NAIC #225) and Controlling Producer (NAIC #325) models are specifically required for Accreditation. During onsite examinations, outsourcing of material functions is a key element of reviewing an insurer's solvency risks and is particularly emphasized in the IT review process. The emphasis of Exam Handbook guidance on outsourcing is on the level of oversight provided by the insurer to service providers, as well as a review of and compliance with written contract terms. Recent additions to the Handbook in this area emphasize the importance of cybersecurity controls in place at third-party service providers. **FRB:** The Guidance on Managing Outsourcing Risk, issued with SR Letter 13-19 states, in part, that "the use of service providers does not relieve a financial institution's board of directors and senior management of their responsibility to ensure that outsourced activities are conducted in a safe-and-sound manner and in compliance with applicable laws and regulations." The FRB relies on the work of the state insurance supervisors in their capacity as the primary supervisors of the firm's insurance operations to ensure that any outsourced material activity or function at the insurance operating company level is done so with the appropriate amount of oversight and accountability.
Comments	*Additional comments that are not captured in responses to each standard*
	States: Revisions to the Annual Financial Reporting Model Regulation to require large insurers to maintain an effective internal audit function began to be implemented in 2016 and will become a required element of the NAIC Accreditation Program on 1/1/2020.
ICP 9	**Supervisory Review and Reporting**
9	The supervisor takes a risk-based approach to supervision that uses both off-site monitoring and on-site inspections to examine the business of each insurer, evaluate its condition, risk profile and conduct, the quality and effectiveness of its corporate governance and its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.

9	**States:** The system of financial surveillance advocated by the NAIC's Risk-Focused Surveillance Framework is designed to provide continuous regulatory oversight. The intent of risk-based supervision is to identify and assess the risk in insurers' operations and use those assessments to formulate ongoing surveillance plans. The risk-focused surveillance process set forth in the NAIC *Financial Analysis Handbook,* https://www.naic.org/prod_serv/FAH-ZU-19.pdf, includes identifying significant risks, assessing and analyzing those risks, documenting the results of the analysis, and developing recommendations for how the analysis can be applied to the ongoing monitoring of the insurer. This assists supervisors in concentrating their efforts on high risk insurers and in focusing their efforts on the riskiest areas of an insurer's operations. The risk-focused approach requires fully coordinated efforts between the financial examination function (onsite inspection) and the financial analysis function (off-site review), which are typically organized as separate teams in most states. State insurance regulators utilize many prioritization and analysis tools that are built from an insurer's annual, quarterly, and supplemental public filings to identify those legal entities with the most concerning risks. Confidential and proprietary data are accessed through regulator only filings and via specific requests from the analysis and examination processes. The regulators use these results to schedule the order of off-site quarterly reviews as well as on-site reviews performed at least once every 3 to 5 years. Within review of a particular legal entity, regulators focus their attention on the key risk areas common to all insurers plus those specific to the legal entity under review, generally organized into 9 branded risk classifications. These reviews typically include all financial risk areas of an insurer including: financial position and solvency assessment, quality of underwriting results and investment returns, an assessment of risks and management's responses to them, as well as compliance concerns with state and federal statutes. In addition to prudential aspects, the risk-focused approach also encompasses the market conduct analysis and examination functions (*see response to ICP 19*) through the Market Conduct Annual Statement (MCAS), data calls, interrogatories and targeted on-site market conduct examinations to determine whether customers are being treated fairly. **FRB:** The main objective of the supervisory process is to evaluate the overall safety and soundness of the banking and nonbanking organizations and includes evaluation of a broad range of risks. This evaluation includes an assessment of the organization's risk management systems, financial condition, and compliance with applicable banking laws and regulations. The FRB may conduct both off-site monitoring and on-site examinations of designated nonbank financial companies and their subsidiaries pursuant to section 161(b) of Dodd-Frank Act. 12 U.S.C. § 5361(b). The FRB also has authority pursuant to the BHC Act and HOLA to conduct both off-site monitoring and on-site inspections of BHCs and SLHCs, respectively, including their nonregulated subsidiaries. See 12 U.S.C. § 1844(c)(2) and 12 U.S.C. § 1467a(b)(4). Effective consolidated supervision requires strong, cooperative relationships between the FRB and other supervisors and functional regulators. The FRB generally relies to the fullest extent possible on information and assessments provided by other supervisors and regulators to support effective supervision.
9.1	The supervisor has the necessary legal authority, powers and resources to perform off-site monitoring and conduct on-site inspections of insurers, including monitoring and inspecting services and activities

	outsourced by the insurer[4]. The supervisor also has the power to require insurers to submit information necessary for supervision.
9.1	**States:** The Model Law on Examinations (NAIC #390) provides supervisors with the authority to conduct examinations of insurers whenever it is deemed necessary, including complete access to the company's books and records and, if necessary, the records of any affiliated company, agent, and/or managing general agent. Such authority extends not only to inspect books and records but also to examine officers, employees and agents of the company under oath when deemed necessary with respect to transactions directly or indirectly related to the company under examination. Regarding the group, the Model Holding Company Act (NAIC #440) and Regulation (NAIC #450) is also an Accreditation Part A standard and Section 4B provides additional authority for the regulator to obtain: financial statements (including audited) from the entire group or any entity in the group, capital structure information, statements regarding corporate governance, etc. The Act includes a provision regarding Information of Insurers that must be obtained from other entities within the holding company structure: "Any person within an insurance holding company system subject to registration shall be required to provide complete and accurate information to an insurer, where the information is reasonably necessary to enable the insurer to comply with the provisions of this Act." Further, the NAIC Financial Condition Examiners Handbook provides state insurance departments with guidance for monitoring and inspecting services and activities outsourced by insurers. U.S. state insurance regulators require that insurers file the appropriate NAIC annual and quarterly statements and supplemental reports in accordance with NAIC instructions in a timely manner, following the accounting treatment prescribed by the NAIC's Accounting Practices and Procedures Manual. Any additional information necessary for effective supervision can be required under the examination authority described above. **FRB:** The FRB may conduct both off-site monitoring and on-site examinations of designated nonbank financial companies and their subsidiaries pursuant to section 161(b) of Dodd-Frank Act. 12 U.S.C. § 5361(b). The FRB also has authority pursuant to the BHC Act and HOLA to conduct both off-site monitoring and on-site inspections of BHCs and SLHCs, respectively. See 12 U.S.C. § 1844(c)(2) and 12 U.S.C. § 1467a(b)(4). The FRB has authority to conduct off-site monitoring and on-site inspections of any operations of the supervised holding company, including nonregulated subsidiaries and activities outsourced by the insurance company, to the extent the activities relate to the control of a bank or savings association (in the case of a BHC or SLHC). Effective consolidated supervision requires strong, cooperative relationships between the FRB and other bank supervisors and functional regulators, including state insurance supervisors. The FRB generally relies to the fullest extent possible on the information and assessments provided by other supervisors and regulators to support effective supervision. However, the FRB has the authority to require an insurance company that is also an SLHC, BHC, or designated nonbank financial company to submit information necessary for supervision.

[4] For information on the powers required of the supervisor in general, see ICP 1 Objectives, Powers and Responsibilities of the Supervisor and ICP 2 Supervisor.

9.2	The supervisor has a documented framework for supervisory review and reporting which takes into account the nature, scale and complexity of insurers. The framework encompasses a supervisory plan[5] that sets priorities and determines the appropriate depth and level of off-site monitoring and on-site inspection activity.
9.2	**States:** In the Risk-Focused Surveillance Cycle, the regulator in the state of domicile develops the ongoing supervisory plan that includes the frequency of exams, scope of exams, meetings with company management, follow up on recommendations from prior regulatory reviews, and financial analysis monitoring. These items will be impacted by priority level of the company, which is set by the domestic regulator based on guidance outlined in NAIC handbooks requiring consideration of both quantitative and qualitative risk indicators. **FRB:** The FRB's supervisory approach is tailored to the size, complexity and risks of the firm. For the largest institutions, the FRB uses a range of supervisory activities to maintain a comprehensive understanding and assessment of each firm. These include coordinated horizontal reviews involving the examination of several institutions simultaneously, encompassing firm-specific supervision and the development of cross-firm perspectives. Firm-specific examination and continuous monitoring activities are undertaken to maintain an understanding and assessment across the core areas of supervisory focus for each firm.
9.3	The supervisor has a mechanism to check periodically that its supervisory framework pays due attention to the evolving nature, scale and complexity of risks which may be posed by insurers and of risks to which insurers may be exposed.
9.3	**States:** The NAIC committee system provides multiple opportunities for this type of feedback and modification to incorporate changes to risks, companies, etc. The highly interactive process between the state of domicile regulator and the other regulators allows ground-level dissemination of information about emerging risks to occur. The NAIC's Financial Analysis (E) Working Group (FAWG) peer review process fosters this type of dynamic as well, bringing in a variety of expert regulators to discuss specific companies considered nationally significant. The FAWG also discusses trends in the industry, national issues, and reporting concerns, which consider all sources of information including rating agency reports, news outlets and various other periodicals. Through this process the FAWG frequently refers issues to be updated in NAIC handbooks and also maintains a separate Solvency Monitoring Risk Alert that is published on a biannual basis to highlight emerging risks and areas of concern. In addition, the NAIC Peer Review Program provides opportunities for state insurance regulators to get together to review each others' analysis and exam files to identify best practices and common issues to be addressed. Also, at least three times a year, chief financial regulators from all states come together to discuss various concerns and national issues in a Chief Financial Regulators Forum. Issues that arise from all of these forums are brought to the various NAIC committee groups with the appropriate subject matter areas for investigation and incorporation into regulatory workstreams, handbook updates and training programs. **FRB:**

[5] A Supervisory Plan is a tool for supervisors to determine the frequency, scope and depth of supervisory review. It could be generic (e.g. addressing categories or groups of insurers) or specific (addressing individual insurers).

	Supervisory plans for the largest institutions are generally prepared at least annually and sometimes more frequently. The plans are vetted at the respective Reserve Bank and Federal Reserve System management committees so that emerging or growing risks are properly addressed.
9.4	The Supervisor: • establishes documented requirements for the submission of regular qualitative and quantitative information on a timely basis from all insurers licensed in its jurisdiction; • defines the scope, content and frequency of those reports and information; • requires more frequent and/or more detailed additional information on a timely basis whenever there is a need; • sets out the relevant principles and norms for supervisory reporting, in particular the accounting standards to be used; • requires that inaccurate reporting is corrected as soon as possible; and • requires that an external audit opinion is provided on annual financial statements.
9.4	**States:** Each state publishes a checklist regarding filings to submit to the state insurance department as well as to the NAIC, including whether in hard copy (and if so, how many copies) and/or electronic. Established deadlines exist in the checklist as well as in the statutory annual and quarterly statement for supplemental filings. The NAIC maintains a map that establishes links to the various state checklists to streamline the process of accessing this information. The scope and content of the filings are highly structured and formatted through the NAIC Blanks (E) Working Group process. The Blanks page serves as the template, and then instructions are adopted to help insurers provide the information the regulators seek. This occurs even for confidential and proprietary information that is filed with the state and not actually received and stored by the NAIC. For ad hoc requests by regulators, the request will specify the information needed and any format requirements. Structured deadlines exist for all companies without regard to solvency concerns. For those insurers considered potentially troubled, modifications to filing deadlines and frequencies are often made. For example, companies file an annual Risk-Based Capital (RBC) report; however, troubled companies often file quarterly RBC filings with the state of domicile. Similarly, while most companies file quarterly statutory financial statements, a troubled company may be required to file monthly financial reports. The financial reporting process is very structured, and the accounting baseline required to be used for all traditional insurers is the NAIC Accounting Practices and Procedures Manual (AP&P Manual). This is an entire codified body of accounting designed to meet the regulators' needs for conservatism in the financial position and consistency in operating results. Individual state insurance regulators may nonetheless prescribe or permit alternative accounting practices, although such variances from the AP&P Manual must be disclosed to other regulators. Annual and quarterly statement filings are reviewed by NAIC staff for consistency and reasonability errors. Additionally, financial solvency reviews by NAIC analysts as well as state analysts highlight errors in reporting as well. When errors occur, the company and regulators (if applicable) are notified. If the company does not voluntarily respond with corrections to the NAIC, the state of domicile regulator makes the ultimate decision of whether to require a correction currently or to allow the company to fix the issue in

	a future filing. A specific Statement of Statutory Accounting Principles covers changes to errors vs. changes to estimates. The NAIC Accreditation Part A standards includes the following: "State statute or regulation should contain a requirement for annual audits of domestic insurance companies by independent certified public accountants that is substantially similar to the NAIC Annual Financial Reporting Model Regulation." **FRB:** Off-site surveillance is a key component of the FRB's risk-focused supervisory approach. A major part of this surveillance consists of the collection, review, and analysis of regulatory reports required to be submitted to the agencies on a periodic basis by supervised institutions. The FRB's authority includes the ability to require the submission of reports necessary for the effective supervision of the particular institution groups of institutions with similar operations or risks. See 12 U.S.C. §§ 324 (state member banks), 1467a(b) (SLHCs), and 1844 (BHCs). The authority to collect information from banks and holding companies is limited by the Paperwork Reduction Act (PRA), which generally requires federal agencies to obtain approval from the Office of Management and Budget (OMB) prior to collecting certain information. The approval process generally requires publication of two Federal Register Notices and a submission to the OMB. Approval is not required if the information requested is from fewer than 10 institutions, or is within the context of an examination. See 44 U.S.C. § 3501 et seq. Additionally, the Dodd-Frank Act provides authority to the FRB to require comprehensive reporting by nonbank financial companies designated for supervision by the FRB. See 12 U.S.C. § 5361(a).
9.5	In particular, the supervisor requires insurers to report: • off-balance sheet exposures; • material outsourced functions and activities; and • any significant changes to their corporate governance. The supervisor also requires insurers to promptly report any material changes or incidents that could affect their condition or customers.
9.5	**States:** Insurers must report off-balance sheet items in the Notes to Financial Statements included in the legal entity statutory annual and quarterly filings. For example, there is a specific note for contingencies. Additionally, various off-balance sheet asset items are assessed capital charges in the confidential RBC filings. Certain outsourced functions are required to be reported and disclosed through the annual statement interrogatories and notes, including the use of managing general agents or third-party administrators to produce business and the outsourcing of asset management to investment advisors. Other outsourced services are disclosed to supervisors and reviewed during the course of an onsite financial examination. Significant changes to corporate governance practices are disclosed to supervisors through the Corporate Governance Annual Disclosure. This annual filing requires a description of governance practices and activities including any changes from the prior year. Significant transactions must be disclosed as part of the Material Transactions Model Regulation. The Model Holding Company Act also requires significant disclosures surrounding intercompany transactions. Changes must be promptly filed with the domiciliary regulator for review. The analyst also seeks quarterly

	(or more frequently for potentially troubled insurers) input on any changes to the company for things that are not reported in the standardized reports. **<u>FRB:</u>** The collection of financial information and other data from off-site surveillance referred to in the response above includes off-balance sheet exposures, material outsourced functions and activities, and reporting of any significant changes in corporate governance, as well as any material changes or incidents that could affect their condition.
9.6	The supervisor periodically reviews its reporting requirements to ascertain that they still serve their intended objectives and to identify any gaps which need to be filled. The supervisor sets any additional requirements that it considers necessary for certain insurers based on their nature, scale and complexity.
9.6	**<u>States:</u>** The NAIC Blanks (E) Working Group considers modifications to the standardized templates for the annual and quarterly statutory financial statements as well as the supplemental filings. Changes to the instructions supporting those filings are also considered; and as some of those filings are confidential and proprietary, they are filed with the state only and not the NAIC. This Working Group receives recommendations from all of the various subject matter expert groups in the NAIC committee structure, as well as directly from individual regulators or state insurance departments as well as consumers, other government agencies, academics and even insurers. Regarding standardized reporting initiated by other NAIC groups (i.e. committees, task forces or working groups), each responsible group is expected to perform regular review and maintenance of the reports. In many of the reporting requirements, the nature, scale and complexity of the insurer is considered. For example, the Own Risk and Solvency Assessment (ORSA) Summary Report will not be required of entities under a certain size unless the commissioner indicates otherwise. **<u>FRB:</u>** The FRB reviews its reporting requirements on a periodic basis to ascertain whether they continue to serve the intended purpose and periodically modifies the requirements as appropriate.
9.7	The supervisor monitors and supervises insurers on an on-going basis, based on regular communication with the insurer, information obtained through supervisory reporting and analysis of market and other relevant information.
9.7	**<u>States:</u>** See prior responses. The NAIC Financial Condition Examiners Handbook and the NAIC Financial Analysis Handbook both contain explicit procedures as part of the Risk-Focused Solvency Surveillance process. This process outlines quarterly and annual off-site review processes. Information obtained through supervisory reporting is subject to review and evaluation regarding its impact on the prioritization and supervisory plan of the insurer. Standardized tools are made available by the NAIC to assist in reviewing and evaluating the information provided by the insurer. Specific to insurance groups, the lead state is encouraged to coordinate examinations of all types of insurers if they share processes, controls and decision-making that may be more efficiently reviewed through a coordinated group examination. The lead state performs at least an annual financial analysis of the insurance group using information filed with the supervisor as well as information from other public sources. **<u>FRB:</u>**

	Supervisory plans are generally prepared at least annually and sometimes more frequently. The plans describe the work planned for the upcoming period and are vetted at the respective Reserve Bank and System management committees so that emerging or growing risks are properly addressed. Supervisory teams engage with supervised firms regularly through examinations and continuous monitoring. Continuous monitoring includes routine discussions with management and review of management information, including risk reporting.
9.8	The supervisor sets the objective and scope for on-site inspections, develops corresponding work programs and conducts such inspections.
9.8	**States:** The Model Law on Examinations (NAIC #290) requires a full-scope examination to be completed at least once every five years to assess the financial condition of the insurer. The Model Law requires the exam to be completed in accordance with instructions outlined in the NAIC Financial Condition Examiners Handbook. The Handbook provides detailed guidance and procedures for scoping and conducting the exam, from pre-planning to documenting the results of work performed. In addition, procedures for assessing corporate governance and risk management, as well as detailed procedures for conducting control and detail testing are provided in the handbook. Model #290 also provides authority for the state to conduct targeted examinations as deemed appropriate and therefore allows states to target resources to areas of risks and changes to the company. The frequency and quality of examinations conducted by each domestic state are assessed through the NAIC Accreditation Program, allowing a licensed state to place reliance on the examination efforts of the domestic (accredited) state. **FRB:** Supervisory plans are generally prepared at least annually and sometimes more frequently. The plans describe the work planned for the upcoming period and are vetted at the respective Reserve Bank and System management committees so that emerging or growing risks are properly addressed. The scope and objectives of each examination is reviewed by the respective Reserve Bank and FRB staff. Work programs are developed for on-site examinations to aid examiners and support consistent application of FRB expectations.
9.9	The supervisor discusses with the insurer any relevant findings of the supervisory review and the need for any preventive or corrective action. The supervisor follows up to check that required actions have been taken by the insurer.
9.9	**States:** The NAIC Financial Condition Examiners Handbook provides guidance and standards for the communication of exam results to the company, the public and with other regulators. Public reports of examination outline findings of fact regarding the financial condition of the insurer and compliance with regulatory requirements. Management letters are utilized to communicate confidential concerns and recommendations from the supervisor to the insurer. A Summary Review Memorandum is utilized to communicate the results of an exam to financial analysts and other interested regulators. Exam report findings and management letter recommendations are followed-up on by the assigned financial analyst following the completion of an examination. In addition, the company is required to disclose whether it has complied with findings and recommendations from the last examination in the annual statement interrogatories. **FRB:**

	The results of an on-site examination or inspection are reported to the board of directors and management of the organization in a report of examination or inspection and include any supervisory findings resulting from the examination. Supervisory findings are expected to be remediated by a stated deadline. The supervisory teams monitor progress toward remediation to ensure that firms take necessary actions. A report is also prepared and given to the board of directors annually describing the FRB's overall assessment of the firm, and generally includes a confidential supervisory rating of the financial condition of the organization.
Comments	*Additional comments that are not captured in responses to each standard*
ICP 10	**Preventive and Corrective Measures**
10	The supervisor takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.
10	**<u>States:</u>** The supervisor has broad powers to take preventive and corrective measures that are timely, suitable, and necessary to achieve the objective of protection of policyholders. Preventive and corrective measures can emanate from a variety of places including, but not limited to, a corrective action plan related to the triggering of an RBC event, a corrective action plan related to an on-site examination of an insurer, or corrective actions taken based on hazardous financial condition. NAIC Accreditation Program review ensures the states have certain minimum standards and resources in place. **<u>FRB:</u>** As discussed in its response to ICP 1 (above), the FRB has supervisory authority over BHCs, SLHCs, state member banks, certain FBOs, and designated nonbank financial companies. The FRB is the consolidated supervisor of BHCs, SLHCs, FBOs, and designated nonbank financial companies and regulates their operations, activities, and capital (to varying degrees), among other things. The FRB has the power to take action against the entities it supervises, including taking timely and suitable preventive and corrective measures. In carrying out its supervisory activities, the FRB routinely communicates and coordinates supervision with state insurance regulatory authorities, including those responsible for licensing and regulating the insurance subsidiaries of the BHCs, SLHCs, state member banks, FBOs, and designated nonbank financial companies.
10.1	The supervisor has the power to take action against individuals or entities that conduct insurance activities without the necessary licence.
10.1	**<u>States:</u>** The supervisor has broad powers to take enforcement action against individuals or entities that operate without a license. In cases where there is the potential for immediate harm to policyholders, the supervisor can take immediate steps to effectuate a cease and desist action. **<u>FRB:</u>** State laws provide for the licensing of insurance companies and insurance activities. The FRB, as the consolidated supervisor of BHCs, SLHCs, designated nonbank financial companies, and state member banks, among others, has the power to take action against the entities it supervises that may

	engage in activities, including insurance activities, for which the entity has not received prior regulatory approval. See, e.g., 12 U.S.C. §§ 1818(b), 1844(b), and 1467a(g).
10.2	The supervisor has sufficient authority and ability, including the availability of adequate instruments, to take timely preventive and corrective measures if the insurer fails to operate in a manner that is consistent with sound business practices or regulatory requirements. There is a range of actions or remedial measures which include allowing for early intervention when necessary. Preventive and corrective measures are applied commensurate with the severity of the insurer's problems.
10.2	**States:** As mentioned above, the supervisor has broad authority and the ability, including the availability of adequate instruments (including the issuance of a notice of cease and desist), to take timely preventive and corrective measures if the insurer fails to operate in a manner that is consistent with sound business practices or regulatory requirements. The range of actions or remedial measures can be tailored to the specific concerns noted including, but not limited to divestiture of particular investments, mandating additional capital infusions, and modifying certain market conduct practices. Whenever it appears to the commissioner that any person has committed a violation of state holding company law that prevents the full understanding of enterprise risk to the insurer, the violation may serve as an independent basis for disapproving dividends and placing the insurer under an order of supervision. Whenever it appears that any person has committed a violation of the holding company law that makes continued operation of an insurer contrary to the interests of policyholders or public, the commissioner may, after notice and opportunity to be heard, suspend or revoke the insurer's license to do business. **FRB:** As discussed in the response to ICP 1 (above), under U.S. law, supervision of the insurance activities of BHCs, SLHCs, FBOs, state member banks, and designated nonbank financial companies occurs at the state level in the jurisdictions in which the insurance activities are conducted. Remedial action regarding insurance activities for which the entity has received prior regulatory approval, therefore, is within the primary authority of the state insurance regulators. The FRB, as the consolidated supervisor, may take a number of actions or remedial measures regarding the capital and operations of the consolidated organization but does not typically take direct action regarding approved insurance activities of those institutions. The FRB may take (or require a supervised entity to take) remedial measures, when, in the FRB's judgment, a supervised institution, for example, is not complying with laws or regulations or is likely to be engaged or is engaged in an unsafe or unsound practice. In general, these authorities provide the FRB with both a range of proactive and remedial measures to address matters of concern and the discretion to determine when to employ them. The measures include restricting the current activities and operations of the organization, requiring new remedial activities, withholding or conditioning approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from banking, replacing or restricting the powers of managers, board directors or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, revoking or recommending the revocation of the banking license, and issuing monetary fines against institutions and individuals. In general, remedial measures are imposed according to the extent and severity of the problem being addressed. The same supervisory principles and authorities apply to supervised institutions that engage in approved insurance activities.

