

VERMONT DEPARTMENT OF FINANCIAL REGULATION

REGULATION 71-2 (REVISED)

INSURANCE HOLDING COMPANY SYSTEMS

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Section 1. Authority

This regulation is promulgated pursuant to the authority granted by 8 V.S.A. § 15 and subchapter 13 of chapter 101.

Section 2. Purpose

The purpose of this regulation is to set forth rules and procedural requirements which the Commissioner deems necessary to carry out the provisions of 8 V.S.A. chapter 101, subchapter 13, which relates to holding companies and subsidiaries.

Section 3. Severability Clause

If any provision of these regulations, or the application thereof to any person or circumstance, is held invalid, such invalidity shall not affect other provisions or applications of these regulations which can be given effect without the invalid provision or application, and to that end the provisions of these regulations are severable.

Section 4. Forms - General Requirements

- A. Forms A, B, C, D, E, and F are intended to be guides in the preparation of the statements required by 8 V.S.A. chapter 101, subchapter 13. They are not intended to be blank forms which are to be filled in. The statements filed shall contain the numbers and captions of all items, but the text of the items may be omitted provided the answers thereto are prepared in such a manner as to indicate clearly the scope and coverage of the items. All instructions, whether appearing under the items of the form or elsewhere therein, are to be omitted. Unless expressly provided otherwise, if any item is inapplicable or the answer thereto is in the negative, an appropriate statement to that effect shall be made.
- B. Three complete copies of each statement including exhibits and all other papers and documents filed as a part thereof, shall be filed with the Commissioner by personal delivery or mail addressed to: Insurance Commissioner of the State of Vermont, Department of Financial Regulation, 89 Main Street, Montpelier, VT 05620-3101. At least one of the copies shall be manually signed in the manner prescribed on the form. Unsigned copies shall be conformed. If the signature of any person is affixed pursuant to a power of attorney or other similar authority, a copy of the power of attorney or other authority shall also be filed with the statement.
- C. If an applicant requests a hearing on a consolidated basis under 8 V.S.A. § 3683(f)(3) of the Act, in addition to filing the Form A with the Commissioner, the applicant shall file a copy of Form A with the National Association of Insurance Commissioners in electronic form.
- D. Statements should be prepared electronically. Statements shall be easily readable and suitable for review and reproduction. Debits in credit categories and credits in debit categories shall be designated so as to be clearly distinguishable as such on photocopies. Statements shall be in the English language and monetary values shall be stated in United States currency. If any exhibit or other paper or document filed with the statement is in a foreign language, it shall be accompanied by a translation into the English language and any monetary value shown in a foreign currency shall be converted into United States currency.

Section 5. Forms – Incorporation by Reference, Summaries and Omissions

- A. Information required by any item of Form A, Form B, Form D, Form E, or Form F may be incorporated by reference in answer or partial answer to any other item. Information contained in any financial statement, annual report, proxy statement,

statement filed with a government authority, or any other document may be incorporated by reference in answer or partial answer to any item of Form A, Form B, Form D, Form E, or Form F provided such document is filed as an exhibit to the statement. Excerpts of documents may be filed as exhibits if the documents are extensive. Documents currently on file with the Commissioner which were filed within three (3) years need not be attached as exhibits. References to information contained in exhibits or in documents already on file shall clearly identify the material and shall specifically indicate that such material is to be incorporated by reference in answer to the item. Matter shall not be incorporated by reference in any case where such incorporation would render the statement incomplete, unclear or confusing.

- B. Where an item requires a summary or outline of the provisions of any document, only a brief statement shall be made as to the pertinent provisions of the document. In addition to the statement, the summary or outline may incorporate by reference particular parts of any exhibit or document currently on file with the Commissioner which was filed within three (3) years and may be qualified in its entirety by such reference. In any case where two (2) or more documents required to be filed as exhibits are substantially identical in all material respects except as to the parties thereto, the dates of execution, or other details, a copy of only one of the documents need be filed with a schedule identifying the omitted documents and setting forth the material details in which such documents differ from the documents, a copy of which is filed. The Commissioner may at any time in his or her discretion require the filing of copies of any omitted documents.

