SIO Complexity Classification Work Program

Overview

Consistent with the Federal Reserve's approach to risk-based supervision, supervisory resources are assigned, and supervisory activities are conducted, in a manner that is proportionate to each organization's risk profile. For supervised insurance organizations (SIOs), this begins by classifying each organization as either complex or noncomplex. The complexity classification serves as the basis for determining the level of supervisory resources needed to supervise each SIO effectively, as well as the frequency and scope of supervisory activities.

The purpose of this work program is to support the vetting of an SIO's risk profile and the assignment of a complex or noncomplex classification. At a high level, the work program assists the relevant Federal Reserve Bank in deciding whether to recommend to the Board that a dedicated supervisory team would be necessary to achieve the Federal Reserve's supervisory objectives – to ensure that supervised organizations comply with rules and regulations, and that they operate in a safe and sound manner. The supervisory framework for SIOs described in SR letter 22-8, "Framework for the Supervision of Insurance Organizations" recognizes that large, well-established, and financially strong SIOs with relatively small depository institutions can be classified as noncomplex if the Board considers the corresponding level of supervisory oversight sufficient to accomplish these objectives.

Complex SIOs: Complex organizations have a higher level of risk and therefore require more supervisory attention and resources. Federal Reserve Bank dedicated supervisory teams are assigned to execute approved supervisory plans led by a dedicated Central Point of Contact. The activities listed in the supervisory plans focus on understanding any of the organization's risks that could threaten the safety and soundness of the consolidated organization or an organization's ability to act as a source of strength for its depository institution(s). These activities typically include continuous monitoring, targeted topical examinations, coordinated reviews, and an annual roll-up assessment resulting in ratings for the three rating components. The focus, frequency, and intensity of supervisory activities are based on the organization's unique risk profile and, therefore, can vary among complex SIOs. The relevance of certain supervisory guidance also may vary among complex SIOs based on each organization's unique risk profile. Supervisory guidance targeted at smaller depository institution holding companies, for example, may be more relevant for complex SIOs with limited inherent exposure to a certain risk.

For those organizations classified as complex, this work program also supports decisions related to the composition of the dedicated supervisory team, including the number and expertise of the examiners.

Noncomplex SIOs: Noncomplex organizations, due to their lower risk profile, require less supervisory oversight relative to complex firms. The supervisory activities for these firms occur primarily during a rating examination that occurs no less than every other year and results in the assignment of the three component ratings. Although these organizations are subject to topical target examinations, continuous monitoring, and coordinated reviews as appropriate, the supervision of noncomplex firms relies more heavily on the reports and assessments of the organization's other relevant supervisors. The focus and types of supervisory activities for noncomplex firms are also set based on its unique risks.

Size of Depository Institution

The total assets of the SIO's depository institution(s), both in absolute terms and relative to the organization's total assets, can materially influence the ability of the SIO to act as a source of financial strength during times of stress. The larger the depository institution, on both an absolute and relative basis, the more likely an SIO will be classified as complex.

Consistent with the approach taken for other supervised portfolios, the Federal Reserve will automatically classify as complex any SIO with banking assets in excess of $100 billion. For SIOs with less than $100 billion in banking assets, size is considered along with other factors to arrive at a holistic view of the organization's risk profile.

1. Please complete the table below using GAAP values, if available. Use statutory values for the insurance operations and to estimate total consolidated assets if GAAP values and not available.

Business	Assets	Accounting Basis
Banking		
Life insurance (general account)		
P&C insurance		
Insurance separate account		
Other insurance		
[Other business 1]		
[Other business 2]		
Total Consolidated Assets		
3rd party assets under management		
Assets under administration		

2. Describe the historical and planned growth trend for the consolidated organization and for each business line listed above.