10.3	There is a progressive escalation in actions or remedial measures that can be taken if the problems become worse or the insurer ignores requests from the supervisor to take preventive and corrective action.
10.3	**States:** There is a progressive escalation in actions or remedial measures that can be taken if the problems become worse or the insurer ignores requests from the supervisor. For example, in the area of risk-based capital, there are four levels of supervisory intervention with each level becoming progressively more demanding on the insurer. **FRB:** See the FRB response to ICP/Std. 10.2. The FRB has no direct authority over insurance activities of the entities that it supervises. The primary supervisors of the insurance activities are the individual states in which the insurance companies operate, each of which has its own authorities to take remedial measures.
10.4	If necessary, the supervisor requires the insurer to develop an acceptable plan for prevention and correction of problems. Preventive and corrective plans include agreed and acceptable steps to be taken to resolve the issues raised within an acceptable timeframe. Once preventive and corrective plans have been agreed to or imposed, the supervisor periodically checks to determine that the insurer is complying with the measures.
10.4	**States:** The supervisor has broad discretion in determining an acceptable plan and in establishing acceptable time frames. In the case of capital deficiencies associated with risk-based capital requirements, the statute provides fixed time frames for submitting an acceptable company action plan and the supervisory review of the company action plan. The supervisor can use a variety of approaches to check on compliance including on-site inspections to verify that company actions have taken place. **FRB:** With respect to FRB supervised institutions, including those that control insurance companies, the FRB may require such institutions to develop appropriate plans for the prevention and correction of problems. If the FRB determines that a supervised institution has problems that may jeopardize the safety and soundness of the institution or is not in compliance with laws and regulations, it may take supervisory action to ensure that the supervised institution undertakes corrective measures. Typically, weaknesses and deficiencies are communicated to the management and directors of a supervised institution through the examination process and in a written report. Management and directors are then obliged to address all identified problems and to take measures to ensure that the problems are corrected and will not recur. While most problems are resolved promptly after they are brought to the attention of a supervised institution's management and directors, in some situations, the appropriate agency may need to take supervisory action, requesting that the supervised entity adopt an informal or formal enforcement action to address the problem, including the adoption of board resolutions or entering into a memorandum of understanding. In practice, the type of enforcement action pursued should be commensurate with the severity of weaknesses and deficiencies identified at the entity, with informal enforcement actions being the least severe and civil money penalties or divestiture orders being more severe.
10.5	The supervisor communicates with the Board and Senior Management and Key Persons in Control Functions and brings to their attention any material concern in a timely manner to ensure that preventive and corrective measures are taken and the outstanding issues are followed through to a satisfactory resolution.

10.5	**States:** Largely dependent on the nature of the regulatory concerns, the supervisor may communicate with the board and senior management and key persons in control functions. The supervisor is regularly engaged in communication with senior officers and may include communications with the board to the extent deemed necessary and appropriate. In cases where an on-site inspection has resulted in regulatory findings of a serious nature, these must be communicated to the board and require senior management to respond to key findings and recommendations included within the Report of Examination. **FRB:** FRB supervisory staff members routinely meet with and communicate supervisory concerns to the appropriate parties at the supervised institutions and monitor the extent to which the institution remediates identified weaknesses.
10.6	The supervisor initiates measures designed to prevent a breach of the legislation from occurring, and promptly and effectively deals with noncompliance that could put policyholders at risk or impinge on any other supervisory objectives.
10.6	**States:** Supervisors use discretion in establishing measures that are designed to prevent a breach of the legislation from occurring, including regular or interim reporting (by insurers) of certain legislative requirements and/or regular compliance reviews conducted by the supervisor. Supervisors promptly and effectively address noncompliance issues including actions which may result in fines and penalties levied on the insurer. **FRB:** The FRB relies on the state insurance supervisors in their capacity as the primary supervisor for the firm's insurance operations to ensure that policyholders are not put at risk. As described in the FRB's response to ICP/Std. 10.2, the FRB, as the consolidated supervisor, may take a number of actions or remedial measures regarding the capital and operations of the consolidated organization but does not typically take direct action regarding approved insurance activities of those institutions. Such actions or remedial measures may, however, help strengthen the entity's insurance activities and support policyholder protection.
Comments	*Additional comments that are not captured in responses to each standard*
ICP 11	**Enforcement**
11	The supervisor enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.
11	**States:** Relevant state statutes provide for sanctions in certain cases where violations or noncompliance have occurred. These sanctions are clearly delineated in the relevant insurance codes and are publicly disclosed. **FRB:** As stated in the FRB's response to ICP 1, the FRB does not directly regulate the insurance activities of its supervised entities. The primary supervisors of insurance activities are the individual states in which the insurance companies operate. The FRB relies on the appropriate state supervisor to monitor and enforce corrective measures taken regarding insurance activities. In carrying out its supervisory activities, the FRB routinely communicates and coordinates supervision with state insurance regulatory authorities, including

	those responsible for licensing and regulating the insurance subsidiaries of the BHCs, SLHCs, state member banks, FBOs, and designated nonbank financial companies. Section 162 of the Dodd-Frank Act (12 U.S.C. § 5362) extends to the FRB direct enforcement authority over a designated nonbank financial company, except for those activities of the nonbank financial company that are regulated by another financial regulatory agency. The FRB's enforcement authority over regulated entities and individuals includes both measures to correct behavior and to sanction misconduct in specified circumstances. Remedial and corrective measures available to the FRB are described in the response to ICP/Std. 10.2. The FRB may issue cease and desist orders requiring action to correct violations of any law or regulation or unsafe and unsound practice, and to ensure future compliance by the parties involved. 12 U.S.C. § 1818(b). The FRB may also order regulated entities and their responsible individuals to pay civil money penalties as sanctions for specified misconduct. The amount of the penalty the FRB may order is based on the severity of the misconduct as measured by aggravating and mitigating factors set forth by statute. 12 U.S.C. § 1818(i)(2). In addition, the FRB may remove and prohibit an individual from further employment or participation in the control or operation of various types of entities if the FRB finds that the individual's misconduct satisfies specific statutory standards. 12 U.S.C. § 1818(e). In the event a perceived problem involves a designated nonbank financial company for which another governmental agency is the primary regulator, the FRB may first refer the matter to that agency and, if no action is taken within 60 days, may thereafter initiate its own action. 12 U.S.C. § 5362(b).
11.1	The supervisor has the power to enforce corrective action in a timely manner where problems involving insurers are identified. The supervisor issues formal directions to insurers to take particular actions or to desist from taking particular actions. The directions are appropriate to address the problems identified.
11.1	**States:** The supervisor has the power to enforce corrective action in a timely manner where problems involving insurers are identified. The supervisor issues formal directions to insurers to take particular actions; corrective measures are commensurate to the nature and scale of issues identified. **FRB:** Certain BHCs, SLHCs, state member banks, FBOs, and designated nonbank financial companies directly engage in insurance activities or are affiliated with insurance companies. The FRB does not directly regulate the insurance activities of its supervised entities. The primary supervisors of the insurance activities are the individual states in which the insurance companies operate. In carrying out its supervisory activities, the FRB routinely communicates and coordinates supervision with state insurance regulatory authorities, including those responsible for licensing and regulating the insurance subsidiaries of the BHCs, SLHCs, state member banks, FBOs, and designated nonbank financial companies.
11.2	The supervisor has a range of actions available in order to apply appropriate enforcement where problems are encountered. Powers set out in legislation should at a minimum include restrictions on business activities and measures to reinforce the financial position of an insurer.
11.2	**States:** The supervisor has broad discretion and powers to apply appropriate enforcement where problems are encountered. These powers include restrictions on business activities, requirements to increase loss reserves, requirements to increase capital, RBC corrective actions, measures to retain expert help in addressing complex areas and in certain circumstances fining individual directors and senior managers of insurers and suspending licensure.

	FRB: As discussed in the FRB's response to ICP/Std. 10.2, the FRB, as the consolidated supervisor of BHCs, SLHCs, and FBOs, may take a number of actions or remedial measures regarding the capital and operations of the consolidated organization, but may not take direct action regarding approved insurance activities of those institutions. Please see ICP/Std. 10.2-10.4 for a comprehensive list of proactive and remedial measures available to address matters of concern.
11.3	After corrective action has been taken or remedial measures, directions or sanctions have been imposed, the supervisor checks compliance by the insurer and assesses their effectiveness.
11.3	**States:** The supervisor checks compliance by the insurer in a variety of ways, including the submission of reports to the supervisor, face-to-face meetings with the supervisor, and on-site inspections focused on compliance and verification of actions taken by the insurer. **FRB:** The FRB uses various means to monitor compliance with its remedial measures and orders and to ensure their effectiveness, including examinations and inspections, where applicable. The FRB may require a regulated entity to submit reports regarding progress in remediating deficiencies identified by FRB examiners.
11.4	The supervisor has effective means to address management and governance problems, including the power to require the insurer to replace or restrict the power of Board Members, Senior Management, Key Persons in Control Functions, significant owners and external auditors.
11.4	**States:** The supervisor has effective means to address management and governance problems. Under the Hazardous Financial Condition Model Regulation (#385), the supervisor has the authority to correct corporate governance practice deficiencies, and adopt and utilize governance practices acceptable to the supervisor. Under the same model regulation, the supervisor can consider whether the management of an insurer, including officers, directors, or any other person who directly or indirectly controls the operation of the insurer, fails to possess and demonstrate the competence, fitness and reputation deemed necessary to service the insurer in such position. The provisions in actual regulations promulgated by individual states may vary, but this model does require state law to be substantially similar under the NAIC Accreditation program. **FRB:** As discussed in the FRB's response to ICP 11, the FRB has broad authority to remove and prohibit directors, officers, employees, agents, and controlling shareholders with regard to entities it supervises. However, with regard to insurance activities, this authority rests with the state regulatory agencies of the states in which the insurance activities occur. In the event a perceived problem involves a designated nonbank financial company, the FRB may first refer the matter to that agency and, if no action is taken within 60 days, may thereafter initiate its own action. 12 U.S.C. § 5362(b).
11.5	Where necessary and in extreme cases, the supervisor imposes conservatorship over an insurer that is failing to meet prudential or other requirements. The supervisor has the power to take control of the insurer, or to appoint other specified officials or receivers for the task, and to make other arrangements for the benefit of the policyholders.
11.5	**States:**

	Subject to a court of competent jurisdiction, the supervisor may be appointed as conservator of an insurance company if the insurer is failing to meet prudential or other requirements. The supervisor has broad discretion in retaining experts and other individuals in the court oversight of insurance companies in conservatorship/receivership. **FRB:** The authority to appoint a conservator or take similar actions with respect to insurance companies is vested in the state regulatory authorities of those states in which the insurance activities occur.
11.6	There are sanctions by way of fines and other penalties against insurers and individuals where the provisions of the legislation are breached. The sanctions are proportionate to the identified breach.
11.6	**States:** In general, there are sanctions by way of fines and other penalties against insurers, and in some cases, against individuals depending on the legislation. The specified fines or other penalties are generally prescribed in law. **FRB:** See the FRB's response to ICP 11. The FRB has no direct authority over insurance activities of the entities it supervises. The state regulatory authorities of the states in which the insurance companies operate have the authority to impose sanctions on insurers.
11.7	The legislation provides for sanctions against insurers and individuals who fail to provide information to the supervisor in a timely fashion, withhold information from the supervisor, provide information that is intended to mislead the supervisor or deliberately misreport to the supervisor.
11.7	**States:** Legislation generally provides for sanctions against insurers and individuals who fail to provide information to the supervisor in a timely fashion, withhold information from the supervisor, or provide information that is intended to mislead the supervisor or deliberately misreport to the supervisor. To illustrate, the Model Holding Company Act states, in part, "Any officer, director or employee of an insurance holding company system who willfully and knowingly subscribes to or makes or causes to be made any false statements or false reports or false filings with the intent to deceive the commissioner in the performance of his or her duties under this Act, upon conviction shall be imprisoned for not more than [insert amount] years, or fined $[insert amount] or both. Any fines imposed shall be paid by the officer, director or employee in his or her individual capacity." **FRB:** See the FRB's response to ICP 11. The FRB has no direct authority over insurance activities of the entities it supervises. The state regulatory authorities of the states in which the insurance companies operate have the authority to impose sanctions on insurers.
11.8	The process of applying sanctions does not delay necessary preventive and corrective measures and enforcement.
11.8	**States:** State law provides significant flexibility to where, depending on the nature of the preventive and corrective measures, the supervisor can act immediately to remedy the situation.

	FRB: See the FRB's response to ICP 11. The FRB has no direct authority over insurance activities of the entities it supervises. The state regulatory authorities of the states in which the insurance companies operate have the authority to impose sanctions on insurers.
11.9	The supervisor, or another responsible body in the jurisdiction, takes action to enforce all the sanctions that have been imposed.
11.9	**States:** The general practice is that the supervisor is generally responsible for taking action to enforce all of the sanctions which have been imposed, although, in some cases the states' attorneys general or other authorities are also involved. **FRB:** See the FRB's response to ICP 11. The FRB has no direct authority over insurance activities of the entities it supervises. The state regulatory authorities of the states in which the insurance companies operate have the authority to impose sanctions on insurers.
11.10	The supervisor ensures consistency in the way insurers and individuals are sanctioned, so that similar violations and weaknesses attract similar sanctions.
11.10	**States:** The supervisor ensures consistency in the way insurers and individuals are sanctioned. A number of factors are considered to help ensure consistency, such as past compliance issues, change in personnel, etc. **FRB:** The FRB seeks to enforce the laws and regulations under its jurisdiction in a uniform and consistent manner against individuals and entities. Designated senior staff members of the FRB review referrals or recommendations for enforcement actions from the Reserve Banks or from other sources to ensure such consistency and to bring previous agency precedent to the attention of the FRB before it initiates enforcement actions and before a final agency decision is rendered after the adjudication of a case. However, as discussed in the FRB's response to ICP 11, since the FRB has no direct authority over insurance activities of the entities it supervises, it is within the jurisdiction of the state regulatory authorities to impose sanctions against insurers and ensure consistency in the way insurers and individuals are sanctioned.
Comments	*Additional comments that are not captured in responses to each standard*
ICP 12	**Winding-up and Exit from the Market**
12	The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with insolvency of insurance legal entities. In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimising disruption to provision of benefits to policyholders.
12	**States:** Insurer insolvencies are governed by State law. U.S. State insurance laws and regulations clearly establish and define a receivership scheme that provides states with broad powers for insurance companies to exit the market. All states have enacted, as required by the NAIC Accreditation Program, a statute that governs insolvency proceedings of insurance companies. NAIC models are the basis for State receivership schemes.

	The NAIC has developed and revised model laws related to receivership and guaranty funds, the most recent receivership model being the *Insurer Receivership Model Act* (#555), which was adopted in 2007. Prior NAIC receivership models that are the basis for many states' legislation are the *Uniform Insurers Liquidation Act*, and the *Insurers Rehabilitation and Liquidation Model Act*. Guaranty funds provide an essential safety net for policyholders and other claimants and beneficiaries of the insurance coverage. Guaranty fund protection is triggered by the legal finding of insolvency and serves to indemnify policyholders, up to stated limits, that have a claim. Guaranty Funds are authorized in states' laws that are based on the NAIC *Life & Health Insurance Guaranty Association Model Act* (#520) and *Property & Casualty Insurance Guaranty Association Model Act* (#540). These funds work in tandem with the insolvency laws and are established throughout the United States (on a state-by-state basis). **<u>FIO and FRB:</u>** Pursuant to Title I and Title II of the Dodd-Frank Act, FIO, the FRB, and the FDIC have responsibilities relating to the resolution of insurers under certain circumstances, as described below. Under Title I of the Dodd-Frank Act, the Director of FIO and the Chair of the FRB (among others) serves on and supports the work of the FSOC, 12 U.S.C. § 5321, and Title V of the Dodd-Frank Act authorizes FIO to recommend that the FSOC designate an insurer. 31 U.S.C. § 313(c)(1)(C). Insurers designated by the FSOC are subject to enhanced prudential standards and consolidated supervision by the FRB. The FRB, together with the FDIC, has issued regulations requiring certain BHCs and designated nonbank financial companies (including any insurers that have been designated by the FSOC), to develop a "plan for rapid and orderly resolution in the event of material financial distress or failure" (i.e., a "living will") for how the companies would be resolved in a rapid and orderly manner under the U.S. Bankruptcy Code (or other applicable insolvency regime) in the event of material financial distress or failure. 12 CFR Parts 243 and 381. The FRB and FDIC's joint resolution plan regulations contain mechanisms through which the agencies can address weaknesses and inadequacies within any resolution plan, including requiring changes to the plan that would remediate such weaknesses. See, e.g., 12 CFR 243.5 and 381.5; 12 U.S.C. § 5365(d)(5)(B). Under Title II of the Dodd-Frank Act, a proceeding under the U.S. Bankruptcy Code or otherwise applicable insolvency law is the preferred method for resolving a U.S. financial company. For insurers, that means conservatorship, rehabilitation, or liquidation under state insurance insolvency laws. Title II allows for a separate process when systemic risk is potentially at issue. For an insurer or a holding company for which the largest subsidiary is an insurer, following a recommendation by the Director of FIO and the FRB (in consultation with the FDIC), the Secretary of the Treasury (in consultation with the President) may make a systemic risk determination, pursuant to statutorily prescribed criteria, to appoint the FDIC as receiver of such company. Title II provides that the liquidation of an insurer shall be conducted under applicable state law. If the appropriate state regulator does not act within sixty days to begin orderly liquidation proceedings for the insurer, the FDIC has the authority to "stand in the place of the appropriate regulatory agency and file the appropriate judicial action in the appropriate State court to place such company into orderly liquidation under the laws and requirements of the State." 12 U.S.C. § 5383(e)(3).
12.1	The procedures for the winding-up and exit of an insurer from the market are clearly set out in legislation. A high legal priority is given to the protection of the rights and entitlements of policyholders. The procedures aim at minimising the disruption to the timely provision of benefits to policyholders.
12.1	**<u>States:</u>**

	General procedures for the winding-up and exit of an insurer from the market are set out in states' legislation. State regulators set the highest priority on the protection of the rights and entitlements of policyholders without creating any disruption on the timely provision of benefits to policyholders. States' receivership laws provide for conservation, rehabilitation or liquidation of an insurer and provide comprehensive laws and regulations governing insolvencies including criteria and procedures, as well as the prioritization of claim payments during insolvency proceedings. The legal framework gives priority to the protection of policyholders and subordinates the claims of general creditors to those of policyholders. In addition, most States authorize supervision of insurance companies, which may be either administratively or judicially ordered, and whereby the state serves as administrative supervisor of the insurer and may be used to temporarily stabilize a deteriorating insurer's situation prior to entry into receivership. A number of states' receivership laws authorize conservation of insurance companies, a form of receivership which is designed to give the regulator an opportunity to determine the course of action that should be taken with respect to a financially impaired insurer before entering rehabilitation or liquidation. State regulators' authority to put an insurer under administrative supervision, or enter one of the forms of receivership may be used as mechanisms to improve the financial condition of the insurer by remedying the insurer's problems, ensure the payment of policyholder claims, run-off of the failing insurer, effect the transfer of business though reinsurance transactions or the sale of the insurer, or liquidate the insurer. Guaranty funds work in tandem with the insolvency laws and are established in law in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, to provide an essential safety net for policyholders, and other claimants and beneficiaries of insurance coverage. Guaranty fund protection is triggered by the legal finding of insolvency and serves to indemnify policyholders, up to stated limits, that have a claim. For life, annuity and health insurance, 48 states have benefits limits of $250,000 or more; however, for other products and other states, limits range between $100,000 to $500,000. For property & casualty insurance, guaranty funds provide up to at least $300,000 or more in 49 states or territories, with the remaining states or territories with limits of at least $100,000. **FIO and FRB:** Under Title II, a proceeding under the U.S. Bankruptcy Code or otherwise applicable insolvency law is the preferred method for resolving a U.S. financial company. For insurers, that means conservatorship, rehabilitation, or liquidation under state insurance insolvency laws. Title II allows for a separate process when systemic risk is potentially at issue. For an insurer or a holding company for which the largest subsidiary is an insurer, following a recommendation by the Director of FIO and the FRB (in consultation with the FDIC), the Secretary of the Treasury (in consultation with the President) may make a systemic risk determination, pursuant to statutorily prescribed criteria, to appoint the FDIC as receiver of such company. Title II provides that the liquidation of an insurer shall be conducted under applicable state law. If the appropriate state regulator does not act within 60 days to begin orderly liquidation proceedings for the insurer, the FDIC has the authority to "stand in the place of the appropriate regulatory agency and file the appropriate judicial action in the appropriate State court to place such company into orderly liquidation under the laws and requirements of the State." 12 U.S.C. § 5383(e)(3).
12.2	The legislation provides for the determination of the point at which it is no longer permissible for an insurer to continue its business.
12.2	**States:**

	The states' legislation defines the point at which it is no longer permissible for an insurer to continue its business. The NAIC Risk-Based Capital (RBC) For Insurers Model Act (RBC Model Act) and the Risk-Based Capital for Health Maintenance Organizations Model Act define a level of regulatory capital where it is no longer permissible for an insurer to continue its business ("Mandatory Control Level"). States' hazardous financial condition legislation, based on the NAIC *Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition* (#385) sets forth standards for identifying insurers found to be in such condition as to render the continuance of their business hazardous to the public or to holders of their policies or certificates of insurance and authorizes the State to take necessary action. Receivership laws specify and permit a Commissioner to file a receivership petition under certain circumstances to protect the interests of policyholders, claimants and the public. The potential grounds for receivership can include inadequate RBC, financially hazardous conditions, such as impairment or insolvency, or other violations, such as a failure to comply with an administrative order, or conversion of an insurer's property or records. All states have enacted RBC, hazardous financial condition and receivership legislation. **FIO and FRB:** In making a recommendation to the Secretary of the Treasury under Title II of the Dodd-Frank Act regarding an insurer or a holding company for which the largest U.S. subsidiary is an insurer, the FIO and FRB (in consultation with the FDIC) must evaluate various statutorily prescribed criteria, including whether the company under consideration is in default or danger of default. The Secretary of the Treasury (in consultation with the President) must also make a determination based on statutorily prescribed criteria, including that the financial company is in default or in danger of default. The Dodd-Frank Act provides that a financial company shall be considered to be in default or in danger of default if (1) a case has been, or likely will promptly be, commenced under the Bankruptcy Code; (2) the company has incurred, or is likely to incur, losses that will deplete all or substantially all of its capital, and there is no reasonable prospect for the company to avoid such depletion; (3) the assets of the company are, or are likely to be, less than its obligations to creditors and others; or (4) the company is, or is likely to be, unable to pay its obligations (other than those subject to a bona fide dispute) in the normal course of business.
Comments	*Additional comments that are not captured in responses to each standard*
	States: ICP 12 was significantly revised with adoption anticipated in late 2019. With regard to the powers outlined in the revised ICP 12, we believe the U.S. resolution authority meets these powers. The broad powers of the receiver in the U.S. are provided through each states' insurance receivership laws and regulations, procedures/practices (i.e. provisions set forth in receivership petitions and orders) and case law. The powers of the receiver give regulators the legal authority to take any action against insurers deemed to be impaired or insolvent as necessary or appropriate to protect policyholders, and to treat policyholders and claimants fairly. Given the size and complexity of the US insurance sector, the U.S. regulatory system also reflects the receiver's flexibility to take action as appropriate for different receivership situations.
ICP 13	**Reinsurance and Other Forms of Risk Transfer**