Section 6. Forms – Information Unknown or Unavailable and Extension of Time to Furnish

- A. If it is impractical to furnish any required information, document or report at the time it is required to be filed, there may be filed with the Commissioner a separate document:
 - (1) Identifying the information, document or report in question;
 - (2) Stating why the filing thereof at the time required is impractical; and
 - (3) Requesting an extension of time for filing the information, document or report to a specified date. The request for extension shall be deemed granted unless the Commissioner within thirty (30) days after receipt thereof enters an order denying the request.

Section 7. Forms – Additional Information and Exhibits

In addition to the information expressly required to be included in Form A, Form B, Form C, Form D, Form E, and Form F, the Commissioner may request such further material information, if any, as may be necessary to make the information contained therein not

misleading. The person filing may also file such exhibits as it may desire in addition to those expressly required by the statement. Such exhibits shall be so marked as to indicate clearly the subject matters to which they refer. Changes to Forms A, B, C, D, E, or F shall include on the top of the cover page the phrase: Change No.[insert number] to and shall indicate the date of the change and not the date of the original filing.

Section 8. Definitions

- A. Executive officer means chief executive officer, chief operating officer, chief financial officer, president, vice president, treasurer, secretary, controller, and any other individual performing functions corresponding to those performed by the foregoing officers under whatever title.
- B. Ultimate controlling person means that person which is not controlled by any other person.
- C. Material transactions as set forth in 8 V.S.A. § 3685(f)(4) include, but are not limited to, transactions which result in an insurance company gaining control of another insurance company.
- D. All other terms used herein shall have the same meanings prescribed in 8 V.S.A. § 3681 unless the context otherwise requires. Other nomenclature or terminology is according to Vermont law applicable to insurance companies, or industry usage if not defined by Vermont law.

Section 9. Subsidiaries of Domestic Insurers

The authority to invest in the types of subsidiaries set forth in 8 V.S.A. § 3682(a) is in addition to any authority to invest in subsidiaries as set forth in 8 V.S.A. § 3682(b) or as set forth in other provisions of Vermont law applicable to insurance companies.

Section 10. Acquisition of Control – Statement Filing

A person required to file a statement pursuant to 8 V.S.A. § 3683 shall furnish the required information on Form A. Such person shall also furnish the required information on Form E, described in Section 13 of this regulation.

Section 11. Amendments to Form A

The applicant shall, within seven days after it learns of any change in the information so furnished, advise the Commissioner of any changes in the information furnished on Form A arising subsequent to the date upon which such information was furnished, but prior to the Commissioner's disposition of the application.

Section 12. Acquisition of § 3683(a)(4) Insurer

- A. If the person being acquired is a domestic insurer solely because of the provisions of 8 V.S.A. § 3683(a)(4), the name of the domestic insurer on the cover page should be indicated as follows:

ABC Insurance Company, a subsidiary of XYZ Holding Company.

- B. Where a § 3683(a)(4) insurer is being acquired, references to the insurer contained in Form A shall refer to both the domestic subsidiary insurer and the person being acquired.

Section 13. Pre-Acquisition Notification

If a domestic insurer, including any person controlling a domestic insurer, is proposing a merger or acquisition pursuant to 8 V.S.A. § 3683(a)(1), that person shall file a pre-acquisition notification form, Form E, which was developed pursuant to 8 V.S.A. § 3683a(c)(1). Additionally, if a non-domiciliary insurer licensed to do business in this state is proposing a merger or acquisition pursuant to 8 V.S.A. § 3683a, that person shall file a pre-acquisition notification form, Form E. No pre-acquisition notification form need be filed if the acquisition is beyond the scope of 8 V.S.A. § 3683a as set forth in 8 V.S.A. § 3683a(b). In addition to the information required by Form E, the Commissioner may wish to require an expert opinion as to the competitive impact of the proposed acquisition.

