

Regulatory Analysis Form

(Completed by Promulgating Agency)

INDEPENDENT REGULATORY
REVIEW COMMISSION

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INDEPENDENT REGULATORY
REVIEW COMMISSION

(All Comments submitted on this regulation will appear on IRRC's website)

(1) Agency
Insurance Department

(2) Agency Number:
Identification Number: **11-252**

IRRC Number: **3030**

(3) PA Code Cite:

31 Pa. Code Chapter 25

(4) Short Title:
Rules and Procedural Requirements for Insurance Holding Company Systems

(5) Agency Contacts (List Telephone Number and Email Address):

Primary Contact:

Peter J. Salvatore, Regulatory Coordinator
1326 Strawberry Square, Harrisburg, PA 17120, (717) 787-4429
psalvatore@pa.gov

Secondary Contact:

(6) Type of Rulemaking (check applicable box):

Proposed Regulation

Final Regulation

Final Omitted Regulation

Emergency Certification Regulation;

Certification by the Governor

Certification by the Attorney General

(7) Briefly explain the regulation in clear and nontechnical language. (100 words or less)

This rulemaking updates Chapter 25 in accordance with amendments to Article XIV of The Insurance Company Law of 1921 (40 P.S. §§ 991.1401-1413), enacted by the act of July 5, 2012 (P. L. 1111, No. 136) ("Act 136"). The amendments fall within one of four basic categories:

(1) administrative, editorial and technical amendments; (2) amendments relating to the enterprise risk report and the corresponding "Form F" required by 40 P.S. §991.1404(k.1) as added by Act 136; (3) amendments clarifying Act 136 changes to 40 P.S. §991.1404 regarding the registration statement, i.e., "Form B" filings; and (4) amendments to section 25.21 necessitated by Act 136 amendments to 40 P.S. §991.1405 requiring prior approval for additional transactions and the corresponding changes to "Form D" filings.

(8) State the statutory authority for the regulation. Include specific statutory citation.

Sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P.S. §§ 66, 186, 411 and 412) relating to the general rulemaking authority of the Insurance Department (“Department”) and Article XIV of The Insurance Company Law of 1921 (40 P.S. §§ 991.1401-991.1413), as amended, relating to Insurance Holding Companies.

(9) Is the regulation mandated by any federal or state law or court order, or federal regulation? Are there any relevant state or federal court decisions? If yes, cite the specific law, case or regulation as well as, any deadlines for action.

No. However, the regulations are part of the financial regulation standards the Department must meet in order to maintain its accreditation by the NAIC. The Department must implement these amendments by January 1, 2016.

It should also be noted that since the first enterprise risk report (“Form F”) is due on January 1, 2014, the timely enactment of these regulations will assist insurers in complying with existing statutory requirements promulgated by Act 136. Many insurers operate in multiple states, several of which are also in the process of adopting amendments substantially similar to the NAIC model. Pennsylvania’s adoption of the amendments will help achieve consistency and ease administrative burdens on insurers operating in Pennsylvania.

(10) State why the regulation is needed. Explain the compelling public interest that justifies the regulation. Describe who will benefit from the regulation. Quantify the benefits as completely as possible and approximate the number of people who will benefit.

This rulemaking clarifies the Department’s increased regulatory authority as provided by Act 136. Since the rulemaking concerns the solvency requirements applied to insurers, the public will benefit to the extent the rulemaking promotes a financially sound insurance industry that has the ability to fulfill its contractual obligations under insurance policies. Furthermore, the proposed amendments are part of the NAIC’s larger Solvency Modernization Initiative, which seeks to better identify potential solvency risks that could affect insurers and takes a more “group-focused” view of solvency. The increased oversight of transactions between insurers and affiliates in the insurer’s holding company system (including non-insurance affiliates) will provide regulators tools to better understand the activities of, and potential financial risks posed by, non-insurance companies within an insurer’s holding company system.

(11) Are there any provisions that are more stringent than federal standards? If yes, identify the specific provisions and the compelling Pennsylvania interest that demands stronger regulations.

There are no federal standards applicable to the substance of these amendments.

(12) How does this regulation compare with those of the other states? How will this affect Pennsylvania's ability to compete with other states?

The rulemaking will not negatively affect Pennsylvania's ability to compete with other states. The rulemaking is based upon an NAIC model, the requirements of which are necessary to maintain accredited regulator status. As such, other jurisdictions are also required to adopt a substantially similar regulation in order to maintain their accreditation standards. Likewise, many insurers operate in multiple states, several of which are in the process of adopting amendments substantially similar to the NAIC model. Thus, Pennsylvania's adoption of the amendments will help achieve consistency and ease administrative burdens on Pennsylvania domestic insurers who would otherwise be subject to disparate regulatory requirements in multiple jurisdictions.

If Pennsylvania does not adopt the amendments to these regulations within the required timelines, it could lose its NAIC accreditation, resulting in a disadvantage to insurers domiciled in Pennsylvania. If Pennsylvania is not accredited by the NAIC, other states cannot recognize or rely upon Pennsylvania's regulation of insurers. As a consequence, Pennsylvania domestic insurers would be subjected to redundant financial regulation in other states in which they do business, thereby resulting in higher regulatory expenses and administrative costs that may be passed on to consumers.

(13) Will the regulation affect any other regulations of the promulgating agency or other state agencies? If yes, explain and provide specific citations.

These amendments will not affect other regulations of the Department or other state agencies.

(14) Describe the communications with and solicitation of input from the public, any advisory council/group, small businesses and groups representing small businesses in the development and drafting of the regulation. List the specific persons and/or groups who were involved. ("Small business" is defined in Section 3 of the Regulatory Review Act, Act 76 of 2012.)