13	The supervisor requires the insurer to manage effectively its use of reinsurance and other forms of risk transfer. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.
13	**States:** Reinsurers domiciled and licensed in the United States are regulated through financial regulation in most cases using the same financial regulation as primary insurers, with some specific differences. For market regulation, reinsurers are comparatively less impacted than primary insurers, largely because of differences in consumer relationships. Reinsurers and insurers have relative equality in negotiating leverage and extensive knowledge of the reinsurance product, and do not have the asymmetry of expertise and knowledge associated with insurance contracts involving general consumers. Thus, market regulation of reinsurance is not as extensive as it is in the primary market. With respect to the use of reinsurance, the credit for reinsurance laws and regulations, statutory accounting and financial reporting requirements and procedures applicable to reinsurance transactions including retrocessions serve to provide regulators with an effective method of monitoring the reinsurance activities of U.S. companies. U.S. primary insurance companies may be given reinsurance credit on their statutory financial statements for insurance risk they transfer via reinsurance that meets the legal and accounting risk transfer requirements and other relevant laws. A U.S. ceding company is not permitted to take statutory credit for the reinsurance ceded unless the reinsurer meets certain requirements. The following NAIC model laws, regulations or other guidelines relate to the regulation of credit for reinsurance transactions with respect to U.S-domiciled and non-U.S. domiciled reinsurers: • NAIC *Credit for Reinsurance Model Law* (#785) • NAIC *Credit for Reinsurance Model Regulation* (#786) • NAIC *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787) • NAIC *Life and Health Reinsurance Agreements Model Regulation* (#791) • NAIC *Insurance Holding Company System Regulatory Act* (#440) • NAIC *Insurance Holding Company System Model Regulation* (#450) • NAIC *Risk Management and Own Risk and Solvency Assessment Model Act* (#505) • NAIC *Annual Financial Reporting Model Regulation Model* (#205) • NAIC *Risk-Based Capital for Insurers Model Act* (#312) • Statement of Statutory Accounting Principle (SSAP) No. 61R Life, Deposit-Type and Accident and Health Reinsurance • SSAP No. 62R Property and Casualty Reinsurance • Appendix A-785 Credit for Reinsurance • Appendix A-791 Life and Health Reinsurance Agreements Title V of the federal *Dodd-Frank Wall Street Reform and Consumer Protection Act* includes the *Nonadmitted and Reinsurance Reform Act* (NRRA), which affects the financial solvency regulation of a “reinsurer” as defined under the NRRA. This law provides additional requirements with respect to the financial solvency regulation of reinsurers primarily engaged in the business of reinsurance. If the state of domicile of a ceding insurer is an accredited state and grants credit for the insurer’s ceded risk, no other state may deny such credit. All

	laws, regulations, provisions of a nondomiciliary state of the ceding insurer are preempted. If the state of domicile of a reinsurer is an NAIC accredited State or has similar financial solvency requirements, such state is solely responsible for regulating the reinsurer. U.S. domiciled insurers and reinsurers are also subject to quarterly and annual analysis as part of the risk-focused surveillance process which monitors the risk profile of a reporting entity including its use of reinsurance and other methods of risk transfer. (See further detail under 13.1 response). The financial reporting requirements provide information by reinsurance counterparties for both ceded and assumed reinsurance and facilitate analysis. **FRB:** When looking at the consolidated risk profile of the entities it supervises, the FRB takes into account the use of reinsurance or other forms of risk transfer, but it does not directly regulate or supervise the use of reinsurance. The FRB has and will continue to consult with state insurance regulators on matters such as reinsurance used by entities supervised by the FRB. Because the FRB does not play a direct role in the supervision of reinsurance, the FRB is not providing any further detail to the responses in this ICP. **FIO:** FIO, jointly with the United States Trade Representative, has the authority to negotiate covered agreements with a foreign insurance authority that, as a practical matter, would be designed to establish national standards relating to reinsurance, including by pre-empting contrary state laws relating to aspects of the supervision of the reinsurance industry that conflict with the covered agreement. See 31 U.S.C. § 314.
13.1	The supervisor requires ceding insurers to have a reinsurance programme that is appropriate to their business and part of their overall risk and capital management strategies.
13.1	**States:** The process in the United States for considering the risk that the insurer is undertaking begins with the licensing of the insurer. All companies that wish to engage in the practice of insurance, as defined by state statute, must submit an application for a certificate of authority to conduct business in that state. The application must include information on the insurer's proposed management team and proposed board, business plan and projected financial information on the insurer. The application must also include, inter alia, a summary of the applicant's reinsurance program, listing all reinsurance agreements and providing a basic explanation of each agreement. The level of detail within the business plan would be expected to be commensurate with the complexity and amount of risk proposed to be undertaken by the insurer. The plan would be expected to address the risk limitation requirements and the minimum capital and surplus requirements for both the first year of operations as well as the near term. The regulator will consider the overall ability for the plan to succeed based upon the assumptions and factors, as well as the ability to mitigate risks and initial capital requirements through the use of reinsurance, in determining if a license should be granted. The company licensing accreditation standards require that the state review the applicant's business and strategic plans, pro forma financial projections, proposed reinsurance program, investment policy, financing arrangements, and related party agreements. An insurer's reinsurance program is an important consideration within the risk-focused surveillance process. For example, the state's financial analysis department will perform quarterly reviews of the insurer's financial statements (and related available information) to determine how the company is performing against its projected plan. The NAIC *Financial Analysis Handbook* sets forth the standards for the analysis

	that most states conduct on their insurers on a quarterly and annual basis. Pursuant to this handbook, state insurance regulators analyze many key points and prospective risk considerations with respect to a company's reinsurance agreements and overall reinsurance program, including but not limited to consideration of the following items: • Whether the insurer has a reinsurance program in place that adequately supports its risk profile; • Whether the insurer's accounting for reinsurance ceded is proper and in accordance with the NAIC *Accounting Practices and Procedures Manual* and the NAIC Annual Statement Instructions; • Whether amounts recoverable from reinsurers are significant; • Whether amounts recoverable from reinsurers are collectible; • Whether reinsurance between affiliates involves any unusual shifting of risk from one affiliate to another; • Whether pyramiding may be occurring that could cause significant collectability risk to the insurer; • Whether reinsurance is being used for fronting purposes and if so, whether any potential abuses exist; • Whether any unusual reinsurance intermediary agreements or reinsurance assumed agreements exist; • Whether any unusual reinsurance transactions were completed during the year. In addition, the NAIC *Financial Condition Examiners Handbook* outlines risks and considerations with respect to reinsurance. This handbook specifically includes identified risks, control best practices, tests of controls and detail tests as reference material for state insurance examiners in examining an insurer's reinsurance program, reinsurance transactions, and reinsurance-related amounts reported within the statutory financial statements. This includes considerations from the perspective of both a ceding insurer and an assuming insurer. With the adoption of the NAIC *Risk Management and Own Risk and Solvency Assessment Model Act* (#505) (ORSA), insurers also provide information to regulators regarding reinsurance and risk mitigation within the ORSA filing. This became an accreditation standard effective Jan. 1, 2018. The NAIC *Financial Analysis Handbook* includes a section on reinsurance strategy, which is used by state insurance regulators to determine whether the insurer has established and maintained appropriate levels of reinsurance to support its business plan and strategy, in consideration of its capital and surplus position and risk exposures. The NAIC *Financial Analysis Handbook* includes a section on Group-Wide Supervision—Insurance Holding Company System Analysis Guidance, which provides guidance on reinsurance transactions within the group. Specifically, if the insurance holding company group places a significant amount of gross business with reinsurers, the state insurance regulator must assess the following regarding reinsurance agreements: • Risk transfer • Collateralization to unauthorized reinsurance • Recent reinsurance transactions • Credit quality of the reinsurer

	• Collectability of recoverables • Level of surplus aid The NAIC *Financial Analysis Handbook* goes on to require management to identify its philosophy and provide an understanding of the group's culture, management's expertise, and management's future vision of the group: • Determine whether the reinsurance programs in place support the overall risk profile of the group. • Determine whether significant errors exist relating to the accounting for reinsurance. Review reinsurance recoverables for materiality and collectability. • Identify whether reinsurance between affiliates within the group involve any unusual shifting of risk from one affiliate to another. • Determine whether any of the companies within the group are using reinsurance for fronting purposes, and if so, whether any potential problems exist. • Reinsurance decision-making processes.
13.2	The supervisor requires ceding insurers to establish effective internal controls over the implementation of their reinsurance programme.
13.2	**States:** In the U.S., internal controls for insurers and reinsurers are treated equally. Please refer to ICP 8 for a full discussion of risk management and internal controls for insurance companies in the U.S. The *Accounting Practices and Procedures Manual* requires that the following items be included in reinsurance agreements for a U.S. ceding insurer to take credit for reinsurance which provide for a level of internal controls: • The agreement must contain an acceptable insolvency clause. • Recoveries due to the ceding entity must be available without delay for payment of losses and claim obligations incurred under the agreement, in a manner consistent with orderly payment of incurred policy obligations by the ceding entity. • The agreement shall constitute the entire contract between the parties and must provide no guarantee of profit, directly or indirectly, from the reinsurer to the ceding entity or from the ceding entity to the reinsurer. • The agreement must provide for reports of premiums and losses, and payment of losses, no less frequently than on a quarterly basis, unless there is no activity during the period. • The report of premiums and losses shall set forth the ceding entity's total loss and loss expense reserves on the policy obligations subject to the agreement, so that the respective obligations of the ceding entity and reinsurer will be recorded and reported on a basis consistent with this statement. • The agreement must include a proper reinsurance intermediary clause, if applicable, which stipulates that the credit risk for the intermediary is carried by the assuming insurance entity.

	• With respect to reinsurance contracts involving a certified reinsurer, the agreement must include a proper funding clause, which requires the certified reinsurer to provide and maintain security in an amount sufficient to avoid the imposition of any financial statement penalty on the ceding insurance entity for reinsurance ceded to the certified reinsurer. However, this does not preclude negotiation for higher contractual collateral amounts. • With respect to retroactive reinsurance agreements, the following additional conditions apply: o The consideration to be paid by the ceding entity for the retroactive reinsurance must be a sum certain stated in the agreement; o Direct or indirect compensation to the ceding entity or reinsurer is prohibited; o Any provision for subsequent adjustment on the basis of actual experience in regard to policy obligations transferred, or on the basis of any other formula, is prohibited in connection with a retroactive reinsurance transaction, except that provision may be made for the ceding entity's participation in the reinsurer's ultimate profit, if any, under the agreement; o A retroactive reinsurance agreement shall not be canceled or rescinded without the approval of the commissioner of the domiciliary state of the ceding entity. Annual independent audits required by Model #205 review internal controls. Major internal control deficiencies identified by the independent auditor must be disclosed to the domiciliary commissioner. Statutory financial statements are signed by the preparer to affirm compliance with accounting and reporting requirements. Property and casualty Insurers are required to file annual certifications signed by the chief financial officer that the reinsurance agreements reported in the financial statements do meet risk transfer requirements. With respect to Property Casualty reinsurance agreements, SSAP No. 62R acknowledges that it is not uncommon for reinsurance arrangements to be initiated before the beginning of a policy period but not finalized until after the policy period begins. However, the SSAP provides that whether there was an agreement in principle at the beginning of the policy period (and therefore the agreement is substantively prospective) shall be based on the facts and circumstances. Under SSAP No. 62R, reinsurance contracts that are not reduced to written form and signed by the parties within nine months after the effective date of the contract are presumed to be retroactive (with some limited exceptions) and must receive retroactive reinsurance accounting treatment. NAIC Model #791 includes a requirement that life and health reinsurance contracts be duly executed by both parties no later than the "as of date" of the financial statement. All material reinsurance documentation can be obtained by the state insurance regulators.
13.3	The supervisor requires ceding insurers to demonstrate the economic impact of the risk transfer originating from their reinsurance contracts.
13.3	**States:** SSAP No. 61R (paragraphs 17-20) and SSAP No. 62R (paragraphs 10-21) contain guidance specific to transfer of risk or if a contract would be considered a loan, financing or deposit for U.S. statutory accounting purposes. The NAIC *Financial Analysis Handbook* provides that the fundamental issue involved with evaluating collectability of reinsurance recoverables is an assessment of the financial stability of the underlying reinsurers, and, if applicable, specific retrocessionaires involved throughout the chain of reinsurance. To evaluate the collectability of reinsurance recoverables, the analyst should consider the need to collect as

	much financial information as possible about the reinsurers, including various regulatory and governmental filings, rating agency reports, and financial analyses available from industry analysts. SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance, SSAP No. 62R—Property and Casualty Reinsurance, SSAP No. 63—Underwriting Pools and Associations Including Intercompany Pools, and the NAIC Quarterly and Annual Statement Instructions (specific for each company type) provide codified statutory guidance with respect to accounting, reporting and disclosure of reinsurance transactions and information within the statutory financial statements. These requirements are part of the NAIC accreditation program, and the reporting requirements are applicable to all insurers. Following is a summary of reinsurance-related information that is provided within an insurer's statutory financial statement: • Balance Sheet Items – the statutory balance sheet includes disclosure of amounts recoverable from reinsurers, funds held by or deposited with reinsured companies, amounts receivable under reinsurance contracts, ceded reinsurance premiums payable (net of ceding commission), funds held by the company under reinsurance treaties, and the provision (liability) required to be recorded for reinsurance with respect to uncollateralized unauthorized reinsurance and overdue reinsurance. • Underwriting and Investment Exhibits – provide information with respect to amounts of reinsurance assumed and ceded by line of business (separated between affiliates and non-affiliates) for premiums written, losses paid and incurred, and expenses. • General Interrogatories – provide disclosure of information with respect to the reporting entity's reinsurance program (catastrophe reinsurance, method used to estimate probable maximum loss, etc.). Information is also disclosed with respect to finite-type risks and certain reinsurance contracts that include loss limiting features. • Notes to the Financial Statements – provide additional information with respect to unsecured reinsurance recoverables, reinsurance recoverables in dispute, uncollectible reinsurance, commutation of ceded reinsurance and retroactive reinsurance agreements. • Schedule P – this schedule is intended to display a summary containing ten years of historical loss data for all lines of property and casualty business. There are seven parts in addition to interrogatories within the schedule. The schedule includes various information with respect to direct, assumed and ceded business. • Property and Casualty Reinsurance Schedule F – the six parts of Schedule F provide a more detailed analysis of reinsurance data that is shown in total in various parts of the statutory annual statement. Information regarding reinsurance assumed and ceded is included within this schedule at the counterparty level of detail. This schedule also includes an aging schedule with respect to reinsurance recoverable amounts, and a restatement of the balance sheet to remove the impact of reinsurance and identify the net credit for reinsurance reflected in the reporting entity's balance sheet. This schedule also calculates a liability known as the provision for reinsurance. This provision includes consideration of overdue reinsurance recoverable amounts, slow paying reinsurers and enforces the collateral provisions of Model #785. • Life, Accident and Health Reinsurance Schedule S – the seven parts of Schedule S provide a more detailed analysis of reinsurance data for life, accident and health reinsurance that is shown in total in various parts of the statutory annual statement. Information regarding reinsurance assumed and

	ceded is included within this schedule at the contract-level of detail. This schedule also includes a five-year history of reinsurance ceded, and a restatement of the balance sheet to identify the net credit for reinsurance.
13.4	When supervising ceding insurers purchasing reinsurance across borders, the supervisor takes into account the supervision performed in the jurisdiction of the reinsurer.
13.4	**States:** In November 2011, the NAIC adopted revisions to *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786), which serve to reduce reinsurance collateral requirements for non-U.S. licensed reinsurers that are licensed and domiciled in qualified jurisdictions. Under the previous version of the Credit for Reinsurance Models, in order for U.S. ceding insurers to receive reinsurance credit, the reinsurance was required to be ceded to U.S.-licensed reinsurers or secured by collateral representing 100% of U.S. liabilities for which the credit is recorded, regardless of the domiciliary jurisdiction of the reinsurer. The NAIC model revisions applicable to certified reinsurers are intended to facilitate cross-border reinsurance transactions and enhance competition within the U.S. market, while ensuring that U.S. insurers and policyholders are adequately protected against the risk of insolvency. To be eligible for certification, a reinsurer must be domiciled and licensed in a Qualified Jurisdiction as determined by the domestic regulator of the ceding insurer. The revised models establish a certification process for reinsurers. A certified reinsurer is eligible for collateral reduction with respect to contracts entered into, renewed or amended (with certain limitations). Section 8A(5) of Model #786 provides, as follows: Credit for reinsurance under this section shall apply only to reinsurance contracts entered into or renewed on or after the effective date of the certification of the assuming insurer. Any reinsurance contract entered into prior to the effective date of the certification of the assuming insurer that is subsequently amended after the effective date of the certification of the assuming insurer, or a new reinsurance contract, covering any risk for which collateral was provided previously, shall only be subject to this section with respect to losses incurred and reserves reported from and after the effective date of the amendment or new contract. Each enacting state has the authority to certify reinsurers, or a commissioner has the authority to recognize the certification issued by another NAIC-accredited state. Reinsurers are subject to certain criteria in order to be eligible for certification, as well as ongoing requirements in order to maintain certification. Examples of evaluation criteria include financial strength, timely claims payment history, and the requirement that a reinsurer be domiciled and licensed in a "qualified jurisdiction." The states evaluate the appropriateness and effectiveness of the reinsurance supervisory system within a jurisdiction, both initially and on an ongoing basis, and consider the rights, benefits and the extent of reciprocal recognition afforded by the jurisdiction to reinsurers licensed and domiciled in the U.S. The determination of a Qualified Jurisdiction is based on the effectiveness of the entire reinsurance supervisory system within the jurisdiction. Each state may evaluate the reinsurance supervisory system of a non-U.S. jurisdiction in order to determine if it is a Qualified Jurisdiction. The NAIC adopted the *Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions*. The NAIC Process is intended as an outcomes-based comparison to financial solvency regulation under the NAIC Financial Regulation Standards and Accreditation Program, relevant international guidance for recognition of reinsurance supervision (IAIS Guidance Paper on Mutual Recognition of Reinsurance Supervision), and adherence to international supervisory standards (e.g., FSAP,

	ROSC). A state must consider the NAIC list in its determination of qualified jurisdictions. The list is not binding, but a state must thoroughly document the justifications for approving any jurisdiction not on the list. A Qualified Jurisdiction must agree to share information and cooperate with the state with respect to all certified reinsurers domiciled within that jurisdiction. The International Association of Insurance Supervisors (IAIS) Multilateral Memorandum of Understanding (MMoU) is the recommended method under which a Qualified Jurisdiction will agree to share information and cooperate with U.S. state insurance regulatory authorities. The NAIC completed full reviews of the supervisory authorities from Bermuda (Bermuda Monetary Authority), France (Auto rite de Contrôle Prudentiel et de Résolution—ACPR), Germany (Federal Financial Supervisor Authority—BaFin), Ireland (Central Bank of Ireland), Japan (Financial Services Agency), Switzerland (Financial Market Supervisory Authority—FINMA), and the United Kingdom (Prudential Regulation Authority of the Bank of England—PRA) with an effective date of Jan. 1, 2015. Renewal of these qualified jurisdictions will need to be completed prior to Jan. 1, 2020. It is intended that the France, Germany, Ireland and the United Kingdom will be automatically renewed as they are subject to applicable covered agreements. Bermuda, Japan and Switzerland will have an expedited review to be completed by the end of 2019. (See Additional Comments section regarding current work on EU and UK covered agreements). In addition to regulating the purchase of reinsurance across international borders, Model #785 and Model #786 also apply to reinsurance purchases across state borders. Reinsurers domiciled in states that employ standards regarding credit for reinsurance substantially similar to those applicable in the ceding insurer's state of domicile are not required to post security for these transactions. In addition, NAIC accredited states are considered to be Qualified Jurisdictions with respect to the certified reinsurer provisions of the models. Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions: https://www.naic.org/documents/committees_e_reinsurance_related_qualified_jurisdictions_final_130827.pdf
13.5	The supervisor requires the ceding insurer to consider the impact of its reinsurance programme in its liquidity management.
13.5	**States:** Analysts will evaluate and determine whether an insurer's investment plan and investment portfolio appears to result in investments and practices that are appropriate for the insurer based on the types of business written, and that it is adequately diversified with the appropriate level of liquidity to meet cash flow requirements and to meet claim obligations. Adequate capital and surplus provide protection against adverse operating results and also permits an insurer to expand its business. Where liquidity is a concern, the analyst may also consider requesting interim reporting from the insurer on areas of risk specific to that insurer. Analysts will consider whether an insurer's liquidity has been negatively impacted by any material changes in (1) cash inflows as a result of changes in reinsurance, and/or (2) cash outflows as a result of changes in reinsurance recoverable. Insurers also provide information to regulators regarding cash flow and liquidity within the ORSA filing. In addition, the timing of recoveries by a ceding insurer under reinsurance agreements is a critical consideration in the reporting of credit for reinsurance. Contractual features that delay timely reimbursement to the ceding insurer violate statutory risk transfer requirements and the conditions of reinsurance accounting. State insurance regulators also collect information that allows for slow-payment analysis on reinsurance recoverables on a reinsurer-by-reinsurer basis. This analysis further enhances the assessment of counterparty risk exposure to the ceding insurer, which is a consideration in liquidity analysis.

	Slow payment can result in a statutory provision for reinsurance for property and casualty reinsurers. Property and Casualty disclosures also help identify contractual features which may indicate a need for additional regulatory scrutiny. Risk-based capital considers the retained underwriting risk and the reinsurance recoverable / reinsurance counterparty exposure.
13.6	In jurisdictions that permit risk transfer to the capital markets, the supervisor understands and assesses the structure and operation of such risk transfer arrangements, and addresses any issues that may arise.
13.6	**<u>States:</u>** U.S. state insurance regulators are aware of the increasing use of alternative risk transfer vehicles, primarily cat bonds, as an alternative to reinsurance and this is increasing the complexity of risk transfer. Additional statutory accounting disclosures were added to statutory accounting principles for alternative risk transfer vehicles in the 2016 reporting year and must be done on an annual basis for issuers, ceding insurers or counterparties to the transactions. As discussed under previous responses, an insurer's reinsurance program is an important consideration within the risk-focused surveillance process. A summary of the applicant's reinsurance program, listing all reinsurance agreements and providing a basic explanation of each agreement is provided by an insurer upon application for a license to transact insurance business. Upon granting a license, the state's financial analysis department will perform quarterly reviews of the insurer's financial statements (and related available information) to determine how the company is performing against its projected plan. The insurer's quarterly financial statements will highlight any new reinsurance counterparties. The NAIC *Special Purpose Reinsurance Vehicle Model Act* (#789) provides a basis for the creation of Special Purpose Reinsurance Vehicles ("SPRVs") exclusively to facilitate the securitization of one or more ceding insurers' risks as a means of accessing alternative sources of capital and achieving the benefits of securitization. SPRVs authorized in Model #789 may at any given time enter into and effectuate SPRV contracts with one or more ceding insurers, provided that the SPRV contracts obligate the SPRV to indemnify the ceding insurer for losses and that contingent obligations of the SPRV under the SPRV contracts are securitized in full through a single SPRV insurance securitization and are fully funded and secured with assets held in trust in accordance with the requirements included in the model pursuant to agreements contemplated by Model #789 and invested in a manner that meets the criteria set forth in the model. Model #789 provides that a plan of operation, consisting of a description of the contemplated insurance securitization, the SPRV contract and related transactions, shall include: • Draft documentation or, at the discretion of the commissioner, a written summary, of all material agreements that will be entered into to effectuate the insurance securitization and the related SPRV contract, to include the names of the ceding insurers, the nature of the risks being assumed, and the maximum amounts, purpose and nature and the interrelationships of the various transactions required to effectuate the insurance securitization; • The investment strategy of the SPRV and a representation that the investment strategy complies with the investment requirements set forth in this Act and that the strategy will include investment practices or other provisions to preserve asset values, which will facilitate attainment of full funding during the term of the securitization with assets that can be monetized in response to a triggering event without a substantial loss in value; and

- A description of the method by which losses covered by the SPRV contract that may develop after the termination of the contract period are to be addressed under the provisions of the SPRV contract; and
- A representation that the trust agreement and the trusts holding assets that secure the obligations of the SPRV under the SPRV contract and the SPRV contract with the ceding insurers in connection with the contemplated insurance securitization will be structured in accordance with the requirements set forth in this model.

The creation of SPRVs is intended to achieve greater efficiencies in conducting insurance securitizations, to diversify and broaden insurers' access to sources of risk bearing capital and to make insurance securitization generally available on reasonable terms to as many U.S. insurers as possible. Some of the key provisions of the model act can be summarized, as follows:

- Exemption from insurance laws within limitations.
- Limited purpose of SPRV - SPRVs are only created to securitize risk and may not be used for other purposes.
- Approved transactions and operation of SPRVs - Securitization transactions must be fully funded; assets must be held in trust for the ceding insurer; the trust must enable the ceding insurer to withdraw funds at any time without notice; and the trust shall be valued at the current fair value of the assets in the trust.
- Affiliations - An SPRV may not be under common control with any ceding insurer that is a party to the SPRV contract.
- Credit for reinsurance for SPRV contract - Credit for reinsurance should be granted to the extent of the fair value of the assets in the SPRV trust.
- No transaction of an insurance business by investors in securities - Investors in securitization contracts shall not be deemed to be in the business of insurance solely due to such investments. The securities issued shall not be deemed to be insurance or reinsurance contracts.

The NAIC *Protected Cell Company Model Act* (#290) provides a basis for a domestic insurer to create one or more "protected cells." These protected cells would isolate assets and liabilities related to an insurance securitization, and would be protected from the insolvency of the rest of the insurer. The creation of protected cells is intended to be a means to achieve more efficiency in conducting insurance securitizations, and to promote the ability of domestic insurers to take part in such transactions.

Four states have adopted legislation similar to Model #789—Illinois, Maine, Louisiana and South Carolina—while 19 states have adopted Model #290. However, many states have enacted laws to permit the licensure of captive insurers. The captive law in several states permits the creation of special purpose financial captives, which would enable captive insurance companies to facilitate risk securitization transactions in order to access additional sources of capital.