Section 14. Registration of Insurers – Annual Statement Filing

An insurer required to file a statement pursuant to 8 V.S.A. § 3684, Registration of insurers, shall furnish the required information on Form B.

Section 15. Summary of Registration – Statement Filing

An insurer required to file an annual registration statement pursuant to 8 V.S.A. § 3684 is also required to furnish information required on Form C.

Section 16. Amendments to Form B

- A. An amendment to Form B shall be filed within 15 days after the end of any month in which there is a material change to the information provided in the annual registration statement.
- B. Amendments shall be filed in the Form B format with only those items which are being amended reported. Each such amendment shall include at the top of the cover page Amendment No.(insert number) to Form B for (insert year) and shall indicate the date of the change and not the date of the original filings.

Section 17. Alternative and Consolidated Registration

- A. Any authorized insurer may file a registration statement on behalf of any affiliated insurer or insurers which are required to register under 8 V.S.A. § 3684. A registration statement may include information regarding any insurer in the insurance holding company system even if such insurer is not authorized to do business in this State. In lieu of filing a registration statement on Form B, the authorized insurer may file a copy of the registration statement or similar report which it is required to file in its State of domicile, provided:
- (1) the statement or report contains substantially similar information required to be furnished on Form B; and
 - (2) the filing insurer is the principal insurance company in the insurance holding company system.
- B. The question of whether the filing insurer is the principal insurance company in the insurance holding company system is a question of fact and an insurer filing a registration statement or report in lieu of Form B on behalf of an affiliated insurer, shall set forth a brief statement of facts which will substantiate the filing insurer's claim that it, in fact, is the principal insurer in the insurance holding company system.
- C. With the prior approval of the Commissioner, an unauthorized insurer may follow any of the procedures which could be done by an authorized insurer under paragraph (A) above.
- D. Any insurer may take advantage of the provisions of 8 V.S.A. § 3684(i) or § 3684(j) without obtaining the prior approval of the Commissioner. The Commissioner, however, reserves the right to require individual filings if he or she deems such filings necessary in the interest of clarity, ease of administration or the public good.

Section 18. Disclaimers and Termination of Registration

- A. A disclaimer of affiliation pursuant to 8 V.S.A. § 3684(l) or a request for termination of registration pursuant to 8 V.S.A. § 3684(h) claiming that a person does not, or will not upon the taking of some proposed action, control another person (hereinafter referred to as the subject) shall contain the following information:
- (1) the number of authorized, issued and outstanding voting securities of the subject;
 - (2) with respect to the person whose control is denied and all affiliates of such person, the number and percentage of shares of the subject's voting securities which are held of record or known to be beneficially owned, and

the number of such shares concerning which there is a right to acquire, directly or indirectly;

- (3) all material relationships and bases for affiliation between the subject and the person whose control is denied and all affiliates of such person;
- (4) a statement explaining why such person should not be considered to control the subject.

B. A request for termination of registration shall be deemed to have been granted unless the Commissioner, within 30 days after he received the request, notifies the registrant otherwise.

Section 19. Transactions Subject to Prior Notice – Notice Filing

A. An insurer required to give notice of a proposed transaction pursuant to 8 V.S.A. § 3685 shall furnish the required information on Form D.

B. Agreements for cost sharing services and management services shall at a minimum and as applicable:

- (1) Identify the person providing services and the nature of such services;
- (2) Set forth the methods to allocate costs;
- (3) Require timely settlement, not less frequently than on a quarterly basis, and compliance with the requirements in the NAIC Accounting Practices and Procedures Manual;
- (4) Prohibit advancement of funds by the insurer to the affiliate except to pay for services defined in the agreement;
- (5) State that the insurer will maintain oversight for functions provided to the insurer by the affiliate and that the insurer will monitor services annually for quality assurance;
- (6) Define books and records of the insurer to include all books and records developed or maintained under or related to the agreement;
- (7) Specify that all books and records of the insurer are and remain the property of the insurer and are subject to control of the insurer;
- (8) State that all funds and invested assets of the insurer are the exclusive property of the insurer, held for the benefit of the insurer and are subject to the control of the insurer;

