

ICP 10: Preventive and Corrective Measures

U.S. Supervisory Practices

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ICP 10 – Preventive and Corrective Measures

- * The supervisor takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision
 - * **Take action against those that conduct insurance activities without a license**
 - * **Take action if the insurer fails to operate consistent with sound business practices or regulatory requirements**
 - * Require preventive or corrective action plans
 - * Progressive escalation if problems persist or increase
 - * Communicate concerns to officers and directors

U.S. Solvency Framework

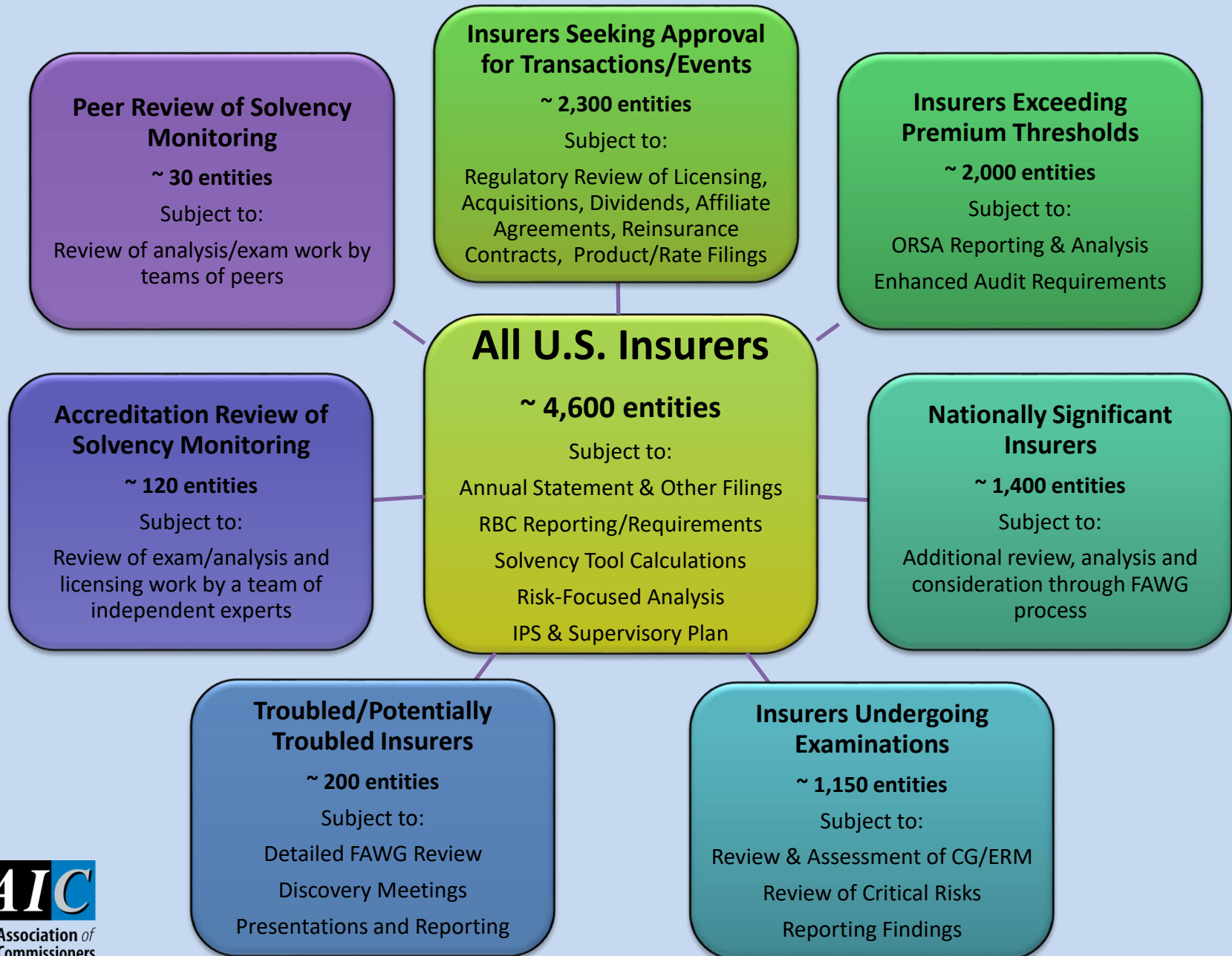
Solvency Core Principles

- 1) Regulatory Reporting, Disclosure and Transparency
- 2) Off-Site Monitoring and Analysis
- 3) On-Site Risk-Focused Examinations
- 4) Reserves, Capital Adequacy and Solvency
- 5) Regulatory Control of Significant, Broad-based Risk-related Transactions/Activities
- 6) Preventive and Corrective Measures, Including Enforcement
- 7) Exiting the Market and Receivership

U.S. Tools for Early Intervention

- * **Solvency Monitoring**
 - * Annual & quarterly risk-focused analysis
 - * Risk-Focused financial examinations
 - * Holding company analysis
- * **Surveillance of Troubled Insurance Companies**
 - * Extensive analysis, more frequent reporting, meetings w/ companies, etc.
- * **Risk-Based Capital**
 - * Levels of intervention
- * **Hazardous Financial Condition**
 - * Regulatory Actions
 - * Corrective plans, restrictions, etc.