The NAIC *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787) applies to reinsurance agreements with captive reinsurers relating to term life and universal life with secondary guarantees. It applies to reinsurance ceded to captive insurers, special purpose vehicles (SPVs), reinsurers that are not eligible to become "certified" reinsurers, or reinsurers that materially deviate from statutory accounting and/or RBC rules. In those situations, the ceding insurer may receive credit for reinsurance if:

	• The ceding insurer establishes gross reserves, in full, using applicable reserving guidance (the "formulaic" approach under the *Standard Valuation Law* (#820), then PBR reserves after the operative date of the Valuation Manual); • Funds consisting of Primary Security, in an amount at least equal to the Required Level of Primary Security, are held by or on behalf of the ceding insurer, as security under the reinsurance contract, on a funds withheld, trust, or modified coinsurance basis; • Funds consisting of Other Security, in an amount at least equal to any portion of the statutory reserves as to which Primary Security is not held are held by or on behalf of the ceding insurer as security under the reinsurance contract; • At least one party to the financing transaction holds an appropriate RBC "cushion"; and • The reinsurance arrangement is approved by the ceding insurer's domestic regulator. Valuation Manual: https://www.naic.org/documents/prod_serv_2018_valuation_manual.pdf
Comments	*Additional comments that are not captured in responses to each standard*
	States: On Sept. 22, 2017, the U.S. Department of the Treasury (Treasury Department) and the Office of the U.S. Trade Representative (USTR) signed the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (Covered Agreement). The Covered Agreement includes requirements on group capital, group supervision and reinsurance collateral. The Covered Agreement would eliminate reinsurance collateral requirements for European Union (EU) reinsurers that maintain a minimum amount of own funds equivalent to $250 million and a solvency capital requirement (SCR) of 100% under Solvency II, and which meet certain other conditions. Conversely, U.S. reinsurers that maintain capital and surplus equivalent to 226 million euros with a risk-based capital (RBC) of 300% of authorized control level would not be required to maintain a local presence in order to do business in the EU or post collateral in any EU jurisdiction. On Dec. 11, 2018, the Treasury Department and the USTR announced that the U.S. and the United Kingdom (UK) had reached a final agreement on a second covered agreement that mirrors the first. On June 25, 2019, the NAIC adopted revisions to the Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786) that incorporate the relevant provisions of the Covered Agreement with respect to reinsurance collateral.
ICP 14	**Valuation**
14	The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.
14	**States:** The NAIC Accounting Practices and Procedures Manual (APPM) is a codification of insurance regulatory requirements (collectively referred to as Statutory Accounting Principles (SAP). As noted in the APPM, the primary responsibility of each state insurance department is to regulate insurance companies in accordance with state laws with an emphasis on solvency for the protection of policyholders. The ultimate objective of solvency regulation is to ensure that policyholder and contract holder and other legal obligations are met when they come due and that companies maintain capital and surplus at all times and in such forms as required by statute to provide an adequate margin of safety. The cornerstone of solvency measurement is

	financial reporting. Therefore, the regulator's ability to effectively determine relative financial condition using financial statements is of paramount importance to the protection of policyholders. The APPM consists primarily of Statements of Statutory Accounting Principles (SSAPs), which are the primary accounting practices and procedures promulgated by the NAIC. The valuation requirements for assets and liabilities are detailed within SSAPs pursuant to the three Statements of Statutory Accounting Concepts detailed within the APPM Preamble: • <u>Conservatism</u>: Statutory Accounting should be reasonably conservative over the span of economic cycles and in recognition of the primary responsibility to regulate for financial solvency. Valuation procedures should, to the extent possible, prevent sharp fluctuations in surplus. • <u>Consistency</u>: The regulator's need for meaningful, comparable financial information to determine an insurer's financial condition requires consistency in the development and application of statutory accounting principles. • <u>Recognition</u>: 1) Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet but rather should be charged against surplus when acquired or when availability otherwise becomes questionable. 2) Liabilities require recognition as they are incurred. 3) Revenue should be recognized only as the earnings process of the underlying underwriting or investment business is completed. **<u>FRB:</u>** As noted in the response to ICP 17, the FRB has the authority to impose capital requirements on BHCs and SLHCs that are or control insurance companies and designated nonbank financial companies. Those requirements remain under development. The FRB is restricted under U.S. law from requiring, pursuant to HOLA or section 171 of the Dodd-Frank Act, a BHC, SLHC, or designated nonbank financial company to prepare financial statements in accordance with U.S. generally accepted accounting principles (GAAP), if the institution is an insurance company that files financial statements with state insurance regulators utilizing only Statutory Accounting Principles. Where supervised firms prepare financial statements in accordance with U.S. GAAP, the FRB may use such information. This response applies to the remainder of this section, as well.
14.1	The valuation addresses recognition, derecognition and measurement of assets and liabilities.
14.1	**<u>States:</u>** *See* response to Principle Statement 14. The SSAPs prescribe the accounting and reporting requirements for assets and liabilities. Specific SSAPs detail the definition of assets and liabilities and the accounting for transfers/extinguishments, with specific SSAPs on various assets to detail reporting specifics, including but not limited to acquisition, measurement method, valuation, impairment, income recognition, and disclosures.
14.2	The valuation of assets and liabilities is undertaken on consistent bases.
14.2	**<u>States:</u>** *See Response to 14 & 14.1*

	The NAIC Statutory Statements of Concepts includes “consistency”. Accounting provisions within the APPM are established in accordance with the ”regulator’s need for meaningful, comparable financial information”. Meaningful information implicitly includes relevant information, which is driven by the regulators role in protecting solvency based upon the insurance business model and related economics. The codification of NAIC SAP does not preempt state legislative and regulatory authority as states may prescribe or permit accounting practices that vary from NAIC SAP. • Prescribed Practice – Accounting practices that are incorporated directly or by reference by state laws, regulations and general administrative rules applicable to all insurance enterprises domiciled in a particular state. • Permitted Practice – Accounting practice specifically requested by an insurer that departs from NAIC SAP and state prescribed accounting practices, which has been approved from the insurer’s domiciliary state regulatory authority. Pursuant to the SAP, no domiciliary state regulator shall grant an approval to use an accounting practice unless it provides advance notice to all other states in which the insurer is licensed with the following information: o Nature and clear description of the permitted accounting practice request; o Quantitative effect of the permitted accounting practice with all other approved permitted accounting practices currently in effect; o Effect of the requested permitted accounting practice on a legal entity basis and on all parent and affiliated US insurance companies; o The effect, and the quantitative impact, to each financial statement line item affected by the request. If a reporting entity employs accounting practices that depart from the NAIC APPM (prescribed or permitted), disclosure of the following information is required at the date each financial statements is presented: • Description of accounting practice • Statement that the accounting practice differs from NAIC SAP • Monetary effect on net income and statutory surplus of using an accounting practice which differs from NAIC SAP • If an insurance enterprise’s risk-based capital would have triggered a regulatory event had it not used a prescribed or permitted practice, that fact should be disclosed in the financial statements.
14.3	The valuation of assets and liabilities is undertaken in a reliable, decision useful and transparent manner.
14.3	<u>**States:**</u> See Response to 14 & 14.1 The SAP Statement of Concepts incorporates by reference FASB Concept Statements One, Two, Five and Six to the extent they do not conflict with the SAP concepts. The intent of FASB Concept Statement Two identifies characteristics that make accounting information useful:

	• Relevant – Information must be timely and it must have predictive value or feedback value or both. • Reliable – Information must have representational faithfulness and it must be verifiable and neutral • Comparability & Consistency – Information gains greatly in usefulness if it can be compared with similar information about other enterprises and with the same enterprise for some other period or some other point of time. The Statutory Accounting Principles (E) Working Group has the responsibility of developing and revising SSAPs pursuant to the NAIC Policy Statement on Maintenance of Statutory Accounting Principles and the NAIC Open Meetings Policy. https://naic.org/documents/meetings_naic_policy_mtg_801.pdf?90
14.4	The valuation of assets and liabilities is an economic valuation.
14.4	**States:** Pursuant to ICP 14, an economic-basis includes amortized cost valuations and market-consistent valuations. The SSAPs prescribed accounting valuations reflect amortized cost or fair value, with impairment assessments. The determinants of the asset measurement method includes considerations of asset and liability matching (e.g., bonds held at amortized cost to match the tenure of insurance liabilities), as well as the risk assessment of the investment. The SAP fair value calculation of investments adopts, with modification to exclude the consideration of non-performance risk (own credit risk), the U.S. generally accepted accounting provisions for the definition and determination of fair value. This definition identifies that fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
14.5	An economic valuation of assets and liabilities reflects the risk-adjusted present values of their cash flows.
14.5	**States:** See response to 14.4. As noted for assets, amortized cost or fair value are prescribed accounting valuations within the SSAPs. These measurement methods are determined in accordance with the nature of the investments. These valuation measures require impairment assessments, with recognition of other-than-temporary impairments within the confines of the SSAPs. P&C technical provisions: Reporting (in Schedule P) is required such that risk-adjusted present values of cash flows can be estimated by a user of the annual statement. The value reported on the balance sheet is the full settlement value discounted only when the payments are fair and determinable.
14.6	The value of technical provisions and other liabilities does not reflect the insurer's own credit standing.
14.6	**States:** Pursuant to *SSAP No. 100—Fair Value Measurements*, paragraph 14: Consideration of non-performance (own credit risk) should not be reflected in the fair value calculation of liabilities (including derivative liabilities) at subsequent measurement. At initial recognition, it is perceived that the consideration of own-credit risk may be inherent in the contract negotiations resulting in the liability. The consideration of non-

	performance risks for subsequent measurement is inconsistent with the conservatism and recognition concepts as well as the assessment of financial solvency for insurers, as a decrease in credit standing would effectively decrease reported liabilities and thus seemingly increase the appearance of solvency. Furthermore, liabilities reported or disclosed at "fair value" shall not reflect any third-party credit guarantee of debt.
14.7	The valuation of technical provisions exceeds the Current Estimate by a margin (Margin over the Current Estimate or MOCE).
14.7	**States:** For P&C technical provisions, the valuation of technical provisions includes a margin over a current estimate. For life insurance technical provisions (reserves), a margin exists over the current estimate. See description of asset adequacy testing of the minimum formula reserve in response to 14.9.
14.8	The Current Estimate reflects the expected present value of all relevant future cash flows that arise in fulfilling insurance obligations, using unbiased, current assumptions.
14.8	**States:** For P&C technical provisions numerous methodologies can be used, all which aim to calculate the ultimate settlement value (thereby including all relevant future cash flows). For life insurance technical provisions (reserves), the asset adequacy testing requires the calculation of the expected present value of all relevant future cash flows using unbiased current assumptions. See description of asset adequacy testing in response to 14.9.
14.9	The MOCE reflects the inherent uncertainty related to all relevant future cash flows that arise in fulfilling insurance obligations over the full time horizon thereof.
14.9	**States:** For P&C technical provisions, the regulatory assumption is that the margin equals the amount of otherwise applicable current value discount. In the United States, while Principle-Based Reserving (PBR) becomes effective 1/1/20 on a prospective basis, state law on life insurance valuation is driven from the requirements of the Standard Valuation Law, which specifies minimum requirements for technical provisions (reserves) for life insurance. The minimum technical provisions (reserves) are established by a formula consisting of a reserve method, valuation mortality table and valuation interest rate. Therefore, the minimum formula reserve has implicit margins built in. For example, the valuation mortality table is based on insurance industry experience with specific margins added in. The valuation interest rate is generally a conservative (low) interest rate. The formula reserves ignore other policy owner behavior such as lapsing the policy etc. Not allowing such other decrements adds an implicit margin in the reserve calculation. However, the minimum formula reserve may not be adequate in all situations and therefore, the minimum technical provisions (reserves) are subject to asset adequacy testing to determine if the minimum formula reserve is adequate given the assets the company owns that fund the reserve to fulfill insurance obligations over the full time horizon. This asset adequacy testing accounts for all liability and asset cash flows to determine if the implicit margin over current estimate is adequate. If the formula reserve is not adequate (based on asset adequacy testing) an additional reserve is required to be established.

	Section 3 of the Standard Valuation Law states as follows: **Section 3. Actuarial Opinion of Reserves** A. Actuarial Opinion Prior to the Operative Date of the Valuation Manual (1) General Every life insurance company doing business in this state shall annually submit the opinion of a qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the commissioner by regulation are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts and comply with applicable laws of this state. The commissioner shall define by regulation the specifics of this opinion and add any other items deemed to be necessary to its scope. (2) Actuarial Analysis of Reserves and Assets Supporting Reserves (a) Every life insurance company , except as exempted by regulation , shall also annually include in the opinion required by Subsection (1) of this section, an opinion of the same qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the commissioner by regulation, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including but not limited to the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company's obligations under the policies and contracts, including but not limited to the benefits under and expenses associated with the policies and contracts. (b) The commissioner may provide by regulation for a transition period for establishing any higher reserves that the qualified actuary may deem necessary in order to render the opinion required by this section.
14.10	The valuation of technical provisions allows for the time value of money. The supervisor establishes criteria for the determination of appropriate rates to be used in the discounting of technical provisions.
14.10	**<u>States:</u>** In the United States, the Standard Valuation Law specifies minimum requirements for technical provisions (reserves) for life insurance. Section 4b specifies how the valuation interest rate (time value of money) is to be determined. This section states: B. Calendar Year Statutory Valuation Interest Rates (1) The calendar year statutory valuation interest rates, *I*, shall be determined as follows and the results rounded to the nearer one-quarter of one percent (1/4 of 1%): (a) For life insurance:

$$I = .03 + W \cdot (R_1 - .03) + \frac{W}{2} \cdot (R_2 - .09)$$

(b) For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and from guaranteed interest contracts with cash settlement options:

$$I = .03 + W \cdot (R - .03)$$

Where R_1 is the lesser of R and .09,

R_2 is the greater of R and .09,

R is the reference interest rate defined in this section,

W is the weighting factor defined in this section;

(c) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on an issue year basis, except as stated in Subparagraph (b) above, the formula for life insurance stated in Subparagraph (a) above shall apply to annuities and guaranteed interest contracts with guarantee durations in excess of ten (10) years and the formula for single premium immediate annuities stated in Subparagraph (b) above shall apply to annuities and guaranteed interest contracts with guarantee duration of ten (10) years or less;

(d) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the formula for single premium immediate annuities stated in Subparagraph (b) above shall apply.

(e) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, the formula for single premium immediate annuities stated in Subparagraph (b) above shall apply.

(2) However, if the calendar year statutory valuation interest rate for a life insurance policy issued in any calendar year determined without reference to this sentence differs from the corresponding actual rate for similar policies issued in the immediately preceding calendar year by less than one-half of one percent (1/2 of 1%), the calendar year statutory valuation interest rate for the life insurance policies shall be equal to the corresponding actual rate for the immediately preceding calendar year. For purposes of applying the immediately preceding sentence, the calendar year statutory valuation interest rate for life insurance policies issued in a calendar year shall be determined for 1980 (using the reference interest rate defined in 1979) and shall be determined for each subsequent calendar year regardless of when Section 5c of the Standard Non-forfeiture Law for Life Insurance as amended becomes operative.

C. Weighting Factors

(1) The weighting factors referred to in the formulas stated above are given in the following tables:

(a) Weighting Factors for Life Insurance:

Guarantee	
Duration	Weighting
(Years)	Factors
10 or less	.50
More than 10, but not more than 20	.45
More than 20	.35

For life insurance, the guarantee duration is the maximum number of years the life insurance can remain in force on a basis guaranteed in the policy or under options to convert to plans of life insurance with premium rates or non-forfeiture values or both which are guaranteed in the original policy.

For single premium immediate annuities and other similar contracts, new requirements defining prescribed valuation interest rates became effective 1/1/18 on a prospective basis. Valuation interest rates for these contracts vary based on the premium size, initial age of the annuitant, and valuation rate duration bucket. Valuation interest rates are calculated daily for jumbo contracts and quarterly for non-jumbo contracts.

For variable annuities, reserves are principle-based. Results are based on asset and liability cash flows produced by the application of a stochastic cashflow model to equity return and interest rate scenarios.

For P&C under statutory accounting, with the exception of fixed and reasonably determinable payments such as those emanating from workers' compensation tabular indemnity reserves and long-term disability claims, reserves shall not be discounted. For contacts that qualify for discounting, and if state exceptions are made to allow discounting for non-tabular reserves, specific financial statement disclosures are required.

Under U.S. GAAP, most short-duration contracts such as many property and liability insurance contracts claim liabilities are not discounted. Pursuant to the SEC Staff Position with respect to discounting claims liabilities related to short-duration insurance contracts, the SEC staff has noted that they will raise no objection if a registrant follows a policy for GAAP reporting purposes of:

- Discounting liabilities for unpaid claims and claim adjustment expenses at the same rates that it uses for reporting to state regulatory authorities with respect to the same claims liabilities, or
- Discounting liabilities with respect to settled claims under the following circumstances: (1) The payment pattern and ultimate cost are fixed and determinable on an individual claim basis, and (2) The discount rate used is reasonable on the facts and circumstances applicable to the registrant at the time the claims are settled.

Discounting for short-duration contracts was a key discussion point in the FASB 2013 Insurance Contracts exposure. As noted by the FASB in their related "Comment letter and Other Feedback Summary", while

	most responders agreed with the concept of the time value of money, the responders noted that discounting the liability for incurred claims would be costly and not provide decision-useful information because: • There is uncertainty in both the amount and the timing of claim payments, which causes significant subjectivity and variability in the calculated discount. • It is not consistent with the property and casualty business model where claims are typically managed internally, analyzed externally, and ultimately settled all on a nominal (that is, undiscounted) basis. • The financial condition of a reporting entity would be overstated if reserves are recorded at a discounted amount, and that may increase the perceived financial risk of insurance entities. The FASB also noted field testing results, which highlighted the variability in the calculated discount on the liability for incurred claims.
14.11	The supervisor requires the valuation of technical provisions to make appropriate allowance for embedded options and guarantees.
14.11	**States:** In the United States, state law on life insurance valuation is driven from the requirements of the Standard Valuation Law, which specifies minimum requirements for reserves. Reserves established by a formula consist of a reserve method, valuation mortality table and valuation interest rate. Built into the formula are implicit margins which may not be adequate in all situations, and therefore asset adequacy testing is used to analyze the liability and asset cash flows. If the minimum formula reserve is not adequate based on the asset adequacy analysis, an additional reserve must be established. On an annual basis, the company must submit an actuarial opinion as to the adequacy of the reserves and supporting assets, and the actuary must also prepare confidential memoranda in support of the opinion. Section 7.C. of the Model Regulation 822 titled "Actuarial Opinion and Memorandum Regulation" states the following: Details of the Regulatory Asset Adequacy Issues Summary (1) The regulatory asset adequacy issues summary shall include: (a) Descriptions of the scenarios tested (including whether those scenarios are stochastic or deterministic) and the sensitivity testing done relative to those scenarios. If negative ending surplus results under certain tests in the aggregate, the actuary should describe those tests and the amount of additional reserve as of the valuation date which, if held, would eliminate the negative aggregate surplus values. Ending surplus values shall be determined by either extending the projection period until the in force and associated assets and liabilities at the end of the projection period are immaterial or by adjusting the surplus amount at the end of the projection period by an amount that appropriately estimates the value that can reasonably be expected to arise from the assets and liabilities remaining in force.

	(b) The extent to which the appointed actuary uses assumptions in the asset adequacy analysis that are materially different than the assumptions used in the previous asset adequacy analysis; (c) The amount of reserves and the identity of the product lines that had been subjected to asset adequacy analysis in the prior opinion but were not subject to analysis for the current opinion; (d) Comments on any interim results that may be of significant concern to the appointed actuary. For example, the impact of the insufficiency of assets to support the payment of benefits and expenses and the establishment of statutory reserves during one or more interim periods; (e) The methods used by the actuary to recognize the impact of reinsurance on the company's cash flows, including both assets and liabilities, under each of the scenarios tested; and (f) Whether the actuary has been satisfied that all options whether explicit or embedded, in any asset or liability (including but not limited to those affecting cash flows embedded in fixed income securities) and equity-like features in any investments have been appropriately considered in the asset adequacy analysis. (2) The regulatory asset adequacy issues summary shall contain the name of the company for which the regulatory asset adequacy issues summary is being supplied and shall be signed and dated by the appointed actuary rendering the actuarial opinion.
Comments	*Additional comments that are not captured in responses to each standard*
ICP 15	**Investment**
15	The supervisor establishes requirements for solvency purposes on the investment activities of insurers in order to address the risks faced by insurers.
15	**States**: Regulatory Rules-Based Requirements State investment laws may include specific investment limits for the insurers domiciled in that state. Regulatory Principles-Based Requirements State laws and regulations – including financial statement reporting requirements along with NAIC guidance on investments and Statutory Accounting Principles, focus on the investment activities and investment risks of insurers. Insurers are required to report each individual investment in detailed investment schedules. These investments are also divided into different asset classes for ease of review. Investments are subject to specific guidelines for what are admitted assets for purposes of calculating surplus and capital, and are also subject to specific valuation rules and investment credit risk assessment processes. Beyond reporting and valuation, insurers' investments are also considered individually and as asset classes for purposes of capital and reserving requirements. Finally, financial analysts and insurance examiners have at their disposal guidance and recommendations for considering the specific risks of different types of investments as well as valuation metrics in technical handbooks, and through different tools that are available only to regulators. This handbook guidance assists regulators in a risk-focused

	approach towards their review of the investment characteristics of insurer portfolios. Risks highlighted in the handbooks include those related to concentration and liquidity in the portfolio overall and in relation to the nature of the insurer's liabilities. The tools for monitoring investment risks are maintained on an ongoing basis by several different regulator committees at the NAIC. Statutory accounting guidance, the assessment of investment credit risk, the risk-based capital framework, as well as basic analysis and examination guidance have all been adopted by the various states and territories and are also part of the accreditation process. **<u>FRB:</u>** The FRB did not provide responses to this section.	
15.1	The supervisor establishes requirements that are applicable to the investment activities of the insurer.	
15.1	**<u>States:</u>** <u>Regulatory Rules-Based Requirements</u> State investment laws may include specific investment limits for the insurers domiciled in that state. <u>Regulatory Principles-Based Requirements</u> Broader requirements give regulators the tools for oversight of investment activities of insurance companies have been adopted by all member states and are contained within statutory accounting principles, the investment credit risk assessment procedures, the risk-based capital framework and examination standards of the NAIC.	
15.2	The supervisor is open and transparent as to the regulatory investment requirements that apply and is explicit about the objectives of those requirements.	
15.2	**<u>States:</u>** Requirements under statutory accounting principles, the investment credit risk assessment procedures and the risk-based capital framework as they relate to investments are contained in public documents. Discussions related to that guidance including any that may result in changes to that guidance are all held in public sessions as per the Open Meetings Policy of the NAIC.	
15.3	The regulatory investment requirements address at a minimum, the Security; Liquidity; and Diversification; of an insurer's portfolio of investments as a whole.	
15.3	**<u>States:</u>** Different aspects of investment risk, whether for individual investments, as is the case for credit risk, or for portfolios, as is more appropriate for risks such as liquidity or concentration, are addressed in different parts of the regulatory framework. Each of the four legs -- reporting and valuation, investment credit risk assessment, risk-based capital, and analysis and examination -- work together to support the overall goals.	

15.4	The supervisor requires the insurer to invest in a manner that is appropriate to the nature of its liabilities.	
15.4	**States:** The insurer is subject to off-site monitoring and on-site inspections where investment practices are examined. The profile of the insurer's investments is analyzed with consideration given to the nature and extent of risks taken in the current market environment, duly taking into account potential liquidity needs and adherence to the investment credit risk assessment procedures. The insurer's Investment Policy Statement is reviewed along with the jurisdiction's investment laws, which generally differ based on insurer type. For example, for life companies, the actuarial opinion contains the appointed actuary's opinion with respect to the adequacy of the supporting assets to mature the liabilities. Asset-liability management is a key aspect of the risk-focused examination process and is also strongly considered in the Own Risk and Solvency Assessment (ORSA).	
15.5	The supervisor requires the insurer to invest only in assets whose risks it can properly assess and manage.	
15.5	**States:** The supervisor requires the insurer to have the requisite knowledge to understand the nature and complexity of its investments. Pursuant to the Hazardous Financial Condition Model Regulation (#385), the supervisor will consider "whether the management of an insurer, including officers, directors, or any other person who directly or indirectly controls the operation of the insurer, fails to possess and demonstrate the competence, fitness and reputation deemed necessary to serve the insurer in such position." Statutory Accounting Principles are explicit in determining what are admitted assets for purposes of calculating surplus and capital. Admitted assets are in turn assigned a risk-based capital factor determined from the investment's credit risk. Excessive exposure to investments with higher risk could result in an insurer being deemed weakly capitalized and subject to increased regulatory oversight.	
15.6	The supervisor establishes quantitative and qualitative requirements, where appropriate, on the use of more complex and less transparent classes of assets and investment in markets or instruments that are subject to less governance or regulation.	
15.6	**States:**: While individual jurisdictions have specific limits on investments, assets classes and investment practices, general NAIC guidance focuses on appropriate, yet conservative, reporting and valuation requirements, including the aforementioned determinations of admitted assets. For admitted assets, investment credit risk assessment procedures and capital and reserving requirements focus on the specific risks of the individual investments. Detailed reporting requirements highlight an insurer's involvement in potentially volatile areas, including the use of derivatives. Guidance for examiners highlights the importance of risk-focused examinations, in particular on those areas of an investment portfolio or investment strategy that may put the insurer at risk.	
Comments	*Additional comments that are not captured in responses to each standard*	
ICP 16	**Enterprise Risk Management for Solvency Purposes**	