3. Describe how the information above influences the resources needed to effectively supervise the SIO.

Regulatory Oversight

The Federal Reserve relies to the greatest extent possible on the work of the SIO's other supervisors. While it is important for Federal Reserve supervisory staff to understand the risks emanating from the insurance and banking activities of an SIO and how these risks impact the consolidated organization, the assessment of these businesses is typically left primarily to the state insurance regulator(s) and functional banking regulator (usually the OCC) respectively. By statutory mandate, the Federal Reserve is required to rely to the fullest extent possible on the work performed by the state insurance regulators. Particularly for SIOs with subsidiary depository institutions less than $100 billion in total assets, examiners rely heavily on the work of the OCC to assess the organization's banking operations. Therefore, the nature and materiality of the organization's non-insurance and non-banking activities heavily influences the need for Federal Reserve supervisory resources. SIOs with non-insurance and non-banking activities that have a low probability of negatively influencing the organization's ability to act as a source of strength for its depository institution(s) typically require fewer resources to effectively supervise and so are more likely to be considered non-complex.

Less-than-satisfactory ratings, significant supervisory issues, or outstanding enforcement actions from any of the SIO's supervisors is a sign of elevated risk and potential challenges to it serving as a source of managerial and/or financial strength for its depository institution(s). Even after the classification determination is made, supervisory ratings and opinions will continue to influence the focus, frequency, and intensity of supervisory activities. Activities that exist outside of legal entities with regulatory oversight can often increase the risks of the consolidated organization.

1. Describe the organization's activities currently subject to no or limited regulatory oversight, including the materiality of the risks associated with these activities (examples include financial advisory services, distribution, investment origination/structuring, and some captive reinsurance arrangements).

2. If currently supervised by the Federal Reserve, describe the organization's current ratings and any outstanding or recently closed supervisory issues (enforcement actions, matters requiring attention (MRAs), and matters requiring immediate attention (MRIAs)).

3. Describe, if applicable, the current ratings and supervisory opinions of the organization's other regulators (state insurance regulators, OCC, FDIC, state banking regulators, SEC, international regulators, etc.). Describe any outstanding supervisory issues.

4. Describe any recent changes in the supervisory ratings assigned to the organization by its regulators.

5. Describe how the information above influences the resources needed to effectively supervise the SIO.

Product and Portfolio Risks

The composition of an SIO's assets and liabilities, including off-balance sheet exposures, is a major driver of supervisory focus. Traditional insurance liabilities that are supported with high-quality assets require less regulatory oversight, which is typically provided primarily by state insurance regulators. Liabilities tied to sophisticated hedging programs or that are otherwise complex and assets that are of low quality, illiquid, or overly concentrated, increase an SIO's risks. The quality of an SIO's asset-liability management program is also considered when evaluating this factor.

1. Describe the insurance products currently sold by the organization and provide product liability balances as of the most recent year-end. Describe the key risks associated with the organization's insurance business and the organization's use of reinsurance.

2. Describe the banking products sold by the organization and provide product balances as of the most recent year-end. Describe the key risks associated with the organization's banking business.

3. Describe the non-insurance/non-banking products sold by the organization and provide product balances as of the most recent year-end. Describe the key risks associated with these products.

4. Describe the organization's sources of market risk, including its use of derivatives (for hedging and other purposes).

5. Describe the organization's investment guidelines and risk appetite statement for credit risk. Provide a breakout of the organization's investment portfolio as of the most recent year-end, including by asset type and rating. Describe any recent changes to the organization's investment mix.

6. Describe the organization's off-balance sheet exposure and the risks associated with this exposure.

7. Describe the organization's use of third parties for operational purposes and for risk management.

8. Describe the organization's IT infrastructure and its exposure to IT and Cyber risks.

9. Describe how the information above influences the resources needed to effectively supervise the SIO.

Organizational Structure

As a consolidated supervisor, the Federal Reserve must understand and be able to assess risks throughout the organization. An intricate organizational structure can increase and/or mask certain risks. The intricacy of an SIO's organizational structure is determined by considering the number, type, and location of its legal entities; guarantees and other arrangements, including reinsurance, between legal entities; and the purpose for the SIO's legal entity structure.

1. Describe the structure of the organization, including the legal entity structure, the board committee structure, senior management committee structure, and where in the organization risks are managed.