The Department circulated exposure drafts of the regulations to the Insurance Federation of Pennsylvania, Inc., the Pennsylvania Association of Mutual Insurance Companies and the four nonprofit health service plans commonly referred to as "Blues Plans." Comments received were carefully considered and incorporated into the rulemaking.

(15) Identify the types and number of persons, businesses, small businesses (as defined in Section 3 of the Regulatory Review Act, Act 76 of 2012) and organizations which will be affected by the regulation. How are they affected?

The amendments would apply to those Pennsylvania domestic insurers that are members of an insurance holding company system. As further explained below, some of these insurers would be considered “small businesses.” The amendments will affect these insurers in that additional guidance will be provided so that the insurers may more easily comply with the statutory requirements imposed by Act 136.

(16) List the persons, groups or entities, including small businesses, that will be required to comply with the regulation. Approximate the number that will be required to comply.

The amendments would apply to those Pennsylvania domestic insurers that are members of an insurance holding company system. According to the most recently available information available to the Department, there are approximately 173 domestic insurers that will be subject to the regulation. The Department estimates that approximately 112 of these companies would be considered “small businesses.”

The Department reviewed the standards set forth by 13 CFR § 121.201 and the U.S. Small Business Administration Table of Small Business Size Standards Matched to North American Industry Classification System (NAICS) Codes to determine the applicability of this rulemaking to small businesses. The standards for small business classification vary by type of business written as follows:

Subsector 524 – Insurance Carriers and Related Activities		
524113	Direct Life Insurance Carriers	\$7.0 million annual receipts
524114	Direct Health and Medical Insurance Carriers	\$7.0
524126	Direct Property and Casualty Insurance Carriers	1,500 employees
524127	Direct Title Insurance Carriers	\$7.0
524128	Other Direct Insurance (except Life, Health and Medical) Carriers	\$7.0
524130	Reinsurance Carriers	\$7.0
524210	Insurance Agencies and Brokerages	\$7.0
524291	Claims Adjusting	\$7.0
524292	Third Party Administration of Insurance and Pension Funds	\$7.0
524298	All Other Insurance Related Activities	\$7.0

As per these standards, Direct Life Insurance Carriers (#524113), Direct Health and Medical Carriers (#524114), Direct Title Insurance Carriers (#524127), and Reinsurance Carriers (#524130) with less than \$7 million in annual receipts qualify as “small businesses.” There are 50 Direct Health and Medical Carriers, ten Direct Life Insurance Carriers and one Title Insurer domesticated in Pennsylvania that will be subject to this regulation. According to publicly available annual statement data, there are two Direct Health and Medical Carriers and one Direct Life Insurance Carriers with less than \$7 million

in annual receipts that would meet the definition of “small business.”

With regard to entities classified as “Direct Property and Casualty Insurance Carriers” (#524126), those insurers with fewer than 1500 employees qualify as “small businesses.” There are 112 Pennsylvania domestic property and casualty carriers that will be subject to this regulation. The Department does not collect specific information regarding the number of individuals employed by an insurance company, so it is not possible to determine exactly how many of these entities would have less than 1500 employees. However, based upon the most recently available industry data gathered by the U.S. Census Bureau regarding property and casualty insurance carriers nationwide, the Department concluded that it is probable that the majority of these entities would fall within the definition of “small business.”

Specifically, the U.S. Census Bureau data specified that approximately 97% of property and casualty firms in the United States have less than 500 employees. Assuming that these statistics are also representative of the Pennsylvania property and casualty insurance market, the Department believes that it is likely all but 3% of Pennsylvania property and casualty insurers (approximately 109 insurers) would be considered “small businesses” pursuant to the NAICS 1500 employee standard.

(17) Identify the financial, economic and social impact of the regulation on individuals, small businesses, businesses and labor communities and other public and private organizations. Evaluate the benefits expected as a result of the regulation.

No negative financial, economic or social impact

As the rulemaking reflects the requirements statutorily mandated by Act 136, it does not impose additional compliance requirements on the regulated community. In other words, there would be no adverse financial or economic impact because insurers must comply with the statutory requirements of Act 136 irrespective of the enactment of the amendments.

Specifically, the amendments fall within one of four categories: (1) administrative, editorial and technical amendments that impose no additional substantive requirements; (2) amendments relating to the enterprise risk report required by 40 P.S. §991.1404(k.1) as added by Act 136 and the corresponding “Form F”; (3) amendments clarifying Act 136 changes to 40 P.S. §991.1404 regarding the registration statement i.e., “Form B” filing; and (4) amendments to section 25.21 necessitated by Act 136 amendments to 40 P.S. §991.1405 regarding additional transactions that must be filed for prior approval and corresponding changes to “Form D” filings. For the reasons set forth below, an adverse financial, economic, or social impact is not expected with regard to any of these categories.

Several editorial and administrative amendments are included within this final-form rulemaking. For example, the Department has proposed to change the term “corporation” to “person” in section 25.8 to more accurately describe the legal entity involved. Amendments to section 25.20 are included clarify the corresponding statutory provision regarding disclaimers of affiliation. Additionally, the Department proposes to include clarifying language or provided further detail on acceptable processes for filing and receiving forms. Specifically, in section 25.12, the Department provides for an electronic filing option of certain forms and provides for alternate methods of delivery to the Department. Similarly, section 25.18 deletes the requirement that a company file a “Form C” upon the request of a chief insurance regulatory official of another jurisdiction. Finally, in amendments to the “Form B,” the Department provides more detailed information regarding the methods for the filing of biographical and financial statement information. As these requirements are administrative in nature, is not expected that these

minor additions to the rulemaking will impose a burden on regulated entities.