16	The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.
16	**States:** The Risk Management and Own Risk and Solvency Model Act (NAIC #505) requires large insurers to maintain a risk management framework to assist the insurer with identifying, assessing, monitoring, managing and reporting on its material and relevant risks. The act also requires an own risk and solvency assessment to be performed with an ORSA Summary Report to be filed with the Lead State supervisor on an annual basis. Insurers that are not subject to ORSA requirements must still comply with risk management standards required through actuarial and risk-based capital requirements and the insurer's risk management function is subject to review during the financial examination process. For publicly-held insurers, the SEC requires that information be disclosed on the issuer's leadership structure, risk management practices and the Board's role in overseeing risk management. The Financial Analysis Handbook and Examiners Handbook both provide a framework for reviewing the ORSA Summary Report as well as the information obtained during the on-site examination for those not subject to the ORSA. Both frameworks set forth a process where the risk-management for the group is evaluated against expectations and that dialogue exists between the state and the company on possible enhancements to the risk-management. **FRB:** The FRB places significant supervisory emphasis on the adequacy of an institution's management of risk. The FRB expects supervised organizations to have comprehensive risk management policies and processes in place for identifying, evaluating, monitoring and controlling or mitigating all material risks. In addition, the Dodd-Frank Act establishes specific risk management requirements for BHCs with total consolidated assets greater than $250 billion and designated nonbank financial companies. The Dodd-Frank Act also grants authority to FRB to apply enhanced prudential standards on a BHC with total consolidated assets equal to or greater than $100 billion to which the standards would not ordinarily apply, provided that the FRB finds that application of the standard is appropriate to prevent or mitigate risks to the financial stability of the United States, or to promote the safety and soundness of the BHC, and the FRB takes into consideration the BHC's capital structure, riskiness, complexity, financial activities, size, and any other risk-related factors the FRB deems appropriate. It should be noted that the essential components of an enterprise risk management framework appear either explicitly or implicitly throughout the FRB's general guidance on risk management for the banking organizations under its supervisory jurisdiction. As noted in the FRB's response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development. It is expected that the principles in an enterprise risk management framework will be incorporated in the final rules.
16.1	The supervisor requires the insurer's enterprise risk management framework to provide for the identification and quantification of risk under a sufficiently wide range of outcomes using techniques which are appropriate to the nature, scale and complexity of the risks the insurer bears and adequate for risk and capital management and for solvency purposes.
16.1	**States:** The Model Act contains principles under which insurers must file certain information supporting its ORSA filing. The NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual contains more specific

	guidance on the elements of an effective ERM framework, including risk culture and governance; risk identification and prioritization; risk appetite, tolerances and limits; risk management and controls; and risk reporting and communication. It also requires an insurer to analyze the results of risk exposures under both normal and stressed environments. An insurer that is subject to ORSA must conduct an ORSA consistent with a process comparable to the ORSA Guidance Manual. The results of the ORSA performed by an insurer are required to be provided to the supervisor on an annual basis through the filing of an ORSA Summary Report. The Guidance Manual provides the following direction for insurers in completing the Summary Report: "Because the risk profile of each insurer is unique, each insurer should utilize assessment techniques (e.g., stress tests, etc.) applicable to its risk profile. U.S. insurance regulators do not believe there is a standard set of stress conditions that each insurer should test. The commissioner may provide input regarding the level of stress that the insurer's management should consider for each risk category. The ORSA Summary Report should provide a general description of the insurer's process for model validation, including factors considered and model calibration. Unless a particular assumption is stochastically modeled, the group's management should set assumptions regarding the expected values based on its current anticipated experience, what it expects to occur during the next year or multiple future years, and consideration of expert judgment. The commissioner may provide input to an insurer's management on the assumptions and scenarios to be used in its assessment techniques. For assumptions that are stochastically modeled, the commissioner may provide input on the level of the measurement metric to use in the stressed condition or specify particular parameters used in the economic scenario generator. Commissioner input will likely occur during the financial analysis process and/or the financial examination process." As such, if the supervisor notes concerns regarding the sufficiency of the techniques utilized by the insurer in identifying and quantifying risks, such feedback is provided to the insurer in accordance with the analysis and examination processes. If the insurer is part of an Internationally Active Insurance Group, the Holding Company Act (NAIC #440) provides additional authority to "compel development and implementation of reasonable measures designed to ensure that the internationally active insurance group is able to timely recognize and mitigate enterprise risks to members of such internationally active insurance group that are engaged in the business of insurance." **FRB:** Please see response to ICP 16. In addition, the FRB continues to monitor governance and controls of supervised firms through the FRB's rating system for insurance SLHCs. In its role as consolidated supervisor at the holding company level, the FRB utilizes a rating system known as RFI C/D. This system includes a risk management component that calls for an assessment of governance and controls of an insurance SLHC. The RFI C/D system is described in the FRB's SR Letter 19-4 (Feb. 26, 2019) and its Attachment 2
16.2	The supervisor requires the insurer's measurement of risk to be supported by accurate documentation providing appropriately detailed descriptions and explanations of the risks covered, the measurement approaches used and the key assumptions made.
16.2	**States:** The insurer has discretion in the selection of the measurement approaches to assess risk exposures and risk capital. However, documentation to support the fitness of purpose of the insurer's ORSA practices is required to be maintained and summarized within the ORSA Summary Report. Detailed instructions regarding the contents of the Summary Report are maintained within the Guidance Manual. Supervisors utilize the ORSA Summary Report to gain a high-level understanding of the insurer's ORSA. The ORSA

	Summary Report is required to be supported by the insurer's internal risk-management materials, which should be available for review during analysis and examination activities upon request. **FRB:** Please see response to ICPs 16 and 16.1.
16.3	The supervisor requires the insurer to have a risk management policy which outlines how all relevant and material categories of risk are managed, both in the insurer's business strategy and its day-to-day operations.
16.3	**States:** As discussed above, the Model Act (NAIC #505) requires large insurers to maintain a risk management framework to assist the insurer with identifying, assessing, monitoring, managing and reporting on its material and relevant risks. The act also requires an own risk and solvency assessment to be performed with an ORSA Summary Report to be filed with the Lead State supervisor on an annual basis. The RMORSA Model Act references the ORSA Guidance Manual for guidance and instructions on performing and reporting on an ORSA. The Guidance Manual requires discussion of Risk Management and Controls as one of the five key principles of an effective ERM framework. The Guidance Manual also requires detailed descriptions and explanations of the material and relevant risks identified by the insurer, the assessment methods used, key assumptions made, risk-mitigation activities and outcomes of any plausible adverse scenarios assessed. The ORSA Summary Report should describe how the insurer identifies and categorizes relevant and material risks and manages those risks as it executes its business strategy. **FRB:** Please see response to ICPs 16 and 16.1. Risk management policies, procedures, and limits is a dedicated risk management subcomponent of the FRB's composite rating system relevant to insurance SLHCs.
16.4	The supervisor requires the insurer to have a risk management policy which describes the relationship between the insurer's tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.
16.4	**States:** See discussion under 16.3 above. In addition, the Guidance Manual states that the ORSA Summary Report should describe risk monitoring processes and methods, provide individual exposure limits for key risks, provide enterprise-wide risk appetite statements, and explain the relationship between risk tolerances and the amount and quality of risk capital. **FRB:** Please see response to ICPs 16, 16.1, and 16.3.
16.5	The supervisor requires the insurer to have a risk management policy which includes an explicit asset-liability management (ALM) policy which clearly specifies the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management.
16.5	**States:** The ORSA process requires insurers to identify and assess their exposure to all material and relevant solvency risks. The Guidance Manual states that "examples of relevant material risk categories may include,

	but are not limited to, credit, market, <u>liquidity</u>, underwriting and operational risks." As such, insurers are generally expected to discuss liquidity risks and their process for mitigating them, which typically include ALM activities. The Guidance Manual also states that insurers should consider the effect of liquidity risk, or calls on the insurer's cash position, due to micro-economic factors (i.e., internal operational) and/or macro-economic factors (i.e., economic shifts) in their approach and assessment of group-wide capital adequacy. **<u>FRB:</u>** Please see response to ICP 16s, 16.1, and 16.3.
16.6	The supervisor requires the insurer to have a risk management policy which is reflected in an explicit investment policy which: • specifies the nature, role and extent of the insurer's investment activities and how the insurer complies with the regulatory investment requirements established by the supervisor; and • establishes explicit risk management procedures within its investment policy with regard to more complex and less transparent classes of asset and investment in markets or instruments that are subject to less governance or regulation.
16.6	**<u>States:</u>** The ORSA process requires insurers to identify and assess their exposure to all material and relevant solvency risks. The Guidance Manual states that "examples of relevant material risk categories may include, but are not limited to <u>credit</u>, <u>market</u>, <u>liquidity</u>, underwriting and operational risks." As such, insurers are generally expected to discuss investment-related risks and their process for mitigating them, which typically include investment policies and strategies. In fact, the Guidance Manual also states that supervisors "may also request and review confidential supporting materials to supplement his/ her understanding of information contained in the ORSA Summary Report. These materials may include risk management policies or programs, such as the insurer's underwriting, <u>investment</u>, claims, asset-liability management (ALM), reinsurance counterparty and operational risk policies." In addition, each full-scope financial examination (for all insurers) includes a review of the appropriateness of the insurer's investment portfolio and strategy as one of the critical risk categories required to be considered. This category encompasses whether the insurer's investment portfolio and strategy are appropriately structured to support its ongoing business plan. Considerations may include elements of the ongoing investment strategy such as asset diversification, quality, maturities and risk/reward considerations, which could impact the insurer's vulnerability to future market fluctuations and impairments. **<u>FRB:</u>** Please see response to ICPs 16, 16.1, and 16.3.
16.7	The supervisor requires the insurer to have a risk management policy which includes explicit policies in relation to underwriting risk.
16.7	**<u>States:</u>** The ORSA process requires insurers to identify and assess their exposure to all material and relevant solvency risks. The Guidance Manual states that "examples of relevant material risk categories may include, but are not limited to credit, market, liquidity, <u>underwriting</u> and operational risks." As such, insurers are generally expected to discuss underwriting risks and their process for mitigating them, which typically include underwriting strategies and policies. In fact, the Guidance Manual also states that supervisors "may

	also request and review confidential supporting materials to supplement his/ her understanding of information contained in the ORSA Summary Report. These materials may include risk management policies or programs, such as the insurer's underwriting, investment, claims, asset-liability management (ALM), reinsurance counterparty and operational risk policies." In addition, each full-scope financial examination (for all insurers) includes a review of the appropriateness of the insurer's underwriting and pricing strategy/quality as one of the critical risk categories required to be considered. This category encompasses whether the insurer has appropriate underwriting, pricing and marketing practices (including premiums management) to meet its financial solvency needs. Considerations may include whether the insurer has established and implemented appropriate risk exposure limits and underwriting guidelines, whether the insurer is establishing adequate rates for the risks assumed under its policies and expense structure, and whether these strategies and practices are consistently applied across the insurer's distribution channels. **FRB:** Please see response to ICPs 16, 16.1, and 16.3.
16.8	The supervisor requires the insurer to: • establish and maintain a risk tolerance statement which sets out its overall quantitative and qualitative risk tolerance levels and defines risk tolerance limits which take into account all relevant and material categories of risk and the relationships between them; • make use of its risk tolerance levels in its business strategy; and • embed its defined risk tolerance limits in its day-to-day operations via its risk management policies and procedures.
16.8	**States:** As discussed above, the ORSA Guidance Manual requires the ORSA Summary Report to provide detailed descriptions and explanations of the material and relevant risks identified by the insurer, based on its business strategy. The insurer should set, for each key risk a limit and a tolerance and assess the actual exposure at the valuation date and compare it with the limit and tolerance. To the extent that the limit and/or tolerance have been exceeded, the insurer should explain what actions were taken. In addition, the insurer should assess the exposure under stressed conditions. The insurer should disclose in the ORSA Report the assessment methods used, key assumptions made, risk-mitigation activities and outcomes of any plausible adverse scenarios assessed. The ORSA Summary Report should also describe how the insurer identifies and categorizes relevant and material risks and manages those risks as it executes its business strategy. In addition, the ORSA Summary Report should describe risk monitoring processes and methods, provide risk appetite statements, and explain the relationship between risk tolerances and the amount and quality of risk capital. See the Guidance Manual for further detail. **FRB:** Please see response to ICPs 16, 16.1, and 16.3.
16.9	The supervisor requires the insurer's ERM framework to be responsive to changes in its risk profile.
16.9	**States:** The Guidance Manual states that the ORSA Summary Report should identify assessment tools (feedback loops) used to monitor and respond to any changes in the insurer's risk profile due to economic changes,

	operational changes or changes in business strategy. Finally, the ORSA Summary Report should describe how the insurer incorporates new risk information in order to monitor and respond to changes in its risk profile due to economic and/or operational changes and changes in strategy. **FRB:** Please see response to ICPs 16, 16.1, and 16.3.
16.10	The supervisor requires the insurer's ERM framework to incorporate a feedback loop, based on appropriate and good quality information, management processes and objective assessment, which enables it to take the necessary action in a timely manner in response to changes in its risk profile.
16.10	**States:** In addition to the response to 16.9 which contemplates feedback loops, the Financial Analysis Handbook and Examination Handbook expect interim updates through inquiry or meetings with the company which are generally accompanied by requests for additional information including when a material change causes updated information. **FRB:** Please see response to ICPs 16, 16.1, and 16.3.
16.11	The supervisor requires the insurer to perform its own risk and solvency assessment (ORSA) regularly to assess the adequacy of its risk management and current, and likely future, solvency position.
16.11	**States:** The Model Act (NAIC #505) requires an own risk and solvency assessment to be performed with an ORSA Summary Report to be filed with the Lead State supervisor on an annual basis. However, as noted in 16.10, the Financial Analysis Handbook and Examination Handbook expect interim updates through inquiry or meetings with the company which are generally accompanied by requests for additional information. The Summary Report is required to provide a Description of the Insurer's Risk Management Framework (Section I), the Insurer Assessment of Risk Exposures (Section II) and a Group Assessment of Risk Capital and Prospective Solvency Assessment (Section III). **FRB:** State insurance supervisors, rather than the FRB, require ORSAs. In the FRB's supervision of insurance SLHCs, the FRB uses ORSAs provided by state insurance supervisors in assessing the insurance SLHCs' adequacy of risk management and current or anticipated solvency position.
16.12	The supervisor requires the insurer's Board and Senior Management to be responsible for the ORSA.
16.12	**States:** The Model Act (NAIC #505) states that the ORSA Summary Report should include an attestation from the Chief Risk Officer (or equivalent management position) stating that that the insurer applies the enterprise risk management process described in the ORSA Summary Report and that a copy of the report has been provided to the insurer's board of directors or the appropriate committee thereof. The Guidance Manual states that the content of the ORSA Summary Report should be consistent with the ERM information that is reported to senior management and/or the board of directors or appropriate committee. **FRB:**

	State insurance supervisors, rather than the FRB, require ORSAs.
16.13	The supervisor requires the insurer's ORSA to encompass all reasonably foreseeable and relevant material risks including, as a minimum, underwriting, credit, market, operational and liquidity risks and additional risks arising due to membership of a group. The assessment is required to identify the relationship between risk management and the level and quality of financial resources needed and available.
16.13	**<u>States:</u>** As discussed above, The ORSA Guidance Manual requires the ORSA Summary Report to provide detailed descriptions and explanations of the material and relevant risks identified by the insurer, the assessment methods used, key assumptions made, risk-mitigation activities and outcomes of any plausible adverse scenarios assessed. In addition, the ORSA Summary Report should describe risk monitoring processes and methods, provide risk appetite statements, and explain the relationship between risk tolerances and the amount and quality of risk capital. See the Guidance Manual for further detail. In addition to the information provided on quality of available capital by the ORSA, if an insurance group is part of a holding company that also includes non-insurance entities, the Model Holding Company Act (NAIC #440) requires an annual Form F filing to provide additional information about the risks at enterprise level posed by the non-insurance entities. Although non-insurance entities are not required to be included, the ORSA is expected to comment on fungibility of capital among the various entities and potential sources of contagion risk arising from the non-insurance companies. **<u>FRB:</u>** State insurance supervisors, rather than the FRB, require ORSAs.
16.14	The supervisor requires the insurer to: • determine, as part of its ORSA, the overall financial resources it needs to manage its business given its own risk tolerance and business plans, and to demonstrate that supervisory requirements are met; • base its risk management actions on consideration of its economic capital, regulatory capital requirements and financial resources, including its ORSA; and • assess the quality and adequacy of its capital resources to meet regulatory capital requirements and any additional capital needs.
16.14	**<u>States:</u>** The Guidance Manual states that Section 3 of the ORSA Summary Report should describe how the insurer combines the qualitative elements of its risk management policy with the quantitative measures of risk exposure in determining the level of financial resources needed to manage its current business and over a longer term business cycle (e.g., the next one to three years). The group risk capital assessment should be performed as part of the ORSA regardless of the basis (group, legal entity or other subset basis) and in a manner that encompasses the entire insurance group. The information provided in Section 3 is intended to assist the commissioner in assessing the quality of the insurer's risk and capital management. Within the Group Assessment of Risk Capital, aggregate available capital is compared against the various risks that may adversely affect the enterprise. The insurer should consider how the group capital assessment is integrated into the insurer's management and decision-making culture, how the insurer evaluates its available capital and how risk capital is integrated into its capital-management activities. The insurer should have sound processes for assessing capital adequacy in relation to its risk profile and those processes should be integrated into the insurer's management and decision-making culture. These

	processes may assess risk capital through myriad metrics and future forecasting periods, reflecting varying time horizons, valuation approaches and capital management strategies (e.g., mix of capital). While a single internal risk capital measure may play a primary role in internal capital adequacy assessment, insurers may evaluate how risk and capital interrelate over various time horizons, or through the lens of alternative risk capital or accounting frameworks (i.e., economic, rating agency, and/or regulatory frameworks). **FRB:** State insurance supervisors, rather than the FRB, require ORSAs. The FRB reviews capital planning policies and procedures at insurance SLHCs and continues to develop capital adequacy requirements for insurance SLHCs.
16.15	The supervisor requires: • the insurer, as part of its ORSA, to analyse its ability to continue in business, and the risk management and financial resources required to do so over a longer time horizon than typically used to determine regulatory capital requirements; • the insurer's continuity analysis to address a combination of quantitative and qualitative elements in the medium and longer-term business strategy of the insurer and include projections of its future financial position and analysis of its ability to meet future regulatory capital requirements.
16.15	**States:** See discussion under 16.14 above. **FRB:** State insurance supervisors, rather than the FRB, require ORSAs. The FRB reviews capital planning policies and procedures at insurance SLHCs and continues to develop capital adequacy requirements for insurance SLHCs. Assessment of anticipated financial condition and developments is among the factors considered under the "financial condition" component of the RFI C/D rating system relevant to insurance SLHCs. The RFI C/D system is described in the FRB's SR Letter 19-4 (Feb. 26, 2019) and its Attachment 2.
16.16	The supervisor undertakes reviews of an insurer's risk management processes and its financial condition, including the ORSA. Where necessary, the supervisor requires strengthening of the insurer's risk management, solvency assessment and capital management processes.
16.16	**States:** ORSA Summary Reports are required to be reviewed and evaluated on an annual basis as they are received. In addition, a more in-depth review of ORSA and ERM practices is conducted in accordance with each full-scope financial examination. If there are concerns noted regarding the sufficiency of the techniques utilized by the insurer in identifying and quantifying risks, such feedback is provided to the insurer in accordance with the analysis and examination processes. If the insurer is part of an Internationally Active Insurance Group, the Holding Company Act (NAIC #440) provides additional authority to "compel development and implementation of reasonable measures designed to ensure that the internationally active insurance group is able to timely recognize and mitigate enterprise risks to members of such internationally active insurance group that are engaged in the business of insurance." **FRB:** Please see response to ICPs 16, 16.1, 16.3, and 16.11.

Comments	*Additional comments that are not captured in responses to each standard*
	States: ORSA requirements began to be implemented by state insurance departments in 2015 and first became a required element of the NAIC Accreditation Program as of 1/1/2018. Additional accreditation elements related to the timeliness of supervisory review of the ORSA filing will be required as of 1/1/20. As ORSA requirements are still relatively recent, insurers and state insurance regulators are continuing to develop knowledge and expertise in this area. Revisions to the Insurance Holding Company System Regulatory Act (NAIC #440) related to Form F (Enterprise Risk Report) filings became a required element of the NAIC Accreditation Program as of 1/1/17. Revisions to the Insurance Holding Company System Regulatory Act (NAIC #440) related to the supervision of Internationally Active Insurance Groups began to be implemented by states in 2016 and will become a required element of the NAIC Accreditation Program as of 1/1/2020.
ICP 17	**Capital Adequacy**
17	The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.
17	**States:** The supervisor establishes legal entity capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention. These capital adequacy requirements are required by the NAIC Risk Based Capital Model Law and have been adopted by all states. Supervisors utilize a legal entity focus when performing a group-wide capital adequacy assessment. The insurance group is considered primarily as a set of interdependent legal entities. Insurance groups (and their subsidiaries) that conduct business internationally are subject to capital adequacy requirements of those countries in which they are domiciled. To the extent that U.S. insurers hold insurance company subsidiaries (regardless of their country of domicile), requisite RBC charges are placed on the carrying values of those subsidiaries. **FRB:** The FRB and the other federal banking agencies (OCC and FDIC) revised their regulatory capital frameworks in July 2013. The FRB did not apply the rule to SLHCs. The FRB decided to consider further the development of capital requirements consistent with section 171 of the Dodd-Frank Act ("Collins Amendment") for SLHCs as well as for designated nonbank financial companies, taking into consideration information provided by the commenters during the rule-making process for finalizing the 2013 capital rule and information gained through the supervisory process. On June 3, 2016, the FRB approved an advance notice of proposed rulemaking inviting comment on conceptual frameworks for capital standards that could apply to insurance designated nonbank financial companies and to insurance depository institution holding companies. The standards would differ for each population of insurance firms supervised by the FRB. Capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.1	The supervisor requires that a total balance sheet approach is used in the assessment of solvency to recognise the interdependence between assets, liabilities, regulatory capital requirements and capital resources and to require that risks are appropriately recognised.
17.1	**States:** The supervisor requires insurers to file financial statements on a statutory accounting principles basis. Statutory accounting principles have an extensive number of footnote and/or disclosure requirements

	including, the disclosure of off-balance sheet activities and are an integral part of the financial statements, as filed. Statutory accounting principles embrace valuation principles (e.g., principles-based reserving for both life and nonlife insurers), investment credit risk assessment, and risk-based capital requirements. Supervisors require for certain groups the filing of combined financial statements for U.S. insurance groups (filed on a statutory basis) and annual consolidated audited financial statements which have been filed with the SEC. **FRB:** As discussed above in the response to ICP 17, the FRB is considering issues that commenters raised, contending that the final capital rules for SLHCs and designated nonbank financial companies engaged in insurance activities should take into account insurance company liabilities and asset-liability matching practices, the risks associated with separate accounts, the interaction of consolidated capital requirements with the capital requirements of state insurance regulators, and differences in accounting practices for banks and insurance companies and their holding companies.
17.2	The supervisor establishes regulatory capital requirements at a sufficient level so that, in adversity, an insurer's obligations to policyholders will continue to be met as they fall due and requires that insurers maintain capital resources to meet the regulatory capital requirements.
17.2	**States:** The supervisor has established "legal entity" regulatory capital requirements at a sufficient level so that, in adversity, an insurer's obligations to policyholders will continue to be met as they fall due and requires that insurers maintain capital resources to meet the regulatory capital requirements. Please note however, the Financial Analysis Handbook contemplates that action by the state may be appropriate well before RBC factors are triggered, and states often consider risky areas in a more adverse way than the RBC factors, often leading to meetings with the company to express such concerns and changes by the company are not unusual as a result of such situations. **FRB:** As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.3	The regulatory capital requirements include solvency control levels which trigger different degrees of intervention by the supervisor with an appropriate degree of urgency and requires coherence between the solvency control levels established and the associated corrective action that may be at the disposal of the insurer and/or the supervisor.
17.3	**States:** The regulatory capital requirements include four levels of supervisory intervention. They include the Company Action Level, Regulatory Action Level, Authorized Control Level, and Mandatory Control Level; two action levels and two control levels. Beginning with the least invasive supervisory intervention, the Company Action Level, to the most invasive supervisory intervention, Mandatory Control Level, each level of action is associated with a corrective action that is demonstrably more demanding. There are time constraints with each level of action. Group issues are addressed indirectly through legal entity intervention, as this is where capital adequacy requirements are applied. To the extent that group solvency issues are identified, it would trigger a process of coordination and cooperation among different supervisors of a group. **FRB:**

	As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.4	In the context of insurance legal entity capital adequacy assessment, the regulatory capital requirements establish • a solvency control level above which the supervisor does not intervene on capital adequacy grounds. This is referred to as the Prescribed Capital Requirement (PCR). The PCR is defined such that assets will exceed technical provisions and other liabilities with a specified level of safety over a defined time horizon; • a solvency control level at which, if breached, the supervisor would invoke its strongest actions, in the absence of appropriate corrective action by the insurance legal entity. This is referred to as the Minimum Capital Requirement (MCR). The MCR is subject to a minimum bound below which no insurer is regarded to be viable to operate effectively.
17.4	**States:** Risk-based capital requirements take into consideration a longer time horizon than a specified level of safety level over a defined time horizon (e.g. 1 year) due to U.S. consumer expectations. While some of the more significant factors (e.g. bonds) are developed using defined safety levels, U.S. regulators also utilize their regulatory judgement to determine these risks. The risk-based capital requirements include a solvency control level (Company Action Level coupled with the Trend Test), above which a supervisor cannot intervene on the basis of capital. The risk-based capital requirements include a solvency control level, Mandatory Control Level, under which an insurer is no longer allowed to operate. **FRB:** As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.5	In the context of group-wide capital adequacy assessment, the regulatory capital requirements establish solvency control levels that are appropriate in the context of the approach to group-wide capital adequacy that is applied.
17.5	**States:** State insurance supervisors are required to complete a Group Profile Summary (GPS) that captures the lead states' assessment of the 9 NAIC Branded Risk Categories, which considers capital as a subcategory. The GPS is developed and updated using different inputs, including among other things, the analysis of the financial statements of the UCP and its affiliates, an analysis of the Enterprise Risk Report (Form F), the Own Risk and Solvency Assessment (ORSA) Report (where applicable), and the use a Corporate Governance Annual Disclosure (where available-required 1/1/20). The NAIC is currently in the process of developing a group capital calculation (GCC) which is based upon an aggregation and elimination (to prevent double counting) method. This method aggregates the capital requirements for regulated entities and capital factors for non-regulated entities that have a material risk to the insurance group. **FRB:**