- (9) Include standards for termination of the agreement with and without cause;
- (10) Include provisions for indemnification of the insurer in the event of gross negligence or willful misconduct on the part of the affiliate providing the services;
- (11) Specify that, if the insurer is placed in receivership or seized by the Commissioner under 8 V.S.A. chapter 145:
 - (a) all of the rights of the insurer under the agreement extend to the receiver or Commissioner; and,
 - (b) all books and records will immediately be made available to the receiver or the Commissioner, and shall be turned over to the receiver or Commissioner immediately upon the receiver or the Commissioner's request;
- (12) Specify that the affiliate has no automatic right to terminate the agreement if the insurer is placed in receivership pursuant to 8 V.S.A. chapter 145; and
- (13) Specify that the affiliate will continue to maintain any systems, programs, or other infrastructure notwithstanding a seizure by the Commissioner under 8 V.S.A. chapter 145, and will make them available to the receiver, for so long as the affiliate continues to receive timely payment for services rendered.

Section 20. Enterprise Risk Report

The ultimate controlling person of an insurer required to file an enterprise risk report pursuant to 8 V.S.A. § 3684(m) shall furnish the required information on Form F.

Section 21. Extraordinary Dividends and Other Distributions

- A. Requests for approval of extraordinary dividends or any other extraordinary distribution to shareholders shall include the following:
 - (1) the amount of the proposed dividend;
 - (2) the date established for payment of the dividend;
 - (3) a statement as to whether the dividend is to be in cash or other property and, if in property, a description thereof, its costs, and its fair market value together with an explanation of the basis for valuation;

- (4) a copy of the calculations determining that the proposed dividend is extraordinary. The work paper shall include the following information:
 - (i) The amounts, dates and form of payment of all dividends or distributions (including regular dividends but excluding distributions of the insurer's own securities) paid within the period of 12 consecutive months ending on the date fixed for payment of the proposed dividend for which approval is sought and commencing on the day after the same day of the same month in the last preceding year.
 - (ii) Surplus as regards policyholders (total capital and surplus) as of the 31st day of December next preceding;
 - (iii) If the insurer is a life insurer, the net gain from operations for the 12-month period ending the 31st day of December next preceding;
 - (iv) If the insurer is not a life insurer, the net income less realized capital gains for the 12-month period ending the 31st day of December next preceding and the two preceding 12-month periods; and
 - (v) If the insurer is not a life insurer, the dividends paid to stockholders excluding distributions of the insurer's own securities in the preceding two calendar years.
 - (5) a balance sheet and statement of income for the period intervening from the last annual statement filed with the Commissioner and the end of the month preceding the month in which the request for dividend approval is submitted;
 - (6) a brief statement as to the effect of the proposed dividend upon the insurer's surplus and the reasonableness of surplus in relation to the insurer's outstanding liabilities and the adequacy of surplus relative to the insurer's financial needs.
- B. Subject to 8 V.S.A. § 3685(c), each registered insurer shall report to the Commissioner all dividends and other distributions to shareholders within 15 business days following the declaration thereof, including the same information required by subsections A(4)(i)(v).

Section 22. Adequacy of Surplus

The factors set forth in 8 V.S.A. § 3685(b) are not intended to be an exhaustive list. In determining the adequacy and reasonableness of an insurer's surplus no single factor is necessarily controlling. The Commissioner instead will consider the net effect of all of these

factors plus other factors bearing on the financial condition of the insurer. In comparing the surplus maintained by other insurers, the Commissioner will consider the extent to which each of these factors varies from company to company and in determining the quality and liquidity of investments in subsidiaries, the Commissioner will consider the individual subsidiary and may discount or disallow its valuation to the extent that the individual investments so warrant.

Section 23. Effective Date

This regulation shall become effective December 25, 2014.