Act 136 imposed a new requirement on insurers to file an enterprise risk report. This new requirement is reflected in amendments to sections 25.12, 25.13, 25.15 and the addition of section 25.21a. Additionally, the NAIC, in conjunction with state regulators, developed a new "Form F" that insurers may use to satisfy the requirement. The new "Form F" to be included in the regulation as Appendix A is substantially similar in form and substance to the NAIC model version. The form sets forth ten categories of information relevant to assessing "enterprise risk" defined by 40 P.S. § 991.1401. The form is intended to assist insurers in identifying material risks within the insurance holding company system that could pose enterprise risk to the insurer and does not impose a regulatory obligation on insurers beyond the requirement of the statute to file an enterprise risk report in the first instance. Thus, it is not expected that the amendments to the regulation regarding the enterprise risk report will impose a burden on regulated entities.

Act 136 also amended 40 P.S. §991.1404 to require an insurer to submit financial statements of affiliates upon request and to require a statement regarding the overseeing of corporate governance and internal controls. The amendments to the regulation incorporate these concepts as amendments to the "Form B" filing included within the regulation's Appendix.

Pursuant to Act 136, additional types of transactions need to be filed with the Department for prior approval. 40 P.S. §991.1405. As such, subsection (d) is proposed to be added to section 25.21. Subsection (d) clarifies when amended contracts are required to be filed and also specifies contents of such agreements relevant to the Department's approval. This approval would ultimately be based on a determination of whether the transactions meet the standards of 40 P.S. §991.1405(a)(1), which include whether the terms, charges, and fees are fair and reasonable. The "Form D" was also amended to provide for these additional transactions and to provide insurers guidance as to the appropriate "item number" under which the transaction should be reported.

Positive impact

As noted above in section 10, the proposed amendments will have a positive impact on the public by clarifying the Department's increased regulatory authority as provided by Act 136. Since the rulemaking concerns the solvency requirements applied to insurers, the public will benefit to the extent the rulemaking promotes a financially sound insurance industry that has the ability to fulfill its contractual obligations under insurance policies. Furthermore, the regulations are part of the NAIC's larger Solvency Modernization Initiative, which seeks to better identify potential solvency risks that could affect insurers and takes a more "group-focused" view of solvency. The increased oversight of transactions between insurers and affiliates in the insurer's holding company system (including non-insurance affiliates) will provide regulators tools to better understand the activities of, and potential financial risks posed by, non-insurance companies within an insurer's holding company system.

The amendments will also provide a positive impact upon the regulatory committee because it provides details helpful for insurers when preparing statutorily required filings and provides sample forms for doing so. Likewise, the regulation further clarifies categories of filings required which will remove uncertainty and lessen the cost of regulatory compliance for insurers transacting business in the Commonwealth.

(18) Explain how the benefits of the regulation outweigh any cost and adverse effects.

There are no anticipated adverse effects or costs associated with the rulemaking.

(19) Provide a specific estimate of the costs and/or savings to the **regulated community** associated with compliance, including any legal, accounting or consulting procedures which may be required. Explain how the dollar estimates were derived.

As the rulemaking reflects the requirements statutorily mandated by Act 136, it does not impose additional compliance costs on the regulated community. To the contrary, the amendments provide details helpful for insurers when preparing statutorily required filings and provide sample forms for doing so. Likewise, the amendments further clarify the categories of filings required, which will remove uncertainty and lessen the cost of regulatory compliance for insurers transacting business in the Commonwealth.

(20) Provide a specific estimate of the costs and/or savings to the **local governments** associated with compliance, including any legal, accounting or consulting procedures which may be required. Explain how the dollar estimates were derived.

There are no costs or savings to local governments associated with this rulemaking.

(21) Provide a specific estimate of the costs and/or savings to the **state government** associated with the implementation of the regulation, including any legal, accounting, or consulting procedures which may be required. Explain how the dollar estimates were derived.

The regulation updates and clarifies existing statutory requirements; there are no material costs or savings to state government associated with this rulemaking.

(22) For each of the groups and entities identified in items (19)-(21) above, submit a statement of legal, accounting or consulting procedures and additional reporting, recordkeeping or other paperwork, including copies of forms or reports, which will be required for implementation of the regulation and an explanation of measures which have been taken to minimize these requirements.

The rulemaking reflects but does not change current requirements established under the Department's statutory authority. The amendments do not impose additional reporting, recordkeeping or other paperwork requirements upon regulated entities beyond those imposed by Act 136, but merely provide clarification and sample forms which may be used by insurers to meet statutory requirements.

(23) In the table below, provide an estimate of the fiscal savings and costs associated with implementation and compliance for the regulated community, local government, and state government for the current year and five subsequent years. **N/A**

	Current FY Year	FY +1 Year	FY +2 Year	FY +3 Year	FY +4 Year	FY +5 Year
SAVINGS:	\$	\$	\$	\$	\$	\$
Regulated Community						
Local Government						
State Government						
Total Savings						
COSTS:						
Regulated Community						
Local Government						
State Government						
Total Costs						
REVENUE LOSSES:						
Regulated Community						
Local Government						
State Government						
Total Revenue Losses						

(23a) Provide the past three year expenditure history for programs affected by the regulation.

N/A

Program	FY -3	FY -2	FY -1	Current FY

(24) For any regulation that may have an adverse impact on small businesses (as defined in Section 3 of the Regulatory Review Act, Act 76 of 2012), provide an economic impact statement that includes the following:

- (a) An identification and estimate of the number of small businesses subject to the regulation.
- (b) The projected reporting, recordkeeping and other administrative costs required for compliance with the regulation, including the type of professional skills necessary for preparation of the report or record.
- (c) A statement of probable effect on impacted small businesses.
- (d) A description of any less intrusive or less costly alternative methods of achieving the purpose of the proposed regulation.