	As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.6	The regulatory capital requirements are established in an open and transparent process, and the objectives of the regulatory capital requirements and the bases on which they are determined are explicit. In determining regulatory capital requirements, the supervisor allows a set of standardised and, if appropriate, other approved more tailored approaches such as the use of (partial or full) internal models.
17.6	**States:** The regulatory capital requirements are established in an open and transparent process, allowing for input from a variety of stakeholders. Similarly, the guidance to assess investment credit risk, a core input to risk-based capital, is also established through an open and transparent process. The objectives of the regulatory capital requirements and the bases on which they are determined are explicit. In determining regulatory capital requirements, the supervisor requires a standard factor-based model and, if appropriate, other approved more tailored approaches such as the use of a partial internal model may be used. The use of something other than the standard factor-based model is subject to the same deliberative process and is established under the same open and transparent process. **FRB:** The FRB is fully committed to transparency and due process in the development and promulgation of regulatory standards. The FRB is carefully considering the comments it has received regarding the application of section 171 of the Dodd-Frank Act to BHCs and SLHCs that are significantly engaged in the insurance business. The FRB will continue to consider these issues seriously, as well as the potential implementation challenges for BHCs and SLHCs with insurance operations, as it determines how to move forward with respect to future capital requirements.
17.7	The supervisor addresses all relevant and material categories of risk in insurers and is explicit as to where risks are addressed, whether solely in technical provisions, solely in regulatory capital requirements or if addressed in both, as to the extent to which the risks are addressed in each. The supervisor is also explicit as to how risks and their aggregation are reflected in regulatory capital requirements.
17.7	**States:** The supervisor addresses all relevant and material categories of risk and is explicit as to where risks are addressed. Property and health catastrophe risk, as well as operational risk, were recognized as material risks that were not explicitly addressed in the capital requirements, so factors for property catastrophe risk and operational risk are expected to be in place in the next few years. The supervisor is also explicit as to how risks and their aggregation are reflected in regulatory capital requirements. The RBC formula clearly articulates the aggregation of risks and their reflection in capital requirements. **FRB:** As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.8	The supervisor sets appropriate target criteria for the calculation of regulatory capital requirements, which underlie the calibration of a standardised approach. Where the supervisor allows the use of approved more tailored approaches such as internal models for the purpose of determining regulatory capital requirements, the target criteria underlying the calibration of the standardised approach are also used by those approaches for that purpose to require broad consistency among all insurers within the jurisdiction.
17.8	**States:**

	In the calculation of regulatory capital requirements, target criteria are generally defined on a risk by risk basis, not on an overall basis (among all risks combined). Among the assets between life and nonlife insurers, in general, the target criterion is fairly consistent. The calibration reflects the risk profile of the assets/liabilities supporting the business written; this includes an average holding period of the assets and average duration of the liabilities. **FRB:** As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.9	Any variations to the regulatory capital requirement imposed by the supervisor are made within a transparent framework, are appropriate to the nature, scale and complexity according to the target criteria and are only expected to be required in limited circumstances.
17.9	**States:** Any variations to the regulatory capital requirement will be disclosed in the financial statements filed with the supervisor. While variations are extremely uncommon, during the global financial crisis, the handling of RMBS securities for valuation purposes were made in a transparent manner and included engagement from a variety of stakeholders. **FRB:** As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.10	The supervisor defines the approach to determining the capital resources eligible to meet regulatory capital requirements and their value, consistent with a total balance sheet approach for solvency assessment and having regard to the quality and suitability of capital elements.
17.10	**States:** The supervisor requires insurers to file financial statements in accordance with statutory accounting principles. With over 100 Statements of Statutory Accounting Principles, it is the framework for determining eligible capital resources for purposes of meeting regulatory capital requirements. **FRB:** As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.11	The supervisor establishes criteria for assessing the quality and suitability of capital resources, having regard to their ability to absorb losses on both a going-concern and wind-up basis.
17.11	**States:** The supervisor requires insurers to file financial statements in accordance with Statutory Accounting Principles. Statutory Accounting Principles contain a Statement of Concepts, which establishes guiding principles for assessing the quality and suitability of capital resources, and references the assessment of investment credit risk guidance. These include concepts such as conservatism, consistency, and recognition. The Statement of Concepts helps guide the development and maintenance of statutory accounting principles. **FRB:**

	As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.12	Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor: • establishes appropriate modelling criteria to be used for the determination of regulatory capital requirements, which require broad consistency among all insurers within the jurisdiction; and • identifies the different levels of regulatory capital requirements for which the use of internal models is allowed.
17.12	**<u>States:</u>** The P&C RBC formula requires hurricane and earthquake risk to capture the modeled losses at a 1 in 100-year event. The modeled losses must use one of the approved commercially available catastrophe models (AIR, EQUCAT, RMS ARA HurLoss (hurricane only) or the Florida Public Model *hurricane only). The insurer is required to use the same exposure data, modeling, and assumptions that it uses in its own internal catastrophe risk management process. No other internal models are allowed as of 12/31/18. **<u>FRB:</u>** As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.13	Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor requires: • prior supervisory approval for the insurer's use of an internal model for the purpose of calculating regulatory capital requirements; • the insurer to adopt risk modelling techniques and approaches appropriate to the nature, scale and complexity of its current risks and those incorporated within its risk strategy and business objectives in constructing its internal model for regulatory capital purposes; • the insurer to validate an internal model to be used for regulatory capital purposes by subjecting it, as a minimum, to three tests: "statistical quality test", "calibration test" and "use test"; and • the insurer to demonstrate that the model is appropriate for regulatory capital purposes and to demonstrate the results of each of the three tests.
17.13	**<u>States:</u>** See Response to 17.12 **<u>FRB:</u>** As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.14	Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor requires: • the insurer to conduct a "statistical quality test" which assesses the base quantitative methodology of the internal model, to demonstrate the appropriateness of this methodology, including the choice of model inputs and parameters, and to justify the assumptions underlying the model; and

	• that the determination of the regulatory capital requirement using an internal model addresses the overall risk position of the insurer and that the underlying data used in the model is accurate and complete.
17.14	**States:** See Response to 17.12 **FRB:** As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.15	Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor requires the insurer to conduct a "calibration test" to demonstrate that the regulatory capital requirement determined by the internal model satisfies the specified modelling criteria.
17.15	**States:** See Response to 17.12 **FRB:** As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.16	Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor requires: • the insurer to fully embed the internal model, its methodologies and results, into the insurer's risk strategy and operational processes (the "use test"); • the insurer's Board and Senior Management to have overall control of and responsibility for the construction and use of the internal model for risk management purposes, and ensure sufficient understanding of the model's construction at appropriate levels within the insurer's organisational structure. In particular, the supervisor requires the insurer's Board and Senior Management to understand the consequences of the internal model's outputs and limitations for risk and capital management decisions; and • the insurer to have adequate governance and internal controls in place with respect to the internal model.
17.16	**States:** See Response to 17.12 **FRB:** As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.17	Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor requires the insurer to document the design, construction, and governance of the internal model, including an outline of the rationale and assumptions underlying its methodology. The supervisor requires the documentation to be sufficient to demonstrate compliance with the regulatory validation

	requirements for internal models, including the statistical quality test, calibration test and use test outlined above.
17.17	<u>**States:**</u> See Response to 17.12 <u>**FRB:**</u> As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
17.18	Where a supervisor allows the use of internal models to determine regulatory capital requirements, the supervisor requires: • the insurer to monitor the performance of its internal model and regularly review and validate the ongoing appropriateness of the model's specifications. The supervisor requires the insurer to demonstrate that the model remains fit for regulatory capital purposes in changing circumstances against the criteria of the statistical quality test, calibration test and use test; • the insurer to notify the supervisor of material changes to the internal model made by it for review and continued approval of the use of the model for regulatory capital purposes; • the insurer to properly document internal model changes; and • the insurer to report information necessary for supervisory review and ongoing approval of the internal model on a regular basis, as determined appropriate by the supervisor. The information includes details of how the model is embedded within the insurer's governance and operational processes and risk management strategy, as well as information on the risks assessed by the model and the capital assessment derived from its operation.
17.18	<u>**States:**</u> See Response to 17.12 <u>**FRB:**</u> As noted in the above response to ICP 17, capital adequacy requirements for SLHCs and designated nonbank financial companies remain under development.
Comments	*Additional comments that are not captured in responses to each standard*
ICP 19	**Conduct of Business**
19	The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.
19	<u>**States:**</u> Insurance regulators have a structured system for the licensing and monitoring of intermediaries (commonly referred to as "producers" in the United States). The NAIC *Producer Licensing Model Act* provides the basis for the producer licensing framework in the United States. This framework includes

	examination requirements, continuing education requirements and broad regulatory discretion to deny, suspend or revoke an intermediary's license Insurance regulators prohibit unfair trade practices, unfair methods of competition and unfair/deceptive acts in the marketing, sale, underwriting, and administration of insurance policies/contracts, as well as the adjustment of claims. These prohibitions provide a foundation for market conduct regulation; the NAIC adopted the *Unfair Trade Practices Act* in 1947. Additionally, the NAIC adopted the *Unfair Claims Settlement Practices Act* in 1990 to focus additional attention on the fair treatment of customers during the claims process. Insurance regulators have the authority to analyze, examine and investigate the activities of insurers and intermediaries and use tools, such as the Market Conduct Annual Statement (MCAS), data calls, interrogatories and on-site market conduct examinations to determine whether customers are being treated fairly. **FRB:** The FRB does not supervise or regulate the conduct of the business of insurance. The states in which an insurance company operates or is organized regulate and supervise the conduct and operation of insurance companies. The FRB is not a licensing or regulatory authority for intermediaries. This response applies to the remainder of this section, as well.
19.1	The supervisor requires insurers and intermediaries to act with due skill, care and diligence when dealing with customers.
19.1	**States:** Insurance regulators require insurers and intermediaries to act with due skill, care, and diligence through state unfair trade practice standards. For example, it is an unfair trade practice to misrepresent the benefits, advantages, conditions or terms of any insurance policy, or provide any advertisement which is untrue, deceptive or misleading. Intermediaries must pass a test to ensure a minimal level of competency Tests are specific to the following lines of authority: (1) life; (2) accident and health or sickness; (3) property; (4) casualty; (5) variable life and variable annuity products; and (6) personal lines. Insurance intermediaries must pass a test for each insurance line of authority they wish to sell, solicit or negotiate and complete 24 hours of continuing education every two years, with 3 of the 24 hours of continuing education addressing ethics.
19.2	The supervisor requires insurers and intermediaries to establish and implement policies and procedures on the fair treatment of customers, as an integral part of their business culture.
19.2	**States:** Insurance regulators prohibit practices that misrepresent the benefits, advantages, conditions, or terms of any insurance policy, or provide any advertisement which is untrue, deceptive or misleading. An insurer's or intermediary's engagement in unfair trade practices may result in a monetary penalty, suspension or revocation of the insurer's or intermediary's license if such unfair trade practices are committed flagrantly and in conscious disregard or committed with such frequency to indicate a general business practice. Insurance regulators use these tools to ensure insurers and intermediaries include the fair treatment of customers as part of their business culture.

	Insurance regulators verify insurers' practices through analysis and examinations by reviewing a company's board minutes; underwriting, rating, claims and complaint handling manuals; communications to their staff and intermediaries; policy and procedures manuals; and other operational and management documents.
19.3	The supervisor requires insurers and intermediaries to avoid or properly manage any potential conflicts of interest.
19.3	**<u>States:</u>** Intermediaries generally disclose associations through the normal course of business as insurance consumers need to understand what company will be underwriting the risk. Pursuant to the standards of the NAIC *Producer Licensing Model Act,* when an intermediary receives compensation from a customer for the placement of insurance or represents the customer with respect to that placement, the intermediary shall not accept or receive any compensation from an insurer for that placement of insurance unless the intermediary has, prior to the customer's purchase of insurance, obtained the customer's documented acknowledgment that such compensation will be received by the intermediary and disclosed the amount of compensation to be received from the insurer.
19.4	The supervisor requires insurers and intermediaries to have arrangements in place in dealing with each other to ensure the fair treatment of customers.
19.4	**<u>States:</u>** There are specific examination standards that address the arrangements between insurers and intermediaries and the fair treatment of customers. For example, during the examination process, an insurance regulator may verify the insurer's records of licensed and appointed intermediaries to see if they agree with insurance department records. An insurance regulator may also review the insurer's geographic appointments and terminations of intermediaries to determine if an insurer's practices result in unfair discrimination. Regarding underwriting practices and the fair treatment of consumers, an insurance regulator may review the insurer's underwriting guidelines, declination procedures, agency agreements and correspondence with intermediaries to confirm the insurer's underwriters and producers consistently apply the insurer's underwriting guidelines for all business selected or rejected. Insurance regulators in the majority of jurisdictions require intermediaries to have a formal appointment which is filed with the insurance regulator. Through the appointment process, an insurance company authorizes an insurance intermediary to represent the company. The appointment process also informs insurance regulators as to which companies the producer is representing in the market. Insurance regulators also require insurers to only conduct business with intermediaries that are duly licensed.
19.5	The supervisor requires insurers to take into account the interests of different types of consumers when developing and distributing insurance products.
19.5	**<u>States:</u>** Insurance regulators require insurers to consider the interests of different types of customers when developing their products. For example, while insurers may use different marketing strategies to target different segments of the market, regulators review rate filings to ensure rates are not excessive, unjust, or unfairly discriminatory. Additionally, insurance regulators prohibit marketing materials from being untrue, deceptive, or misleading. Because of this, all marketing materials must meet certain minimum regulatory standards.

	Insurance regulators ensure products comply with state law, are reasonable and fair, and do not contain major gaps in coverage that might be misunderstood by consumers and leave them unprotected. In addition, insurance companies should have and maintain a system of control over the content, form and method of dissemination of all advertisement and marketing materials for their insurance policies. An insurance company should have a notation indicating the manner and extent of distribution and the form number of every policy advertised. Finally, for complex annuity products, insurance regulators have specific requirements for insurers to establish a system to supervise recommendations and to set forth standards and procedures for recommendations to consumers that result in transactions so that the insurance needs and financial objectives of consumers are appropriately addressed.
19.6	The supervisor requires insurers and intermediaries to promote products and services in a manner that is clear, fair and not misleading.
19.6	**States:** Insurance regulators prohibit any advertisements which are untrue, deceptive, or misleading. This includes prohibitions against misrepresenting the benefits, advantages, conditions, or terms of any policy; misrepresenting the dividends or share of the surplus to be received on any policy; using any name or title of any policy to misrepresent its true nature; and misrepresenting or providing any intentional misquotation of premium rate for the purpose of inducing the purchase, lapse, forfeiture, exchange, conversion, or surrender of any policy. An insurer's or intermediary's engagement in unfair trade practices may result in a monetary penalty, suspension or revocation of the insurer's or intermediary's license if such unfair trade practices are committed flagrantly and in conscious disregard or committed with such frequency to indicate a general business practice. Insurance regulators use these tools to ensure that insurers and intermediaries include the fair treatment of customers as part of their business culture.
19.7	The supervisor requires insurers and intermediaries to provide timely, clear and adequate pre-contractual and contractual information to customers.
19.7	**States:** It is an unfair trade practice for an insurer or intermediary to misrepresent the benefits and conditions of a policy. Insurers are also required to provide each consumer with a copy of their contract. Insurance regulators use the product approval process, market conduct analysis, and examinations to assess the information provided to consumers at the point of sale. The type and level of information disclosure required will vary based on the line of business and the complexity of the product. For example, insurance regulators require an applicant for an annuity contract to be provided a disclosure document at or before the time of application. At a minimum, the following information is required to be included in an annuity contract disclosure document: (1) the generic name of the contract, the company product name, if different, and form number, and the fact that it is an annuity; (2) the insurer's legal name, physical address, website address and telephone number; and (3) a description of the contract and its benefits, emphasizing its long-term nature, including examples where appropriate.
19.8	Where customers receive advice before concluding an insurance contract the supervisor requires that the advice provided by insurers and intermediaries takes into account the customer's disclosed circumstances.
19.8	**States:**

	Insurers and intermediaries have a responsibility to provide appropriate disclosures concerning the products they sell and to assess the needs of their clients. Insurance regulators prohibit misrepresentation of the benefits, advantages or conditions or terms of any insurance policy. Insurance regulators use market conduct analysis and examination processes to assess the advice provided to customers. The type of advice will vary by line of business and the complexity of the product. For example, in recommending to a consumer the purchase of an annuity or the exchange of an annuity, the intermediary or insurer must have reasonable grounds for believing the product recommendation is suitable for the consumer on the basis of the facts disclosed by the consumer as to his/her investments, other insurance products, and his/ her financial situation and needs. In the U.S., insurance contracts are considered contracts of "utmost good faith," which require appropriate disclosure and ethical behavior between both parties. This means an insurance consumer must not misrepresent or conceal material facts, which the insurer relies upon in making its decision to issue a policy. For example, with life insurance there is a contestability period, generally two years, during which an insurer is able to assess a consumer's representations when purchasing the policy. An insurance company may claim the contract is void, deny a death benefit, or cancel the coverage if the company finds the consumer made a material misrepresentation during the application process.
19.9	The supervisor requires insurers to: • service policies appropriately through to the point at which all obligations under the policy have been satisfied; • disclose to the policyholder information on any contractual changes during the life of the contract; and • disclose to the policyholder further relevant information depending on the type of insurance product.
19.9	**States:** Insurance regulators require insurers to service policies appropriately through to the point at which all obligations under a policy has been satisfied through enforcing standards related to sales/marketing, rating, underwriting, policyholder service, and claims settlement practices. In addition, insurers must disclose to the policyholder any contractual changes during the term of the policy and at renewal.
19.10	The supervisor requires insurers to handle claims in a timely, fair and transparent manner.
19.10	**States:** Insurance regulators require insurers and intermediaries to acknowledge with reasonable promptness pertinent communications with respect to claims arising under its policies; adopt and implement reasonable standards for the prompt investigation and settlement of claims arising under its policies; and effectuate prompt, fair, and equitable settlement of claims. Through the Unfair Claims Settlement Practices Act, insurance regulators define and prohibit the following unfair claims settlement practices: (1) knowingly misrepresenting to claimants and insureds relevant facts or policy provisions relating to coverage at issue; (2) failing to acknowledge with reasonable promptness pertinent communications with respect to claims arising under its policies; (3) failing to adopt and implement reasonable standards for the prompt investigation and settlement of claims arising under its policies; (4) not attempting in good faith to effectuate prompt, fair and equitable settlement of claims submitted in which liability has become reasonably clear; (5) compelling insureds or beneficiaries to institute suits to recover amounts due under its policies by offering substantially less than the amounts

	ultimately recovered in suits brought by them; (6) refusing to pay claims without conducting a reasonable investigation; (7) failing to affirm or deny coverage of claims within a reasonable time after having completed its investigation related to such claim or claims; (8) attempting to settle or settling claims for less than the amount that a reasonable person would believe the insured or beneficiary was entitled by reference to written or printed advertising material accompanying or made part of an application; (9) attempting to settle or settling claims on the basis of an application that was materially altered without notice to, or knowledge or consent of, the insured; (10) making claims payments to an insured or beneficiary without indicating the coverage under which each payment is being made; (11) unreasonably delaying the investigation or payment of claims by requiring both a formal proof of loss form and subsequent verification that would result in duplication of information and verification appearing in the formal proof of loss form; (12) failing in the case of claims denials or offers of compromise settlement to promptly provide a reasonable and accurate explanation of the basis for such actions; (13) failing to provide forms necessary to present claims within fifteen calendar days of a request with reasonable explanations regarding their use; and (14) failing to adopt and implement reasonable standards to assure that the repairs of a repairer owned by or required to be used by the insurer are performed in a workmanlike manner.
19.11	The supervisor requires insurers and intermediaries to handle complaints in a timely and fair manner.
19.11	**States:** Through the Unfair Trade Practices Act, insurance regulators require insurers to maintain a complete record of all complaints received. This record must indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint. Insurance regulators monitor insurers' practices in handling complaints through daily interaction with consumers. For significant consumer issues, or consumer complaints about an insurer's practices, an insurance regulator will request the consumer submit a formal complaint. Once received, the insurance regulator will acknowledge the consumer's concerns and intervene on behalf of the consumer by sending the complaint to the insurer which is the subject of the complaint. The insurance regulator will require the insurer to respond within a set period of time and will assess whether the insurer is responsive to all issues raised, includes adequate documentation to support the insurer's position, the insurer's actions are appropriate from a business practice standpoint, the insurer's actions comply with all applicable statutes, and all appropriate remedies for the consumer are identified.
19.12	The supervisor requires insurers and intermediaries to have policies and procedures for the protection and use of information on customers.
19.12	**States:** Insurance regulators require insurers and intermediaries to implement comprehensive written information security programs that include administrative, technical and physical safeguards for the protection of customer information. Such a program should be designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of the information; and protect against unauthorized access to or use of the information that could result in substantial harm or inconvenience to any customer. The NAIC *Insurance Information and Privacy Protection Act* establishes standards for the collection, use and disclosure of information gathered in connection with insurance transactions by insurers and intermediaries. The NAIC *Standards for Safeguarding Customer Information Model Regulation* establishes

	standards for implementing administrative, technical and physical safeguards to protect the security, confidentiality and integrity of insurance consumers. The NAIC *Privacy of Consumer Financial and Health Information Regulation* governs the treatment of nonpublic personal information about individuals held by insurers and intermediaries. The Privacy Act of 1974 establishes a code of fair information practices that governs the collection, maintenance, use, and dissemination of information about individuals that is maintained in systems of records by federal agencies. The Health Insurance Portability and Accountability Act (HIPAA) of 1996 sets standards on how health insurance companies are required to protect Personally Identifiable Information. The Fair Credit Reporting Act (FCRA) promotes the accuracy, fairness, and privacy of consumer information contained in the files of consumer reporting agencies. Pursuant to the FCRA, an insurer must provide insurance consumers a notice of an "adverse action," such as a denial of insurance coverage, if the action is based upon information in a consumer report.
19.13	The supervisor publicly discloses information that supports the fair treatment of customers.
19.13	**<u>States:</u>** Insurance regulators undertake a number of supervisory activities and consumer education initiatives to support the fair treatment of customers. Insurance regulators track unlawful unauthorized insurance activity, issue warnings to the public to be wary of those engaged in these activities, and take enforcement action, such as cease and desist orders, to stop them. The NAIC's Consumer Insurance Search provides consumers web-based access to key information about insurance companies, including closed insurance complaints, licensing information, and key financial data. In addition, consumers can access individual state insurance departments from the Consumer Insurance Search to obtain information on enforcement actions and closed market conduct examination reports. Insurance regulators maintain consumer information on their web sites, develop consumer brochures, and conduct in-person consumer outreach. The NAIC has conducted a national consumer educational campaign on fake insurance plans and created a program entitled Insure U, which is specifically designed to provide consumers with the knowledge needed to make wise buying decisions.
Comments	*Additional comments that are not captured in responses to each standard*
ICP 23	**Group-wide Supervision**
23	The group-wide supervisor, in cooperation and coordination with other involved supervisors, identifies the insurance group and determines the scope of group supervision.
23	**<u>States:</u>** The framework for group-wide supervision within the state-based system of regulation is set forth in the Insurance Holding Company System Regulatory Act (#440), the Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (#450), the Model Law on Examinations (#390) and other NAIC tools. These NAIC models and tools, along with individual state laws and regulations establish the guidance for the analysis of insurance holding company systems. This includes a risk-focused approach to group regulation where specific risks that are germane to most insurance holding company structures are

	addressed directly through regulation, while other more broad-based risks are addressed in the supervision review process.The approach to Group-Wide Supervision is further detailed in the NAIC's Financial Analysis Handbook, which is required to be used by all states under the NAIC's Accreditation Program. The Handbook contains over 100 pages of Group-Wide Supervision procedures and related explanations to be used by the lead state. Model #440 defines the scope of group-wide regulation by defining specific important terms such as the insurance holding company system, an affiliate, and control. These are important terms as they are used to define the scope of the group being the ultimate controlling person or entity, and all of its direct and indirectly controlled subsidiaries. These definitions also consider the extent to which there is either direct or indirect participation in the group, influence and contractual obligations that suggest there is control or influence over the group. Consequently, group-wide regulation and supervision includes all insurers, all operating and non-operating holding companies, non-regulated entities and special-purpose entities. It also includes other regulated entities such as banks, utilities or securities companies. In all cases, the lead state would need to understand all such entities and the risks that such entities pose to the insurer or group as a whole. However, with respect to the other regulated entities, The Handbook discusses that the lead state's role is to establish a plan for communicating and coordinating with the functional regulator as well as other supervisors (e.g., international insurance regulators), if significant events, material concerns, adverse financial condition or prospective risks are identified. The Handbook defines the process for determining the lead state, which is also outlined in the 2014 version of Model #440, and goes on to explain the roles and responsibilities of the lead state. **FRB:** The FRB is the supervisor for U.S. BHCs—including financial holding companies (FHCs)—and for SLHCs and any nonbank financial companies designated by the Financial Stability Oversight Council. The relevant governing statutes include the BHC Act, the Gramm-Leach-Bliley Act, the Dodd-Frank Act, and HOLA, which governs SLHCs. Regulations implementing those statutes include the Federal Reserve's Regulation Y (12 CFR Part 225) and Regulation LL (12 CFR Part 238), among others. Consolidated supervision responsibility, particularly from the resolution perspective, also is derived from Title I of the Dodd-Frank Act. All BHCs (including FHCs) and SLHCs (collectively referred to as holding companies) and any designated nonbank financial companies are subject to supervision by the FRB on a consolidated basis. Consolidated supervision encompasses the parent company and its subsidiaries, and allows the FRB to understand the organization's structure, strategy, activities, resources, risks, and financial and operational resilience. Working with other domestic and foreign supervisors and regulators, the FRB seeks to ensure that financial, operational, or other deficiencies are addressed before they pose a danger to the consolidated organization, its banking offices (as applicable), or the broader economy. For SLHCs that are or control insurance companies and any designated nonbank financial companies, additional rule-making and supervisory guidance/procedures are under development to provide for full implementation of the consolidated supervision programs for these entities.
23.1	The group-wide supervisor, in cooperation and coordination with other involved supervisors, identifies all legal entities that are part of the insurance group.
23.1	**States:**

	See response to 23; as described above, all of the legal entities controlled by the ultimate controlling party of the insurance holding company system, are defined as part of the insurance group under the provisions of Model #440. **FRB:** All holding companies and designated nonbank financial companies are subject to supervision by the FRB on a consolidated basis. Consolidated supervision encompasses the parent company and its subsidiaries and allows the FRB to understand the organization's structure, strategy, activities, resources, risks, and financial and operational resilience. Working with other domestic and foreign supervisors and regulators, the FRB seeks to ensure that financial, operational, or other deficiencies are addressed before they pose a danger to the consolidated organization, its banking offices (as applicable), or the broader economy. For SLHCs that are or control insurance companies and any designated nonbank financial companies, additional rule-making and supervisory guidance/procedures are under development to provide for full implementation of the consolidated supervision programs for these entities.
23.2	The group-wide supervisor, in cooperation and coordination with other involved supervisors, determines the scope of group-wide supervision.
23.2	**States:** See response to 23; as described above, all of the legal entities controlled by the ultimate controlling party of the insurance holding company system, are defined as part of the insurance group under the provisions of Model #440. **FRB:** All holding companies and designated nonbank financial companies are subject to supervision by the FRB on a consolidated basis. Consolidated supervision encompasses the parent company and its subsidiaries and allows the FRB to understand the organization's structure, strategy, activities, resources, risks, and financial and operational resilience. Working with other domestic and foreign supervisors and regulators, the FRB seeks to ensure that financial, operational, or other deficiencies are addressed before they pose a danger to the consolidated organization, its banking offices (as applicable), or the broader economy. For SLHCs that are or control insurance companies and any designated nonbank financial companies, additional rule-making and supervisory guidance/procedures are under development to provide for full implementation of the consolidated supervision programs for these entities. The FRB conducts continuous monitoring activities to understand and assess each holding company's and any designated nonbank financial company's cross-border strategy, trends, and legal entity structure and related governance, risk management, and internal controls. For a holding company or any designated nonbank financial company with international operations or risks, the firm's ability to assess and oversee its cross-border operations is incorporated into the evaluation of key corporate governance functions and primary firm-wide risk management and internal control functions, including legal and regulatory risk management. In addition, the FRB reviews materials prepared by host country supervisors, including examination reports and assessments, and conducts ongoing communications with involved foreign and domestic supervisors regarding trends and assessment of cross-border operations. These continuous monitoring activities are supplemented, as appropriate, by examination activities to understand and assess the holding company's or any designated nonbank financial company's cross-border strategy, activities, risks, trends, and legal entity structure and related governance, risk management, and internal controls.