U.S. Solvency Monitoring Activities



Overview of RBC

- * RBC is used to identify a poorly capitalized insurer given its overall business operations in consideration of its size and risk profile
 - * Accounts for a company's risk exposure
 - * Adjusts minimum capital and surplus
 - * Reflects unique risks inherent in operating an insurance company
- * **NAIC Risk-Based Capital for Insurers Model Act**
- * **NAIC Risk-Based Capital for Health Organization's Model Act**
- * **The RBC formulas are maintained by the**
 - * Capital Adequacy (E) Task Force and its Working Groups



Risk-Based Capital Goals

- * **RBC is intended to provide a Capital Adequacy Standard that:**

- * Is uniform among the states
- * Provides regulatory authority for timely action
- * A calculation of minimum capital required and not a target or ideal level of capital
- * Reflects unique risks inherent in operating an insurance company
- * Is easy to understand and calculate
- * RBC data used can be verified to or pulled in directly from the statutory annual statement

RBC Ratio

- * **RBC Ratio:** The Company's actual capital held (Total Adjusted Capital) is compared to the minimum level of capital (Authorized Control Level)

Total Adjusted Capital / Authorized Control Level = RBC Ratio

RBC Action Levels

RBC Ratio	Action Level	Action Description
>200%	No Action Required unless Trend Test Met	N/A
150% - 200%	Company Action Level	Company submits an RBC Action Plan
100% - 150%	Regulatory Action Level	Commissioner may order specific corrective actions
70% - 100%	Authorized Control Level	May place insurer under regulatory control
<70%	Mandatory Control Level	Must place insurer under regulatory control

RBC Trend Test

A Company Action Level can be triggered if a company has failed the trend test, which is outlined below:

Line of Business	Trend Test Calculation
Property & Casualty	RBC% between 200% and 300% Combined Ratio Greater than 120%
Life	RBC% between 200% and 300% Declining RBC Trend for 3 or More Years
Health	RBC% between 200% and 300% Combined Ratio Greater than 105%

RBC Statistics

	2017	2016	2015	2014	2013
No Action	4,028	4,012	4,019	4,021	4,093
Company – Trend Test	35	52	43	43	47
Company (200%)	42	34	30	30	30
Regulatory (150%)	14	20	18	14	12
Authorized (100%)	5	11	11	15	14
Mandatory (70%)	26	26	38	34	21
Total	4,115	4,103	4,116	4,114	4,170
% No Action	97.9%	97.8%	97.6%	97.7%	98.2%

Excludes Fraternal

% No Action does not include Trend Test

Hazardous Financial Condition

- * **NAIC Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition (#385)**
 - * Highlights factors that can be considered in determining whether the insurer is operating under a hazardous financial condition
 - * Outlines actions that can be taken by the commissioner if the insurer is deemed to be operating in a hazardous financial condition

Hazardous Financial Condition

* **Factors to be considered:**

- * Findings from exam reports, audit reports, and actuarial opinions
- * Negative results in financial analysis solvency tools and reports
- * Reserve inadequacy or non-compliance with minimum standards
- * Reinsurance solvency and sufficiency
- * Poor profitability
- * Rapid growth
- * Cash flow or liquidity problems
- * Affiliated transactions that threaten solvency
- * Contingent liabilities, pledges or guarantees that threaten solvency
- * Concerns regarding mgmt. competence, fitness and reputation
- * Failure to respond to inquiries or furnishing false information
- * Failure to meet financial and holding company filing requirements
- * Any other finding determined hazardous by the commissioner

Hazardous Financial Condition

* Hazardous Condition Actions:

- * Require corrective action plan
- * Reduce, suspend or limit volume of business
- * Limit or force to withdraw from certain investments
- * Reduce expenses, including commissions
- * Increase capital
- * Suspend dividends to stockholders or policyholders
- * Correct corporate governance deficiencies

Conclusion

- * **Supervisors need to have the ability to take preventive and corrective action on a timely basis due to various factors and situations**
 - * RBC Action Levels and Hazardous Financial Condition regulations allow U.S. supervisors to take these actions
- * **Actions can only be taken to prevent or limit the impact of an insolvency if risks and concerns can be identified in a timely manner**
 - * The U.S. system of solvency monitoring activities provides a wide-range of processes to highlight and identify concerns

Questions