Small businesses subject to the regulation

The amendments to the regulation would apply to all Pennsylvania domestic insurers that are members of an insurance holding company system. According to the most recently available information available to the Department, there are approximately 173 domestic insurers that will be subject to the regulation. The Department estimates that approximately 112 of these companies would be considered "small businesses."

Projected costs of compliance and probable effect on impacted small businesses

As noted above, the amendments to the regulation are not expected to impose any additional reporting, recordkeeping or other administrative costs for compliance that are not already required by Act 136. As such, no negative effect on impacted small businesses is expected.

Alternative methods

Notwithstanding the fact that the amendments merely provide clarification of existing statutory requirements, the Department is unaware of any less intrusive or less costly alternative methods for achieving the purpose of the amendments. Furthermore, the amendments are part of the financial regulation standards the Department must meet in order to maintain its accreditation by the NAIC. Any substantial deviation from the NAIC model regulation will jeopardize the Department's status as an accredited regulator.

(25) List any special provisions which have been developed to meet the particular needs of affected groups or persons including, but not limited to, minorities, the elderly, small businesses, and farmers.

No provisions were developed to meet the particular needs of minorities, the elderly, small businesses, or farmers.

(26) Include a description of any alternative regulatory provisions which have been considered and rejected and a statement that the least burdensome acceptable alternative has been selected.

No other regulatory schemes were considered. The rulemaking updates Chapter 25 in accordance with the amendments to the Insurance Holding Companies Law made by Act 136, many of which are necessary for the Department to maintain its accreditation.

(27) In conducting a regulatory flexibility analysis, explain whether regulatory methods were considered that will minimize any adverse impact on small businesses (as defined in Section 3 of the Regulatory Review Act, Act 76 of 2012), including:

- a) The establishment of less stringent compliance or reporting requirements for small businesses;
- b) The establishment of less stringent schedules or deadlines for compliance or reporting requirements for small businesses;
- c) The consolidation or simplification of compliance or reporting requirements for small businesses;
- d) The establishment of performing standards for small businesses to replace design or operational standards required in the regulation; and
- e) The exemption of small businesses from all or any part of the requirements contained in the regulation.

The Department determined that it was not possible to consider alternative regulatory methods to minimize any impact to small businesses because: (1) the amendments do not impose additional requirements upon small businesses, but rather reflect existing statutory requirements that cannot be modified through the regulatory process; (2) many of the amendments are based upon NAIC model regulations, substantially similar provisions of which must be enacted by Pennsylvania in order for the Department to maintain its status as an accredited regulator; and (3) the Department does not have the statutory authority to grant an exemption of small businesses from all or any part of the requirements of the amendments and any attempt to do so may jeopardize the solvency of such insurers.

(28) If data is the basis for this regulation, please provide a description of the data, explain in detail how the data was obtained, and how it meets the acceptability standard for empirical, replicable and testable data that is supported by documentation, statistics, reports, studies or research. Please submit data or supporting materials with the regulatory package. If the material exceeds 50 pages, please provide it in a searchable electronic format or provide a list of citations and internet links that, where possible, can be accessed in a searchable format in lieu of the actual material. If other data was considered but not used, please explain why that data was determined not to be acceptable.

No data was used as a basis for this regulation.

(29) Include a schedule for review of the regulation including:

- A. The date by which the agency must receive public comments: 11/12/13
- B. The date or dates on which public meetings or hearings will be held: NA
- C. The expected date of promulgation of the proposed regulation as a final-form regulation: 03/06/14
- D. The expected effective date of the final-form regulation: 06/05/14
- E. The date by which compliance with the final-form regulation will be required: 06/05/14
- F. The date by which required permits, licenses or other approvals must be obtained: NA

(30) Describe the plan developed for evaluating the continuing effectiveness of the regulations after its implementation.

The Department reviews each of its regulations for continued effectiveness on a triennial basis.

CDL-1

FACE SHEET
FOR FILING DOCUMENTS
WITH THE LEGISLATIVE REFERENCE
BUREAU

(Pursuant to Commonwealth Documents Law)

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INDEPENDENT REGULATORY
REVIEW COMMISSION

DO NOT WRITE IN THIS SPACE

Copy below is hereby approved as to
form and legality. Attorney General

By _____
(Deputy Attorney General)

Date of Approval

→ Check if applicable.
Copy not approved. Objections
attached.

Copy below is hereby certified to be a true and correct
copy of a document issued, prescribed or promulgated
by:

Insurance Department

(AGENCY)

DOCUMENT/FISCAL NOTE NO. 11-252

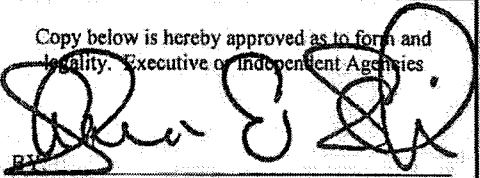
DATE OF ADOPTION: _____

BY: _____

Michael F. Consedine
Insurance Commissioner

TITLE: _____
(EXECUTIVE OFFICER, CHAIRMAN OR
SECRETARY)

Copy below is hereby approved as to form and
legality. Executive or Independent Agencies

BY: 

FEB 25 2014

DATE OF APPROVAL

(DEPUTY GENERAL COUNSEL)
(CHIEF COUNSEL, INDEPENDENT AGENCY)
(STRIKE INAPPLICABLE TITLE)

→ Check if applicable. No Attorney General
approval or objection within 30 days after
submission.