	The supervisory approach is tailored to the size, complexity, and risks of the firm. For the largest BHCs and FBOs and for any designated nonbank financial companies, the FRB uses a range of supervisory activities to maintain a comprehensive understanding and assessment of each firm. These include coordinated horizontal reviews involving the examination of several institutions simultaneously, encompassing firm-specific supervision and the development of cross-firm perspectives. Firm-specific examination and continuous monitoring activities are undertaken to maintain an understanding and assessment across the core areas of supervisory focus for each firm. For insurance and commercial SLHCs and any designated nonbank financial companies, additional rule-making and supervisory guidance/procedures are under development to provide for full implementation of the consolidated supervision programs for these entities.
23.3	The Group-wide supervisor and other Involved supervisors do not narrow the identification of the Insurance Group or the scope of Group-wide supervision due to lack of legal authority or supervisory power over particular legal entities.
23.3	**<u>States:</u>** See response to 23; as described above, all of the legal entities controlled by the ultimate controlling party of the insurance holding company system are defined as part of the insurance group under the provisions of Model #440. Additionally, the NAIC is currently in the process of developing a group capital calculation (GCC) which aggregates the capital requirements for regulated entities and capital factors for non-regulated entities that have a <u>material risk</u> to the insurance group. As such, it does contemplate excluding entities from the broader group, but only when considered to not pose a material risk to the insurance group. This doesn't reduce the scope of the group for group supervision, but is used for purposes of determining the entities including in the GCC. **<u>FRB:</u>** All holding companies and any designated nonbank financial companies are subject to supervision by the FRB on a consolidated basis. Consolidated supervision encompasses the parent company and its subsidiaries, and allows the FRB to understand the organization's structure, strategy, activities, resources, risks, and financial and operational resilience. Working with other domestic and foreign supervisors and regulators, the FRB seeks to ensure that financial, operational, or other deficiencies are addressed before they pose a danger to the consolidated organization, its banking offices, or the broader economy. For SLHCs that are or control insurance companies and any designated nonbank financial companies, additional rule-making and supervisory guidance/procedures are under development to provide for full implementation of the consolidated supervision programs for these entities.
Comments	*Additional comments that are not captured in responses to each standard*
	<u>States:</u> While ICP 23 focuses on Group-Wide Supervision from the perspective of determining the scope of the group, the following provides further context for how the states approach group supervision more generally: • Assessment on the financial condition of the group. This assessment is required to be summarized by the lead state in the form of a Group Profile Summary (GPS), and shared with all of the domestic states within the group by Oct. 31 each year under the requirements of the Accreditation Program. • The GPS template provides among other things, the identification and/or description of

	a) the ultimate controlling person; b) the organizational structure generally; c) business segments; d) material insurance entities and jurisdictions; e) material IGTs; f) material non-insurance entities; g) corporate governance summary; h) enterprise risk management summary; i) heat map and assessment of the 9 NAIC branded risks to the group (credit, legal, liquidity, market, operational, pricing/underwriting, reputation, reserving, strategic); j) the supervisory plan for the group. From this perspective, the GPS is intended to provide both a general analysis of the group and a quantitative analysis of the group. • Many lead states will utilize the Insurance Profiling Summary (IPS) from each of the domestics in completing the GPS. While the IPS generally will not discuss each of the IGTs, it does focus on material risks and where concerns regarding IGTs exist, they would be documented in the IPS. • Quantitative analysis is provided to the GPS through the Own Risk and Solvency Assessment (ORSA), which is required by all States under the Accreditation Program, and for all companies/groups with more than $500 million in premium/$1 billion respectfully. More specifically, this requires the annual ORSA Summary Report, which among other things requires disclosure of 1) Description of the Risk Management Framework 2) Assessment of Risk Exposures 3) Group Assessment of Group Capital and Prospective Solvency Assessment. The states utilize a format to summarize the outputs from the ORSA to share with each other and to serve as an input in the IPS. The outputs can include discussions on the need for the group to better address its risks as a means to reduce the internal capital requirements on the group, which is clearly the more common output of an ORSA as opposed to a capital add-on. While the ORSA Guidance Manual does not require IGTs to be specifically identified within the ORSA Summary Report, it does require the report to discuss the group's approach and assessment to group-wide capital adequacy and specifically consider the elimination of intra-group transactions and double gearing where the capital is used simultaneously as a buffer against risk in two or more entities. Confirmation of material controls is commonly verified on Exam. • Additionally, Model 440/Model 450, and more specifically the Form B, which requires financial statements of the group, including all affiliates, as an input into providing a quantitative analysis of the group.

	• **Qualitative analysis** is provided by various means as well including through the output of the annual Form F **Enterprise Risk Report of the ultimate controlling party and the entire group. This** requires the group to summarize its enterprise risks of the group to the lead state, provides some quantitative information about the group, but its primary value is generally the **qualitative analysis** on sources of enterprise risk within the group. • Similarly, Model 305/306 requires the **Corporate Governance** Annual Disclosure to provide **qualitative analysis** on governance. This report contains the following: 1) corporate governance framework and structure; 2) policies and practices of the most senior governing entity and significant committees thereof; 3) policies and practices used for directing Senior Management; 4) the group's plans for CEO and Senior Management succession; 5) the processes by which the Board, its committees and Senior Management ensure an appropriate amount of oversight to the critical risk areas impacting the insurer's business activities. • Finally, and most importantly Section 6 of Model 440 gives the Commissioner the authority to **examine any insurer and its affiliates to ascertain the financial condition of the insure**r. • This includes the **enterprise risk to the insurer by the ultimate controlling party, or by any entity or combination of entities** within the insurance holding company system, or by the insurance holding company system on a consolidated basis. • This includes requiring the group to produce such **records, books**, or other information papers in the possession of the insurer and its affiliates. • An **examination of books and records also includes** interviews with key personnel, review of procedures and processes and internal reports on controls or control weaknesses (e.g. internal audit reports). • Most important is that this Section 6 authority gives the Commissioner power to request reporting on any group information that is used by the group, or explanation of issues. This is intended to include not only financial information, but any information in possession of the group. From this standpoint, the examination is intended to consider how controls of the group are working cooperatively in a manner that is intended to ensure that risk management/controls are working in a manner as designed by the group. While IGTs are generally not specifically targeted as key controls, controls over risk management through mitigations such as risk appetites/risk limits are often part of what is tested during the on-site examination, where supporting inquiries can be performed to ascertain that procedures are carried out. The risk factors considered during the ERM assessment often is driven from validation requested from the ORSA review. • While not all controls are tested during an examination, some assurances are provided more indirectly through the work performed by the independent auditor.
ICP 24	**Macroprudential Surveillance and Insurance Supervision**

24	The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilise information from, and insights gained by, other national authorities.
24	**States:** States monitor trends in the marketplace and among individual insurers, and have mechanisms specifically focused on the sharing of that information across state insurance departments. State regulators also rely on consultations with other financial regulators in the United States to stay current. The NAIC's Financial Regulatory Services and Capital Markets Bureau are specifically charged with monitoring, gathering and producing data (public reports such as Industry Commentaries, Snapshots, CMB Hot Spots, etc.) on insurer activities and giving careful consideration to broader market factors that could have an impact on insurers, individually, as a group, or as an industry. Relevant data is made readily available through regulator-only technology tools. However, before doing so, it is commonly shared with the Financial Analysis Working Group (FAWG), who produces a regulatory only Risk Alert twice a year designed to keep regulators up to date on material and emerging risks based upon both NAIC data and what is being witnessed by FAWG members in their own states and/ or seen in reporting to those states (e.g. ORSA reports, Form Fs, Supervisory Colleges, etc.). Those issues that are capital markets related are also shared with the Valuation of Securities Task Force. Additionally, state insurance regulators participate in relevant IAIS workstreams such as the KIRT and GIMAR. Lessons learned from these various discussions are not only included in Risk Alerts, but also shared in other regular meetings and conference calls such as the Chief Financial Regulator Forum. In addition to existing NAIC committees charged with monitoring individual issues that may have macro-prudential import, the NAIC's Financial Stability Task Force (FSTF) is working to enhance the macroprudential toolkit of state insurance regulators. The Macro Prudential Initiative (MPI) addresses four focus areas: 1) developing a liquidity stress testing framework for material life insurance groups, including enhancing disclosures to better assess products with higher liquidity risk potential; 2) capital stress testing to be addressed as part of the NAIC group capital calculation; 3) reviewing existing recovery and resolution processes and disclosures to identify any enhancement needs; and 4) determining if there are material gaps in existing counterparty exposure disclosures. State regulators through Financial Stability Oversight Council (FSOC), will work to ensure these initiatives dovetail with the developing system-wide macroprudential surveillance processes such as the activities-based approach guidance for the Financial Stability Oversight Council (FSOC). **FRB:** One key feature of the Dodd-Frank Act is its use of macroprudential regulation. For example, the Dodd-Frank Act established the FSOC, which is tasked with promoting a more comprehensive approach to monitoring and mitigating systemic risk. National authorities share views at FSOC on emerging risks and publish a summary of these to the public. Individual supervisory authorities consider these risks as part of their supervision. After the crisis, the FRB created the Division of Financial Stability (FS) to help the FRB more effectively monitor the financial system and develop policies for mitigating systemic risks. FS coordinates and analyzes information bearing on financial stability from a wide range of perspectives and to place the supervision of individual institutions within a broader macroeconomic and financial context. **FIO:** At this time, FIO provides surveillance and monitoring of the insurance industry and its regulation, pursuant to its authorities under Title V of the Dodd-Frank Act. FIO is authorized "to monitor the extent to which

	traditionally underserved communities and consumers, minorities . . . and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance." 31 U.S.C. § 313(c)(1)(B). FIO is also authorized "to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the United States financial system." 31 U.S.C. § 313(c)(1)(A). FIO also contributes to the financial stability of the insurance sector and the U.S. financial system as a part of its role serving on and working in support of the FSOC. Relatedly, FIO analyzes market and financial information as part of its authority "to recommend to the [FSOC] that it designate an insurer, including the affiliates of such insurer, as an entity subject to regulation as a nonbank financial company supervised by the [FRB] pursuant to title I [of the Dodd-Frank Act]." 31 U.S.C. § 313(c)(1)(C). FIO also analyzes market and financial information as part of its authority to recommend, along with the FRB and in consultation with the FDIC, that the Secretary of the Treasury (in consultation with the President) make a systemic risk determination, pursuant to statutorily prescribed criteria, to place an insurer or a holding company for which the largest U.S. subsidiary is an insurer into receivership. See 12 U.S.C. § 5383(a)(1)(C). Additionally, FIO contributes to the analysis and identification of financial stability matters in connection with its role representing the United States in the IAIS, which is committed to global financial stability. See 31 U.S.C. § 313(c)(1)(E). FIO's work with the IAIS includes its role on the IAIS's Financial Stability Committee. Finally, FIO monitors and analyzes the insurance sector and tracks developments in the insurance market in order to research, write, and publish its annual reports and special reports. See 31 U.S.C. §§ 313(n)-(p). FIO maintains relationships with authorities from the U.S. federal government, the states, and other countries.
24.1	The supervisor identifies underlying trends within the insurance sector by collecting data on, but not limited to, profitability, capital position, liabilities, assets and underwriting, to the extent that it has information available at the level of legal entities and groups. The supervisor also develops and applies appropriate tools that take into account the nature, scale and complexity of insurers, as well as non-core activities of insurance groups, to limit significant systemic risk.
24.1	**<u>States:</u>** U.S. insurance companies are required to file their quarterly and annual financial statements with the NAIC. There is a wealth of granular data on the activities of each insurance legal entity stored historically in the NAIC's Financial Data Repository. This can be manipulated and analyzed to track trends on issues as they come to light. Following the recent financial crisis, resources and tools have been added or enhanced to support state insurance regulators in their focus on potential systemic issues. The NAIC monitors the capital markets and analyzes insurer exposures across the different asset classes and investment practices. Distinctions are noted for different insurer types and different sizes of companies, given different liability and liquidity needs. This analysis has been important in focusing the dialogue with insurers about their risk management practices. Risk focused surveillance has taken on increased emphasis with additional resources dedicated to group issues and prospective risks. **<u>FRB:</u>** The FRB has several group-wide information collections relating to supervised insurance institutions. Because the FRB only supervises a relatively small percentage of the population, data on the insurance sector for supervisory purposes is primarily obtained from filings submitted to other regulators. The FRB has used this data to develop a set of monitoring metrics that are tied to the way insurers can transmit systemic risk that are similar to what the IAIS is attempting to put together as part of its proposed holistic framework. The FRB's supervision uses appropriate tools to limit systemic risk. Due to insurers' large holdings of illiquid assets, asset liquidations are a primary way that insurers could transmit systemic risk. Because all insurers

	supervised by the FRB also conduct banking business, the FRB's supervision builds on the BCBS's core principles for liquidity supervision and the standards being considered by the IAIS as part of the holistic framework. **FIO:** In conducting the monitoring addressed in the response to ICP 24, FIO identifies underlying trends in the insurance sector. With regard to the FSOC's work, FIO and the other members of the FSOC have developed a rule and interpretive guidance describing the three-stage process of how the FSOC would evaluate a nonbank financial company based upon the standards set forth in the Dodd-Frank Act. See 12 CFR Part 1310. In Stage 1, the FSOC applies uniform quantitative thresholds to identify nonbank financial companies for further evaluation. In Stage 2, the FSOC analyzes the nonbank financial companies identified in Stage 1 using a broad range of information available to the FSOC primarily through existing public and regulatory sources. In Stage 3, the FSOC contacts each nonbank financial company that the FSOC believes merits further review to collect information directly from the company not otherwise available in the prior stages. Each nonbank financial company that is reviewed in Stage 3 is notified that it is under consideration and is provided an opportunity to submit written materials related to the FSOC's consideration of the company for a proposed designation.
24.2	The supervisor, in performing market analysis, considers not only past developments and the present situation, but also trends, potential risks and plausible unfavourable future scenarios with the objective and capacity to take action at an early stage, if required.
24.2	**States:** In addition to the ongoing attention of financial analysts and examiners at state insurance departments, staff at the NAIC monitor company financial solvency and industry performance. This often identifies macro issues that are researched and communicated broadly to state insurance regulators for them to consider if action should be taken on specific companies related to the issue. The analysis also extends to industry-wide results for the different insurance segments, with the results being communicated through semi-annual reports to each state insurance department. Ad hoc queries are also performed to identify emerging risks and trends. The NAIC's Financial Regulatory Services group has focused on and worked with state insurance regulators on broad issues such as the state of the reinsurance market, reinsurance companies, and the impact of alternative capital through insurance linked securities. Given some of the experiences related to the financial crisis, the group also focused attention on different ways that an insurer's assets could be restricted for more general use. For example, assets can be pledged as collateral for different types of transactions. The NAIC's Capital Markets Bureau monitors activity specifically as it may relate to or have an impact on the investments or investment practices of insurers. Information is communicated both generally and on a confidential basis to state insurance regulators. Examples of areas of specific focus since the financial crisis include securities lending, various aspects of structured securities, derivatives use, reliance on external asset managers, commercial real estate exposure or for example the recent problems with a California utility company and the impact of that on the industry. Again, all of this is performed to identify if any issues exist that state regulators should consider addressing by taking action on specific companies related to the issue. **FRB:** The FRB actively monitors potential risks to the financial system. This analysis is informed by our market-wide stress tests of bank holding companies. A yearly report to Congress details what the FRB sees as potential

	risks to financial stability. The FRB proactively works to mitigate potential systemic risk at an early stage through a variety of tools. **<u>FIO:</u>** When engaged in the surveillance and monitoring of the insurance sector addressed in ICP 24, FIO considers past and present situations and potential future trends and risks.
24.3	The supervisor performs both quantitative and qualitative analysis and makes use of both public and other sources of information, including horizontal reviews of insurers and relevant data aggregation.
24.3	**<u>States:</u>** Supervisors regularly perform quantitative analysis relying on guidance in the Financial Analysis and Examiner's Handbooks to ensure consistency in approach across insurers. Qualitative considerations are handled on a case-by-case basis, depending on the type and size of insurer, and the insurer's historical experience. Aggregated data as benchmarks are provided by the NAIC, using the financial statement data submitted by all insurers. Input into those processes include an annual evaluation of Own Risk and Solvency Assessment (ORSA) reports. This report allows regulators to have greater access to information from insurers regarding how they manage their most significant solvency risks, including identification, monitoring and mitigation. As noted, the information gathered has provided a feedback loop into the states processes using the Risk Alerts. **<u>FRB:</u>** Insurers supervised by the FRB are subject to horizontal reviews. **<u>FIO:</u>** FIO employs both quantitative and qualitative analysis, using public and non-public data, in conducting the oversight functions addressed in FIO's response to ICP 24.
24.4	The supervisor uses market-wide data to analyse and monitor the actual or potential impact on the financial stability of insurance markets in general and of insurers in particular and takes appropriate action. The supervisor also makes sufficiently detailed aggregated market data publicly available.
24.4	**<u>States:</u>** With the detailed information received, the NAIC tracks key market trends across the entire industry and the different insurer types. Important solvency and profitability metrics are shared on a regular basis with the NAIC Financial Analysis Working Group. Particular attention is paid to nationally significant insurers. While individual company information that could be deemed confidential is discussed in regulator-to-regulator sessions, broader issues are generally brought up during open meetings and conference calls. Industry-wide information is made publicly available through a variety of different venues, including Capital Markets Special Reports and publications of the Center for Insurance Policy and Research (CIPR). CIPR provides research and education to drive discussion and advance thought leadership as well as action on current and emerging insurance issues amongst insurance commissioners, policymakers, industry, and academics. The CIPR was formed in 2009 to leverage the resources of NAIC departments in order to support the collection and dissemination of information and analysis. CIPR holds four regular conferences annually addressing broad market issues. CIPR publishes a quarterly newsletter which provides information on regulatory activities, key issues, and trends affecting the insurance industry, such as life-insurer owned

	captives and longevity risk. CIPR has also published white papers on a variety of topics, including the state of the life insurance industry and policy considerations for financing home ownership. In addition, CIPR maintains numerous issue briefs on their website that explain complex insurance issues and link to relevant state insurance supervisor activity. **<u>FRB:</u>** As discussed in previous questions, the FRB engages in a significant amount of systemic risk analysis. The FRB makes aggregated data available in various ways. The FRB publishes a yearly report on Financial Stability and another on Supervision and Regulation. Additionally, most of the Board's information collections are accessible to the public. **<u>FIO:</u>** As explained in its response to ICP 24, FIO's authority related to financial stability is four-fold. First, FIO has authority to monitor the stability of the insurance sector as part of its overall surveillance role. Second, FIO has authority to analyze the stability of the insurance sector and the overall U.S. financial system through its role serving on and supporting the work of the FSOC. Third, FIO has authority to assess the stability of particular insurers in determining whether to recommend a firm for designation by the FSOC or for the Secretary of the Treasury to make a systemic risk determination as to an insurer or a holding company for which the largest U.S. subsidiary is an insurer and seek the appointment of a receiver. Fourth, FIO has authority to assess financial stability as part of its work with the IAIS. In each of these work streams, FIO uses aggregated market-wide data to monitor overall financial stability and the stability of particular insurers. While some confidential data cannot be shared, FIO publishes considerable aggregated data in its statutorily-mandated annual reports.
24.5	The supervisor assesses the extent to which macro-economic vulnerabilities and financial market risks impinge on prudential safeguards or the financial stability of the insurance sector.
24.5	**<u>States:</u>** As industry-wide issues are identified, the impact of these issues is considered in developing enhancements to the U.S. solvency monitoring framework. This includes modifications to risk-based capital charges, accounting and reporting requirements and recommended exam/analysis procedures. The regulatory framework is dynamic, constantly evolving to address emerging issues. Additional disclosures are regularly adopted to better assess the materiality of exposures to the industry as a whole, different segments of the industry, or individual companies. Where the exposure or the risk is deemed material, modifications can be made to capital and reserving requirements. Also, additional guidance is provided for in the financial analysis and examiners handbooks. The Financial Analysis Working Group has, as part of its charge, the responsibility of analyzing nationally significant insurers and groups that exhibit characteristics of trending toward or being financially troubled; and determining if appropriate action is being taken by the state of domicile. It also supports, encourages, promotes, and coordinates multi-state efforts in addressing solvency problems, including identifying adverse industry trends. Where appropriate, it coordinates and consults other regulatory bodies. Various committees at the NAIC, such as the Life Insurance and Annuities Committee or the Financial Condition Committee have responsibility for monitoring broader issues, including the evolution of products, lines of business, or investment practices. **<u>FRB:</u>** The FRB monitors insurers' connections with financial markets and the real economy. FRB economists have published research pieces on these topics.