2. Describe any potential challenges (reporting, regulatory, etc.) related to the organization's ownership structure.

3. Describe any statutory limitations on the organization's investments in noninsurance subsidiaries.

4. Describe the organization's use of internal (captive) reinsurance, internal financing, and affiliate guarantees.

5. Describe the organization's internal shared services arrangements and other intra-group activities between among the organization's subsidiaries.

6. Describe the organization's ability to identify, aggregate, and report risk exposures and risk concentrations across business lines and legal entities.

7. Describe how the information above influences the resources needed to effectively supervise the SIO.

Quality and Level of Capital

A key expectation is that the SIO act as a source of financial strength for its depository institution(s). Sufficient capital available to be deployed, if necessary, is essential in fulfilling this role. The Federal Reserve will consider the SIO's capital level, any limits to deploying capital to support its depository institution(s), and its prior support of its subsidiaries during periods of financial stress.

1. Provide a five-year history of the regulatory capital metric applicable for each of the organization's significant legal entities subject to a regulatory capital regime. Describe any cases of unusual over or under capitalization.

2. Describe the organization's use of leverage (financial and operational), including where the leverage is issued and any concerns regarding the organization's ability to service its debt.

3. Describe the organization's capital planning process, including the involvement by its board.

4. Describe the organization's capital stress testing framework, including its capital contingency plans if available.

5. Describe the organization's capital resources and capital targets.

6. Describe the organization's access to capital markets.

7. Describe any legal contingencies tied to capital within the organization, including any restrictions related to capital fungibility between legal entities, particularly as they relate to the depository institution.

8. Describe how the information above influences the resources needed to effectively supervise the SIO.

Quality and Level of Liquidity

A key requirement is that the SIO can act as a source of financial strength for their depository institution(s). Sufficient liquidity available to be deployed, if necessary, is essential in fulfilling this role. The Federal Reserve will consider the SIO's liquidity level, any limits to deploying liquidity to support its depository institution(s), and its prior support of its subsidiaries during periods of financial stress.

1. Describe the organization's liquidity position using relevant regulatory metrics, metrics used by the organization to manage its liquidity, and/or any industry-standard liquidity metrics relevant for the organization's business lines.

2. Describe the sufficiency of the organization's level of liquidity given its risk profile.

3. Describe the organization’s liquidity planning and contingency funding plan, if available.

4. Describe any instances of the organizations’ prior support of its subsidiaries during periods of stress.

5. Describe the organization’s framework for liquidity risk management, including liquidity stress testing, risk tolerance, and reporting to senior management and the board.

6. Describe the organization’s funding structure, including its reliance on short-term funding, and its access to and use of secondary market funding sources.

7. Describe any restrictions related to liquidity fungibility between legal entities, particularly as they relate to the depository institution.

8. Describe how the information above influences the resources needed to effectively supervise the SIO.

International Exposure

While geographic diversification can be a benefit, international operations present unique challenges. These include challenges that arise from differences in accounting standards, regulatory frameworks, and legal requirements. An SIO with international operations that materially contribute to its risk profile is more likely to be considered complex.

1. Has the organization been designated as an internationally active insurance group (IAIG) by its group-wide insurance supervisor?

2. Describe the organization's international business activities, including the countries and products in which it is active.

3. Describe the risks associated with the organization's international operations and the materiality of these risks relative to the broader organization.

4. Describe how the information above influences the resources needed to effectively supervise the SIO.

Interconnectedness

The Federal Reserve also monitors supervised institutions for potential systemic risk, or interconnectedness with the broader financial system. An SIO whose failure could contribute to increased instability in the overall financial system of the United States will more likely be considered complex.

1. Describe any potential concerns related to the organization's systemic interconnectedness with the broader financial system.

2. Describe how the information above influences the resources needed to effectively supervise the SIO.

Other Factors for Consideration
Describe any risk factors not identified above that have contributed to the Reserve Bank's complexity classification proposal. Include in the description how these additional factors influence the resources needed to effectively supervise the SIO.

Conclusion
Describe the Reserve Bank's proposed complexity classification. The proposal should be supported by the information above and should be focused on the resources needed to effectively supervise the organization given its risk profile.