NOTICE OF FINAL RULEMAKING

INSURANCE DEPARTMENT

31 Pa. Code, Chapter 25

RULES AND PROCEDURAL REQUIREMENTS FOR INSURANCE HOLDING
COMPANY SYSTEMS

RULES AND REGULATIONS

Title 31—INSURANCE

INSURANCE DEPARTMENT

[31 PA. CODE CH. 25]

Rules and Procedural Requirements for Insurance Holding Company Systems

[**Pa.B.** _____]

[_____]

The Insurance Department (Department) amends Chapter 25 (relating to rules and procedural requirements for insurance holding company systems) under the authority of sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P. S. §§ 66, 186, 411 and 412), regarding the general rulemaking authority of the Department, and Article XIV of The Insurance Company Law of 1921 (act) (40 P. S. §§ 991.1401—991.1413), regarding insurance holding companies (“Holding Companies Act”).

Purpose

The purpose of this final-form rulemaking is to update Chapter 25 in accordance with amendments made to Article XIV of the act by the act of July 5, 2012 (P. L. 1111, No. 136) (Act 136). Chapter 25 sets forth rules and procedural requirements applicable to insurance holding company systems.

The amendments to Chapter 25 are based upon recent amendments to the model regulation developed by the National Association of Insurance Commissioners (NAIC) entitled "Insurance Holding Company System Model Regulation with Reporting Forms and Instructions" (Model #450). This final-form rulemaking is part of the financial regulation standards the Department must meet to maintain its accreditation as a regulator by the NAIC. Thus, the Commonwealth must enact requirements substantially similar to NAIC requirements to maintain NAIC accreditation.

Comments

Notice of proposed rulemaking was published at 43 Pa.B. 5996 (October 12, 2013) with a 30-day comment period. Comments were received from the Insurance Federation of Pennsylvania (IFP), expressing general support for the regulation and raising two concerns. First, the IFP recommends that subsection 25.12(c) be revised to delete the absolute confidentiality for personal financial statements of nonpublicly held Ultimate Controlling Persons (UCPs) making filings pursuant to section 1402 of the Holding Companies Act, 40 P.S. § 991.1402, commonly referred to as “Form A filings.” The IFP suggests that the Department instead use the “process

the Department has in place for requesting and evaluating confidentiality requests” for financial statements of nonpublicly held UCPs as for all other materials filed by all UCPs in Form A filings. The IFP also suggests that the Department does not have the statutory authority to impose a distinction between these different types of filers.

Additionally, the IFP requests clarification of section 25.21(d) and recommends that “leases” be expressly covered under this subsection, and that the Department also clarify into which category a lease would fall i.e., whether a lease is a cost-sharing arrangement or a service contract.

On December 12, 2013, the Independent Regulatory Review Commission (IRRC) submitted comments with regard to the rulemaking raising three issues. First, IRRC requested that the Department explain the need for subsection 25.12 (c) and how it is consistent with the statute. IRRC also requested that the Department clarify in subsection 25.21(c) how to report a lease involving a domestic insurer and a person in its insurance holding company system. Finally, IRRC inquired as to whether the acronym "NAIC" should be added to subparagraph (d)(2)(iii) of § 25.21 with regard to the Accounting Practices and Procedure Manual.

Response

In response to IRRC's comment and the comments from the IFP, the Department has added language to § 25.21(d) to clarify that leases are cost-sharing arrangements and should be reported accordingly. Additionally, the Department has added “NAIC” to subparagraph (d)(2)(iii) as suggested by IRRC.

The Department declines to delete the confidentiality of protection for personal financial statements set forth by 25.12(c) as per the IFP’s request. It should be noted that the instant rulemaking Department does not propose to amend this particular subsection of the regulation, which has been in effect for over 12 years. Likewise, the changes to the Holding Companies Act made by Act 136 do not alter the Department’s authority to review Form A filings. The Department believes that this section is, and always was, consistent with the Holding Companies Act.

With regard to Form A filings, the Department is statutorily charged with evaluating the transaction pursuant to the standards set forth at 40 P.S. § 991.1402(f)(1). Specifically, the Department must determine whether the “financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer or prejudice the interest of its policyholders.” 40 P.S. § 991.1402(f)(1)(iii). As such, the Department must have complete access to the financial statements of the acquiring party. When the acquiring party is a public entity, such information is readily publicly available. However, when the acquiring party is an individual, the Department would need to evaluate the individual’s personal financial statements, which would necessarily contain sensitive personal financial information, the release of which may compromise the individual’s personal security.

For this reason, the Department has an established process, set forth in 31 Pa. Code § 25.12, that enables the Department to evaluate this sensitive information while still providing the public

access to the portions of the filing so that it may adequately comment on the same. Without such protections, individuals may be unwilling to submit their sensitive financial data for Department review and the Department would be unable to perform its statutory mandate to evaluate Form A filings.

The IFP incorrectly contends that the process for obtaining confidentiality of the personal financial statements, set forth in section 25.12(c)(1), differs for nonpublicly held UCPs and publicly held UCPs. To the contrary, since 2001, both types of entities must explicitly request confidentiality and state the basis therefore and such requests are evaluated by the Department on a case by case basis. However, to clarify that the process for requesting confidential protection is equally applicable to personal financial statements of nonpublicly held UCPs, the Department proposes to amend the third sentence of subsection (c) to reference “personal financial statements” along with “other materials.”