	FIO: In its financial stability oversight role, addressed in its responses to ICP 24 and ICP/Std. 24.4, FIO assesses how macro-economic vulnerabilities and financial market risks impact the stability of the insurance sector and prudential safeguards.
24.6	The supervisor has an established process to assess the potential systemic importance of insurers, including policies they underwrite and instruments they issue in traditional and non-traditional lines of business.
24.6	**States:** The Financial Analysis Working Group has, as part of its charge, the responsibility of analyzing nationally significant insurers and groups that exhibit characteristics of trending toward or being financially troubled; and determining if appropriate action is being taken by the state of domicile. It also supports, encourages, promotes, and coordinates multi-state efforts in addressing solvency problems, including identifying adverse industry trends. Where appropriate, it coordinates and consults other regulatory bodies. Various committees at the NAIC, such as the Life Insurance and Annuities Committee or the Financial Condition Committee have responsibility for monitoring broader issues, including the evolution of products, lines of business, or investment practices. Established by the Dodd-Frank Act, the Financial Stability Oversight Council (FSOC) has authorities to identify and monitor potential threats to the financial stability of the United States including those that may emanate from or impact the insurance sector. The FSOC has the authority to designate non-bank financial institutions including insurance companies for enhanced supervision by the Federal Reserve whose activities or material financial distress may pose a threat to the financial stability of the United States. The FSOC currently has a three stage process for evaluating firms for designation but has proposed amending that process. Proposed changes include truncate the designation process into two stages, providing more transparency into the nature of the actions that could lead to having a designation rescinded, analyzing the likelihood of a firm's financial distress, and incorporating a cost-benefit analysis. As part of that proposal, the FSOC has also indicated its intent to prioritize activities based approaches to identify systemic risk, and working with regulators to address those risks on a sector-wide basis prior to designating individual firms for enhanced supervision. The NAIC has established a Financial Stability Task Force charged with monitoring systemic and macroprudential risks in the insurance sector. It is envisaged that the FSTF will also discuss and work to address any insurance sector related risks the FSOC identifies through its implementation of the activities based approach. The Financial Stability Task Force is currently working on the development of a liquidity Stress test for large life insurance companies with material exposures to 6 key activities with higher liquidity risk and evaluating whether additional disclosures regarding insurance counterparty exposures are necessary. **FRB:** The systemic importance of insurers is assessed through FSOC. The FRB's chair is a voting member of FSOC. In this role, the Chair is supported by the FRB's Division of Financial Stability and other FRB staff to arrive at a view of whether particular insurers are systemically important. **FIO:** FIO assesses the systemic importance of insurers as part of its monitoring authority under 31 U.S.C. § 313(c)(1)(a) and pursuant to its role serving on and supporting the work of the FSOC. In doing so, FIO considers various aspects of those insurers, including lines of business and underwriting practices. Also, FIO

	assesses insurers' global systemic importance through its work with the IAIS, including its in work streams related to the development of the Holistic Framework.
24.7	If the supervisor identifies an insurer as systemically important, it develops an appropriate supervisory response, which is commensurate with the nature and degree of the risk.
24.7	**States:** The state regulatory authority is not limited to systemic risk and the state may take action over any insurer based upon its risk profile. To facilitate this type of action, activities of insurers or groups of insurers that raise concerns of the potential for negative impacts are discussed at various levels within the NAIC committee structure (including the Financial Analysis Working Group and Valuation Analysis Working Group) so that information can be shared as widely among regulators as possible and appropriate action can be taken either at the company level or across the regulatory framework. It is not unusual for the Financial Analysis Working Group and Valuation Analysis Working Group to make referrals to other NAIC groups to make policy changes. The NAIC structure also lends itself to a high degree of peer review. Smaller issues can often be addressed by increased disclosure and monitoring. Larger issues may lead to an increased dialogue among regulators so that appropriate action can be taken. That dialogue could result in modifications to the regulatory framework to address the specific issue and risk. Additionally, a state insurance commissioner representative sits on the FSOC, and he or his staff participate in FSOC committee and working group meetings. While confidentiality rules severely limit the ability to share discussions specific to the work of FSOC as it relates to individual insurers, the NAIC also participates actively in other aspects, including the Systemic Risk Committee. That work has not only led to heightened debate on issues at the NAIC, but has also provided a means for the NAIC to express its views on activities that could impact insurers. **FRB:** The FRB does not presently supervise any nonbank financial companies designated as systemically important by the FSOC. **FIO:** FIO may recommend that an insurer be designated by the FSOC, 31 U.S.C. § 313(c)(1)(C), which will formally evaluate whether that insurer should be subject to FRB supervision and enhanced prudential standards. Additionally, pursuant to its authority under Title II, FIO and the FRB (in consultation with the FDIC) may recommend that the Secretary of the Treasury (in consultation with the President) make a systemic risk determination, pursuant to statutorily prescribed criteria, to place an insurer or a holding company for which the largest U.S. subsidiary is an insurer into receivership. Finally, pursuant to its authority to monitor the insurance industry and its regulation, to the extent that FIO identifies regulatory gaps and/or systemic risk, FIO may make recommendations.
Comments	*Additional comments that are not captured in responses to each standard*

UNITED STATES

September 10, 2019

DETAILED ASSESSMENT OF IMPLEMENTATION

SELF-ASSESSMENT

SELECTED DRAFT INSURANCE CORE PRINCIPLES

Prepared By

Monetary and Capital Markets Department

The template was prepared in the context of an IMF Financial Sector Assessment Program (FSAP) mission in the United States in October 2019–March 2020 led by Michaela Erbenova, IMF and overseen by the Monetary and Capital Markets Department, IMF. Further information on the FSAP program can be found at http://www.imf.org/external/np/fsap/fssa.aspx

CONTENTS

I. INTRODUCTION

Jurisdiction:	United States of America
Authority(ies):	Federal Insurance Office; Board of Governors of the Federal Reserve System, and insurance regulators for the 50 states, the District of Columbia, and 5 territories

1. This self-assessment questionnaire has been prepared with reference to the *Revisions to IAIS supervisory material,* which was published by the IAIS for consultation on 14 June 2019.

2. **<u>Disclaimer:</u> This section of the self-assessment covers a subset of Draft Principles deemed relevant for the scope of the 2020 United States FSAP exercise comprising the revised but not yet adopted Draft Principles 24 and 25.**

II. DETAILED QUESTIONAIRE

Draft ICP 24 as at June 14, 2019	**Macroprudential Surveillance and Insurance Supervision**
24	The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and the insurance sector, uses this information to identify vulnerabilities and address, where necessary, the build-up of systemic risk at the individual insurer and at the sector-wide level.
24	**States:** State regulators monitor trends in the marketplace and among individual insurers, and have mechanisms specifically focused on the sharing of that information across state insurance departments. State regulators also rely on consultations with other financial regulators in the United States to stay current. The NAIC's Financial Regulatory Services and Capital Markets Bureau are specifically charged with monitoring, gathering and producing data (e.g., public reports such as Industry Commentaries, Snapshots, Risk Alerts, CMB Hot Spots, etc.) on insurer activities, giving careful consideration to broader market factors that could have an impact on insurers, whether individually, as a group, or as an industry. Relevant data is made readily available through regulator-only technology tools. However, before doing so, it is commonly shared with the Financial Analysis Working Group (FAWG), which produces a regulator-only "Risk Alert" twice a year designed to keep regulators up to date on material and emerging risks based upon both NAIC data and what is being witnessed by FAWG members in their own states and/ or seen in reporting to those states (e.g. via ORSA reports, Form Fs, Supervisory Colleges, etc.). Capital markets-related issues are also shared with the Valuation of Securities Task Force. Additionally, state insurance regulators participate in relevant IAIS projects. Lessons learned from these various discussions are not only included in Risk Alerts, but also shared in other regulator meetings and conference calls such as the Chief Financial Regulator Forum. The NAIC's Macro Prudential Initiative (MPI) addresses four focus areas: 1) developing a liquidity stress testing framework for material life insurance groups, including enhancing disclosures to better assess products with higher liquidity risk potential; 2) capital stress testing to be addressed as part of the NAIC group capital calculation; 3) reviewing existing recovery and resolution processes and disclosures to identify any enhancement needs; and 4) determining if there are material gaps in existing counterparty exposure disclosures. State regulators through the Financial Stability Oversight Council (FSOC), will work to ensure these

	initiatives dovetail with the developing system-wide macroprudential surveillance processes such as the FSOC's activities-based approach guidance. **FRB:** See response to ICP 24 in March 2019 self-assessment template.
24.1	The supervisor collects data necessary for its macroprudential supervision.
24.1	**States:** U.S. insurance companies are required to file their quarterly and annual financial statements with the NAIC which provide a wealth of granular data on the activities of each insurance legal entity stored historically in the NAIC's Financial Data Repository. **FRB:** See response to ICPs 24, 24.1, and 24.4 in March 2019 self-assessment template.
24.2	The supervisor, as part of its macroprudential supervision, performs analysis of financial markets and the insurance sector that: • is both quantitative and qualitative; • considers historical trends as well as the current risk environment; and • considers both inward and outward risks.
24.2	**States:** Data in the NAIC's Financial Data Repository can be manipulated and analyzed to track trends on issues as they come to light. State regulators utilize information developed by the NAIC for monitoring the financial and insurance markets. The NAIC's Financial Regulatory Services and Capital Markets Bureau are specifically charged with monitoring, gathering and producing data (e.g., public reports such as Industry Commentaries, Snapshots, Risk Alerts, CMB Hot Spots, etc.) on insurer activities as well as consideration of the financial markets and the impact they could have on insurers, whether individually, as a group, or as an industry. Following the last financial crisis, resources and tools were added or enhanced to support state insurance regulators in their focus on potential systemic issues. Specifically, the NAIC reorganized its NY office to form the Capital Markets Bureau, which monitors the capital markets and analyzes insurer exposures across the different asset classes and investment practices. Distinctions are noted for different insurer types and different sizes of companies, given different liability and liquidity needs. This analysis has been important in focusing the dialogue with insurers about their risk management practices. Risk-focused surveillance has taken on

	increased emphasis with additional resources dedicated to group issues and prospective risks. **FRB:** See response to ICPs 24.2 and 24.3 in March 2019 self-assessment template.
24.3	The supervisor has an established process to assess the potential systemic importance of individual insurers and the insurance sector.
24.3	**States:** The NAIC Financial Analysis Working Group has, as part of its charge, the responsibility of analyzing nationally significant insurers and groups that exhibit characteristics of trending toward or being financially troubled; and determining if appropriate action is being taken by the state of domicile. The Working Group also supports, encourages, promotes, and coordinates multi-state efforts in addressing solvency problems, including identifying adverse industry trends. Where appropriate, it coordinates and consults other regulatory bodies. Established by the Dodd-Frank Act, the Financial Stability Oversight Council (FSOC) has authorities to identify and monitor potential threats to the financial stability of the United States including those that may emanate from or impact the insurance sector. The FSOC has indicated its intent to prioritize activities-based approaches to identify systemic risk, and to work with regulators to address those risks on a sector-wide basis prior to designating individual firms for enhanced supervision. The NAIC has established a Financial Stability Task Force (FSTF) charged with monitoring systemic and macroprudential risks in the insurance sector. It is envisaged that the FSTF will also discuss and work to address any insurance sector-related risks the FSOC identifies through its implementation of the activities-based approach. The FSTF is currently working on the development of a liquidity stress test for large life insurance companies with material exposures to 6 key activities with higher liquidity risk and evaluating whether additional disclosures regarding insurance counterparty exposures are necessary. **FRB:** See response to ICPs 24 and 24.6 in March 2019 self-assessment template.
24.4	The supervisor uses the results of its macroprudential supervision, and considers the potential systemic importance of insurers and the insurance sector, when developing and applying supervisory requirements.
24.4	**States:** Activities of individual insurers or groups of insurers that raise concerns of the potential for negative impacts are discussed at various levels within the NAIC

	committee structure so that information can be shared as widely among regulators as possible and appropriate action can be taken either at the company level or across the regulatory framework. The NAIC structure also lends itself to a high degree of peer review. Smaller issues can often be addressed by increased disclosure and monitoring. Larger issues may lead to an increased dialogue among regulators so that appropriate action can be taken. That dialogue could result in modifications to the regulatory framework to address the specific issue and risk. Additionally, a state insurance commissioner representative sits on the FSOC, and he/she or their staff participate in FSOC committee and working group meetings. While confidentiality rules severely limit the ability to share discussions specific to the work of FSOC as it relates to individual insurers, the NAIC also participates actively in other aspects, including the Systemic Risk Committee. That work has not only led to heightened debate on issues and to consideration of potential supervisory responses at the NAIC, but has also provided a means for the NAIC to express its views on activities that could impact insurers. **FRB:** See response to ICPs 24, 24.4, 24.5, and 24.7 in March 2019 self-assessment template
24.5	The supervisor publishes relevant data and statistics on the insurance sector.
24.5	**States:** Industry-wide information is made publicly available through a variety of different venues, including Capital Markets Special Reports, the annual Insurance Department Resources Report, and publications of the Center for Insurance Policy and Research (CIPR). CIPR provides research and education to drive discussion and advance thought leadership as well as action on current and emerging insurance issues amongst insurance commissioners, policymakers, industry, and academics. The CIPR was formed in 2009 to leverage the resources of NAIC departments in order to support the collection and dissemination of information and analysis. CIPR holds four regular conferences annually addressing a variety of insurance sector issues. CIPR publishes a quarterly newsletter which provides information on regulatory activities, key issues, and trends affecting the insurance industry. CIPR also publishes studies and white papers on a variety of topics. In addition, CIPR maintains numerous issue briefs on their website that explain complex insurance issues and link to relevant state insurance supervisor activity. **FRB:** See response to ICPs 24, 24.4, and 24.5 in March 2019 self-assessment template.
Comments	*Additional comments that are not captured in responses to each standard*

Draft ICP 25 as at June 14, 2019	**Supervisory Cooperation and Coordination**
25	The supervisor cooperates and coordinates with involved supervisors and relevant authorities to ensure effective supervision of insurers operating on a cross-border basis.
25	**States:** State insurance regulators believe that increased communication, coordination, and cooperation among regulators, such as through supervisory colleges, or other international fora, is vital to understanding risk trends that could impact domestic insurers and policyholders in an increasingly global insurance market. State insurance regulators engage in regulatory dialogues with jurisdictions from around the world relating to topics of mutual regulatory concern, and many states have bilateral agreements in place with jurisdictions from around the world relating to the exchange of confidential information. Many states are also either signatory authorities or have applied to become signatories of the IAIS MMoU with many more states considering applying. State insurance regulators have organized supervisory colleges for every U.S. insurer meeting the current definition of an IAIG developed by the IAIS, have participated in numerous supervisory colleges hosted by other jurisdictions that are IAIG group-wide supervisors, and have led or participated in colleges for other non-IAIG groups with international insurance operations. **FRB:** The FRB oversees regulation and supervision of firms supervised by the Federal Reserve System (FRB and Federal Reserve Banks). The day-to-day examination and supervision of firms is delegated to the Federal Reserve Banks. In examining insurers subject to Federal Reserve supervision, Federal Reserve Banks routinely coordinate and work with state insurance regulators through discussions and information-sharing on supervisory practices. FRB staff also meets regularly with the NAIC, state insurance regulators, and foreign regulators and supervisors, to discuss insurance-related issues. In addition, FRB staff consults with FIO on issues related to the FRB's supervisory framework, including insurance capital requirements and stress testing.

25.1	The supervisor discusses and agrees with the involved supervisors which of them is the group-wide supervisor for cross-border insurance groups operating in its jurisdiction.[6]
25.1	**<u>States:</u>** The NAIC Insurance Holding Company System Model Act (#440) Section 7 provides the commissioner with the authority to act as the group-wide supervisor of internationally active insurance groups (IAIG) and engage in group-wide supervision activities as outlined in the model. Further, the NAICs Financial Analysis Handbook has over 100 pages devoted to providing guidance on group-wide supervision. Among other things, it discusses the concept of determining the group-wide supervisor, which is largely consistent with the guidance included in the Handbook on determining the lead-state. This lead-state guidance has been in existence for over 20 years. **<u>FRB:</u>** Under U.S. law, the FRB is the consolidated supervisor of holding companies that control Federally-insured depository institutions and any nonbank financial companies designated for Federal Reserve supervision by the Financial Stability Oversight Council. When the FRB had authority to supervise certain systemically important insurance companies on a consolidated basis, the FRB and Federal Reserve Banks coordinated with supervised insurers' lead State supervisor. The FRB does not presently supervise any Internationally Active Insurance Groups.
25.2	As a group-wide supervisor, the supervisor: • understands the structure and operations of the insurance group; and • leads group-wide supervision, taking into account assessments made by the other involved supervisors.
25.2	**<u>States:</u>** The NAICs Accreditation Program requires holding company analysis to be completed by the lead-state annually and documented in the form of the NAIC Group Profile Summary (GPS). The NAIC's Financial Analysis Handbook, which discusses the group-wide supervisor's responsibilities, describes the various items to consider when completing the holding company analysis. Among other things, it specifically requires the lead state to review the insurance holding company system, and suggests the lead state consider obtaining the Insurance Profile Summary (IPS) from the domestic state (each holding company situation is

[6] In the response, please comment on determining a group-wide supervisor of an IAIG referring to CF25.0.a.1 for guidance

	different). The lead state may rely on work performed by an international regulator for this analysis, but if such reliance takes place, the lead state is still responsible for documenting and distributing to the other domestic states an analysis that considers the financial condition of the group, significant events, and any material strengths and weaknesses of the group. If material concerns exist, the lead state is responsible for notifying the other domestic states. The Handbook also gives guidance on inquiring, considering, and incorporating information from supervisory colleges or other non-U.S. regulators into the GPS. **FRB:** In its role as consolidated supervisor of certain insurance groups, the FRB coordinates actively with State insurance supervisors.
25.3	As an other involved supervisor, the supervisor understands: • the structure and operations of the group insofar as it concerns the insurance legal entities in its jurisdiction; and • the way that operations of insurance legal entities of the group in its jurisdiction may affect the rest of the group.
25.3	**States:** The U.S. lead state is responsible for conducting holding company analysis and summarizing the analysis in the GPS. The GPS requires among other things a risk assessment of the following risks within the group: credit, legal, liquidity, market, operational, pricing/underwriting, reputational, reserving, and strategic. As part of the holding company analysis process and documentation in the GPS is evaluating and obtaining an understanding of the insurance holding company system. Each domestic state is responsible for obtaining the GPS from the Lead State containing the risk assessment of the group and completing an evaluation of the impact of the insurance holding company system on the domestic insurer. In doing so, the domestic state is responsible for identifying and understanding the affiliated risks within the insurance holding company system. **FRB:** The FRB's consolidated supervision of certain insurance groups encompasses the parent companies and its subsidiaries, and allows the FRB to understand the organization's structure, activities, resources, risks, and financial and operational resilience.
25.4	The group-wide supervisor discusses and agrees with other involved supervisors to establish suitable coordination arrangements for cross-border insurance groups operating in its jurisdiction.

25.4	**States:** Authority to act as the group-wide supervisor for an IAIG and to participate in supervisory colleges is provided for in the NAIC Insurance Holding Company System Regulatory Act (#440) and Regulation (#450), specifically, Section 7. Supervisory Colleges and Section 7.1. Group-wide Supervision of Internationally Active Insurance Groups. The Financial Analysis Handbook provides over 30 pages of guidance on group-wide supervision including responsibilities of the U.S lead state, including coordination and communication with other jurisdictions/supervisors, and an additional 20 pages of guidance on supervisory colleges, including the roles and responsibilities of the group-wide supervisor for various coordination steps in supervisory colleges. **FRB:** In its role as consolidated supervisor of certain insurance groups, the FRB coordinates actively with State insurance supervisors. The FRB does not presently supervise any Internationally Active Insurance Groups.
25.5	The group-wide supervisor sets out the coordination arrangements in a written coordination agreement and puts such arrangements in place.
25.5	**States:** As noted in response to question 25.4, the Financial Analysis Handbook sets forth various coordination steps, including methods for coordination and communication with other jurisdictions/supervisors and various coordination steps in supervisory colleges including the development of a Terms of Reference, and/or or coordination agreement/information sharing agreement between college members. **FRB:** In its role as consolidated supervisor of certain insurance groups, the FRB coordinates actively with State insurance supervisors.
25.6	The supervisor discusses and agrees with involved supervisors whether to establish a supervisory college for cross-border insurance groups operating in its jurisdiction, and if so, how to structure and operate the supervisory college.
	States: As stated in 25.4, the Financial Analysis Handbook contains over 20 pages of guidance on supervisory colleges, including specific college requirements for when a U.S. lead state is determined to be the group-wide supervisor including various coordination steps. This guidance also discusses among other things the development of a Terms of Reference, and/ or coordination

	agreement/information sharing which is often developed as a result of supervisors determining collectively if a college should be established. **FRB:** In its role as consolidated supervisor of certain insurance groups, the FRB coordinates actively with State insurance supervisors. The FRB participates in supervisory colleges, and works with State insurance regulators to coordinate, plan, and host activities of the colleges, as relevant. The FRB does not presently supervise any Internationally Active Insurance Groups.
CF25.6a[i]	The group-wide supervisor establishes a supervisory college for the IAIG, which meets at least annually.
	States: State insurance regulators have organized supervisory colleges for every U.S. insurer meeting the current definition of an IAIG developed by the IAIS, have participated in numerous supervisory colleges hosted by other jurisdictions that are IAIG group-wide supervisors, and have led or participated in colleges for other non-IAIG groups with international insurance operations. **FRB:** In its role as consolidated supervisor of certain insurance groups, the FRB coordinates actively with State insurance supervisors. The FRB does not presently supervise any Internationally Active Insurance Groups.
CF25.6b	The members of the IAIG's supervisory college communicate and exchange information on an ongoing basis.
	States: Information within an IAIG supervisory college is shared as necessary, subject to the appropriate confidentiality provisions as determined by the college. **FRB:** The FRB does not presently supervise any Internationally Active Insurance Groups. In its supervision of certain insurance groups, the FRB has in place a number of formal and informal agreements for information sharing. FRB staff regularly exchanges information with other U.S. federal banking regulators, state banking regulators, certain foreign regulators, FIO, state insurance regulators, the NAIC, and other federal agencies on issues related to its supervision, including group structure, interlinkages, and potential impediments to a coordinated solution.

CF25.6c	The members of the IAIG's supervisory college discuss and assess a summary of the reference ICS prepared by the group-wide supervisor, as well as a summary of any additional reporting related to the ICS that has been reported at the option of the group-wide supervisor.
	States: The group-wide supervisors establish the agenda for discussion at the supervisory college, which may include such things as a discussion of overall financing position, capital adequacy, planning and management, and related information, as part of the group-wide supervisor's assessment of the group. Discussions may touch on various international standards, where relevant, such as the ICS (once it is finalized). The Financial Analysis Handbook supervisory college chapter outlines these and other potential agenda considerations for use by the group-wide supervisor. **FRB:** The FRB does not presently supervise any Internationally Active Insurance Groups.
25.7	The group-wide supervisor coordinates crisis management preparations with other involved supervisors and relevant authorities.
	States: Group-wide supervisors, through discussion and coordination with other supervisory college members, establish the need for crisis management planning. The NAIC Insurance Holding Company System Model Act (#440) provides authority for the commissioner to act as the group-wide supervisor of internationally active insurance groups (IAIG) and engage in group-wide supervision activities as outlined in the model, which includes the authority to develop crisis management plans as part of supervisory colleges. Additionally, the NAIC Financial Analysis Handbook contains guidance on the activities of the supervisory college including crisis management and a template for a crisis management plan. This authority and guidance provide states with the flexibility to discuss the necessity for crisis management plans within supervisory colleges and/or crisis management groups and to make the determination to develop such plans on a case-by-case basis. **FRB:** In its role as consolidated supervisor of certain insurance groups, the FRB coordinates actively with State insurance supervisors. The FRB does not presently supervise any Internationally Active Insurance Groups

CF25.7a	The group-wide supervisor establishes a crisis management group for the IAIG with the objective of enhancing preparedness for, and facilitating the recovery and resolution of the IAIG.
	States: See Response to 25.7. US group-wide supervisors have established crisis management groups (CMG) for IAIGs on a case-by-case basis where deemed necessary and appropriate. **FRB:** In its role as consolidated supervisor of certain insurance groups, the FRB coordinates actively with State insurance supervisors. The FRB does not presently supervise any Internationally Active Insurance Groups.
CF25.7b	The group-wide supervisor puts in place a written coordination agreement between the members of the IAIG CMG.
	States: See Response to 25.7. US group-wide supervisors have established CMGs for IAIGs on a case-by-case basis and may enter into agreements with other international regulatory authorities related to CMGs as deemed necessary and appropriate. **FRB:** In its role as consolidated supervisor of certain insurance groups, the FRB coordinates actively with State insurance supervisors. The FRB does not presently supervise any Internationally Active Insurance Groups.
25.8	The supervisor: • Informs the involved supervisors as soon as it becomes aware of a crisis; • cooperates and coordinates with the involved supervisors and relevant authorities to analyse and assess the crisis situation and its implications to reach a common understanding of the situation; and • identifies coordinated, timely and effective solutions to a crisis situation.
	States: U.S. group-wide supervisors have authority to communicate and coordinate information and discussions of crisis situations and solutions thereto, if they arise, subject to the appropriate confidentiality provisions as determined by confidentiality agreements between jurisdictions.

	FRB: In its role as consolidated supervisor of certain insurance groups, the FRB coordinates actively with State insurance supervisors.
25.9	The group-wide supervisor coordinates with other involved supervisors and relevant authorities on public communication and communication with the insurance group during the crisis.
	States: U.S. group-wide supervisors have authority to communicate and coordinate information to the public in crisis situations, as deemed necessary and appropriate. **FRB:** In its role as consolidated supervisor of certain insurance groups, the FRB coordinates actively with State insurance supervisors
Comments	*Additional comments that are not captured in responses to each standard*

[i] Similar to other international standards and other jurisdictions, once the IAIS finalizes and adopts ComFrame we will assess how to implement ComFrame in a manner appropriate for the United States. This includes assessing to what extent existing or planned regulations and supervisory practices are already observant of ComFrame requirements. Our answers to this self-assessment should be reflective of that context. Further, while we will take a look once it is adopted, to the extent there are references to ComFrame guidance paragraphs, this is intended to provide illustration or explanation, not requirements jurisdictions are expected to implement.