Finally, it is noteworthy that this particular provision within section 25.12(c) was included at the suggestion of the IFP in 2001. As explained by the Department in the preamble to the 2001 amendments at 31 Pa. B. 4406:

IFP recommended that § 25.12(c) be amended to provide for the confidentiality of biographical statements and financial statements of ultimate controlling persons who are not public companies. While certain information in biographical statements would be confidential, for example, the social security number and home address of the person filing the statement, other information in the statement may be public. Therefore, the Department believes that the process in § 25.12(c) for asserting confidentiality is appropriate for biographical statements. *However, the Department agrees that the section should provide for the confidentiality of personal financial statements of nonpublicly held ultimate controlling persons and has so amended § 25.12(c) in this final-form rulemaking.*

(emphasis added). Since 2001, this provision of the regulation has served to provide notification to filers that personal financial statements will be provided confidential treatment if appropriately requested by a nonpublic UCP. The Department believes that the clarification in these final-form amendments with regard to the procedures for requesting such confidential treatment adequately addresses the IFP’s concern while remaining consistent with the provisions of the Holding Companies Act.

Affected Parties

This final-form rulemaking will apply to insurers authorized to do business in this Commonwealth who are members of an insurance holding company system. Additionally, certain provisions of the final-form rulemaking may apply to persons seeking to acquire an interest in a Pennsylvania domestic insurer.

Fiscal Impact

State government

The final-form rulemaking will strengthen and clarify existing regulatory requirements. There will not be material increase in cost to the Department as a result of this final-form rulemaking.

General public

The public will benefit to the extent the final-form rulemaking strengthens financial solvency regulatory requirements for insurers, thereby promoting the ability of the insurance industry to meet obligations under insurance policies.

Political subdivisions

This final-form rulemaking will not impose additional costs on political subdivisions.

Private sector

This final-form rulemaking will not impose significant costs on the transaction of business in this Commonwealth.

Effective Date

This final-form rulemaking will become effective on _____ (30 days after final-form publication in the Pennsylvania Bulletin).

Sunset Date

The Department continues to monitor the effectiveness of regulations on a triennial basis; therefore, a sunset date has not been assigned.

Contact Person

Questions regarding this final-form rulemaking may be addressed in writing to Peter J. Salvatore, Regulatory Coordinator, Insurance Department, 1326 Strawberry Square, Harrisburg, PA 17120, fax (717) 705-3873, psalvatore@pa.gov.

Regulatory Review

Under section 5(a) of the Regulatory Review Act (71 P. S. § 745.5(a)), on _____ the Department submitted a copy of the notice of proposed rulemaking, published at 43 Pa.B. 5996 to IRRC and the Chairpersons of the House Insurance Committee and the Senate Banking and Insurance Committee for review and comment.

Under section 5(c) of the Regulatory Review Act, IRRC and the House and Senate Committees were provided with copies of the comments received during the public comment period, as well as other documents when requested. In preparing the final-form rulemaking, the Department has considered all comments from IRRC, the House and Senate Committees and the public.

Under section 5.1(j.2) of the Regulatory Review Act (71 P. S. § 745.5a(j.2)), on _____ the final-form rulemaking was deemed approved by the House and Senate Committees. Under section 5.1(e) of the Regulatory Review Act, IRRC met on _____ and approved the final-form rulemaking.

Findings

The Commissioner finds that:

(1) Public notice of intention to adopt this final-form rulemaking was given under sections 201 and 202 of the act of July 31, 1968 (P. L. 769, No. 240) (45 P. S. §§ 1201 and 1202) and the regulations thereunder, 1 Pa. Code §§ 7.1 and 7.2.

(2) The adoption of this final-form rulemaking in the manner provided in this order is necessary and appropriate for the administration and enforcement of the authorizing statutes.

Order

The Commissioner, acting under the authorizing statutes, orders that:

(a) The regulations of the Department, 31 Pa. Code Chapter 25, are amended by adding § 25.21a and Form F and amending §§ 25.8, 25.12, 25.13, 25.16, 25.18, 25.20-25.22 and Forms A-E to read as set forth at 42 Pa.B. 5629 and by amending §§ 25.12 and 25.21 to read as set forth in Annex A.

(b) The Department shall submit this order, 43 Pa.B. 5996, and Annex A to the Office of General Counsel and Office of Attorney General for approval as to form and legality as required by law.

(c) The Department shall certify this order, 43 Pa.B. 5996, and Annex A and deposit them with the Legislative Reference Bureau as required by law.

(d) The final-form regulations adopted by this order shall take effect on _____.

MICHAEL F. CONSEDINE,
Insurance Commissioner

Annex A

TITLE 31. INSURANCE

PART I. GENERAL PROVISIONS

Subpart B. SECURITIES AND STOCK TRANSACTIONS

CHAPTER 25. RULES AND PROCEDURAL REQUIREMENTS FOR
INSURANCE HOLDING COMPANY SYSTEMS

- 25.1. Definitions.
- 25.2. Reserved.
- 25.3—25.7 Reserved.
- 25.8. Waivers.
- 25.9. Reserved.
- 25.10. Reserved.
- 25.11. Expenses of experts and consultants.
- 25.12. Forms—general requirements.
- 25.13. Forms—incorporation by reference, summaries and omissions.
- 25.14. Forms—information unknown or unavailable and extension of time to furnish.
- 25.15. Forms—additional information and exhibits.
- 25.16. Acquisition of control—statement filings.
- 25.17. Annual registration of insurers—statement filing.
- 25.18. Summary of registration—statement filing.
- 25.19. Alternative and consolidated registrations.
- 25.20. Disclaimers and termination of registration.
- 25.21. Transactions subject to prior notice—notice filing.
- 25.21a Enterprise Risk Report.**
- 25.22. All dividends and other distributions.
- 25.23. Adequacy of surplus.

§ 25.1. Definitions.

- (a) The following words and terms, when used in this chapter, have the following meanings, unless the context clearly indicates otherwise:

Act—The Insurance Company Law of 1921 (40 P. S. § § 341—991.1718).

Commissioner—The Insurance Commissioner of the Commonwealth.

Corporation—A corporation organized under a law of the Commonwealth or under the laws of another state, or having an office or transacting business in this Commonwealth.

Department—The Insurance Department of the Commonwealth.

Executive officer—A chief executive officer, chief operating officer, chief financial officer, president, treasurer, secretary, controller and other individual performing functions corresponding to those performed by the foregoing officers under whatever title.

NAIC—The National Association of Insurance Commissioners.

Surplus—Total assets less total liabilities as calculated and reported in accordance with the annual statement instructions and accounting practices and procedures manual prescribed by the NAIC or as otherwise required by the Commissioner for annual financial statements filed with the Department.

Ultimate controlling person—A person which is not controlled by another person. An ultimate controlling person may be one or more of the following: individual, corporation, limited liability company, partnership, association, joint stock company, trust, unincorporated organization, or any similar entity or combination of the foregoing who controls another person.

(b) Unless the context otherwise requires, other terms found in this chapter are used as defined in Article XIV of the act (40 P. S. § § 991.1401—991.1413).

§ 25.8. Waivers.

This chapter does not constitute a waiver by the Department of its authority, for the purpose of examining into the affairs of a **[corporation] person** proposing to acquire or offering to acquire voting securities of an insurer or a person which controls an insurer, to have free access to its books and papers which relate to its business, and to the books and papers kept by any of its agents. The Department may summon, and administer the oath to, and examine as witnesses, the directors, officers and agents of the person and other persons, relative to its affairs, transactions and condition.

§ 25.11. Expenses of experts and consultants.

(a) Under sections 1402(f)(3) and 1405(a)(4) of the act (40 P. S. § § 991.1402(f)(3) and 991.1405(a)(4)), the Department may retain attorneys, actuaries, accountants and other experts not otherwise a part of the Department's staff as may be reasonably necessary to assist the Department in the evaluation of a filing under this chapter. The Department will provide the person filing with written notice of the engagement of an outside expert, including the expert's name, the terms of engagement and a cost estimate, and will consider any possible cost-saving alternatives suggested by the person filing.

(b) The cost of experts retained by the Department will be charged to and paid by the person filing the statements or a designee of the person acceptable to the Department.

(c) The Department will require hourly charges for experts retained by the Department be comparable to prevailing rates for the services.

(d) In addition to hourly charges, the Department will require that charges for travel, lodging and food expenses of experts retained by the Department be comparable to prevailing rates for similar services and made in accordance with provisions set forth in letters of engagement.

§ 25.12. Forms—general requirements.

(a) Forms [A—E] A—F located in Appendix A are intended to be guides in the preparation of the statements required by sections 1402—1405 of the act (40 P. S. §§ 991.1402—991.1405). They are not intended to be blank forms which are to be filled in. The forms filed shall contain the numbers and captions of all items, but the text of the items may be omitted if the answers are prepared in a manner that indicates clearly the scope and coverage of the items. Instructions, whether appearing under the items of the form or elsewhere therein, shall be omitted. Unless expressly provided otherwise, if an item is inapplicable or the answer thereto is in the negative, an appropriate statement to that effect shall be made.

(b) Two copies of Forms A and E and one copy of Forms B—D and F, including exhibits and other papers and documents filed as a part thereof, shall be filed with the Commissioner by personal delivery, mail, facsimile or other form of electronic transmission acceptable to the Department. At least one copy shall be signed in the manner prescribed on the form. Unsigned copies shall be conformed. If the signature of a person is affixed under a power of attorney or other similar authority, a copy of the power of attorney or other authority shall also be filed with the form.

(c) One of the filed copies of Form A shall be available for public inspection as of the date the [initial] filing is made; except that copies of personal financial statements of nonpublicly held ultimate controlling persons shall be given confidential treatment. Form A filings also may contain or reference other materials that are confidential, proprietary or privileged under statute, regulation, case law, administrative or court order, or other authority.

(1) If a person filing a Form A wishes to assert that **PERSONAL FINANCIAL STATEMENTS OR OTHER** materials included or referenced within the filing are confidential, proprietary or privileged and should not be available for public inspection, the person shall notify the Department at the time the initial filing is made as follows:

[(1)] (i) Identify the specific information, document, report or other material that is asserted to be confidential, proprietary or privileged.

[(2)] (ii) State the basis upon which the assertion of confidentiality, proprietary or privilege is premised.

[(3)] (iii) Identify the person to whom inquiries regarding the issue of confidential treatment should be directed.

[(4)] (iv) Submit one copy of the filing with the materials asserted to be confidential, proprietary or privileged physically separate from the remainder of the filing, or as otherwise instructed by the Department.

(2) If an applicant requests a hearing on a consolidated basis under section 1402(f)(2.1) of the act, in addition to filing Form A with the Commissioner, the applicant shall file a copy of the Form A with the NAIC in electronic form.

(d) Forms shall be prepared on 8 1/2 inches x 11 inches paper and preferably bound at the top or the top left-hand corner. Exhibits and financial statements, unless specifically prepared for the filing, may be submitted in their original size. Copies of forms, financial statements or exhibits shall be clear, easily readable and suitable for **[photocopying] review and reproduction**. Debits in credit categories and credits in debit categories shall be designated so that they are clearly distinguishable on photocopies. **An insurer may request that the Department accept a form in an electronic format only. Upon the Department's request, an insurer shall prepare an electronic version of the form, which may be submitted by secure e-mail, if this option is available to a company, or on CD-ROM mailed or hand-delivered to the Department.**

(e) Forms shall be completed in the English language and monetary values shall be stated in United States currency. If a financial statement, exhibit or other paper or document filed with the form is in a foreign language, it shall be accompanied by a translation into the English language and monetary value shown in a foreign currency normally shall be converted into United States currency utilizing the conversion rate in effect as of the financial statement date.

§ 25.13. Forms—incorporation by reference, summaries and omissions.

(a) Information required in Form A, B, **[D or E]** or **D—F** located in Appendix A may be incorporated by reference as provided in this subsection if the incorporation would not make the information provided in the form incomplete, unclear or confusing. Information required by an item in Form A, B, **[D or E]** or **D—F** may be incorporated by reference in answer or partial answer to another item. Information contained in a financial statement, annual report, proxy statement, statement filed with a governmental authority or another document may be incorporated by reference in answer or partial answer to an item in Form A, B, **[D or E]** or **D—F** if the document or paper is filed as an exhibit to the form. Excerpts of documents may be filed as exhibits if the documents are extensive. Documents currently on file with the Commissioner which were filed within the immediately preceding 3 years need not be attached as exhibits if there has been no change in the information already on file. References to information contained in exhibits or in documents already on file shall clearly identify the material and shall specifically indicate that the material is to be incorporated by reference in answer to the item.

(b) If an item requires a summary or outline of the provisions of a document, only a brief statement shall be made as to the pertinent provisions of the document. In addition to the brief statement, the summary or outline may incorporate by reference particular parts of an exhibit or document currently on file with the Commissioner which was filed within the immediately preceding 3 years and may be qualified in its entirety by that reference. When two 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 needs be filed with a schedule identifying the omitted documents and setting forth the material details in which the omitted documents differ from the document which is filed.

§ 25.14. Forms—information unknown or unavailable and extension of time to furnish.

[(a) Information required need be given only insofar as it is known or reasonably available to the person filing the form. If required information is unknown and not reasonably available to the person filing, either because the obtaining thereof would involve unreasonable effort or expense, or because it rests peculiarly within the knowledge of another person not affiliated with the person filing, the information may be omitted, subject to the following conditions. The person filing shall:

(1) Give information on the subject as it possesses or can acquire without unreasonable effort or expense, together with the sources thereof.

(2) Include a statement either showing that unreasonable effort or expense would be involved or indicating the absence of an affiliation with the person within whose knowledge the information rests and stating the result of a request made to that person for the information.

(b)] If it is impractical to furnish required information, document or report at the time it is required to be filed, [there may] a separate document shall 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.

(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 30 days after receipt thereof denies the request.

§ 25.15. Forms—additional information and exhibits.

(a) In addition to the information expressly required to be included in Forms [A—E] A—F located in Appendix A, the person filing shall provide further material information, if any, as necessary for the completion or clarity of the information expressly required in the form. The person filing may also file exhibits as desired in addition to those expressly required by the form. The exhibits shall be marked to indicate clearly the subject matters to which they refer. The Commissioner may require the person filing the form to provide additional information as may be necessary to determine compliance with the act.

(b) Changes to **[Form A, B, C, D or E shall] Forms A—F** must include on the top of the first page the phrase[:] "Change No. (insert number) to" and **[shall]** indicate the date of the change and not the date of the original filing.

§ 25.16. Acquisition of control—statement filings.

(a) A person required to file a statement under section 1402 of the act (40 P. S. § 991.1402) shall furnish the required information on Form A located in Appendix A as prescribed by this chapter. If the information requirements in section 1403(c)(2) and the criteria in section 1403(d)(2) of the act (40 P. S. § § 991.1403(c)(2) and 991.1403(d)(2)) (relating to the competitive impact of an acquisition in this Commonwealth) apply to a Form A filing, the person shall also furnish the required information on Form E located in Appendix A as prescribed by this chapter.

(b) A person filing a request under section 1402(g) of the act for an exemption from section 1402 of the act is not required to file a Form A as prescribed by this chapter but shall provide information deemed by the Commissioner as necessary to determine that an offer, request, invitation, agreement or acquisition does either of the following:

(1) Has not been made or entered into for the purpose and will not have the effect of changing or influencing the control of a domestic insurer.

(2) Otherwise is not comprehended within the purposes of section 1402 of the act.

(c) A person required to file a preacquisition notification under section 1403(b) of the act for an acquisition not subject to a Form A filing under section 1402 of the act shall file Form E as prescribed by this chapter.

(d) Under section 1403(c)(2) of the act the Department may require material and information in addition to the information required by Form E as reasonably necessary to determine whether the proposed acquisition, if consummated, would exceed the competitive standard of section 1403(d) of the act. The additional information required may include an opinion of an economist as to the competitive impact in this Commonwealth of an acquisition that would exceed the competitive standard of section 1403(d) of the act. The opinion shall be obtained by the person filing the form and shall be accompanied by a summary of the economist's education and experience indicating the economist's ability to render an informed opinion.

(e) Under section 1402(d) of the act, a person shall file with the Department and send to the insurer an amendment disclosing a material change in the information furnished on Forms A and E within 2 business days after the person learns of the change. If the acquiring person is not an individual, a material change includes changes in directors, executive officers or owners of 10% or more of the voting securities of the acquiring person. In addition, the person shall file with the Department and send to the insurer within 5 business days an amendment disclosing a change other than a material change in the information furnished on Forms A and E arising after the date on which the form was filed but before a determination is made on the filing.

(f) If the person being acquired is deemed to be a "domestic insurer" under section [1402(a)(2)] 1402(a)(2)(i) of the act, the name of the domestic insurer on the first page of Forms A and E shall be indicated as follows: "ABC Insurance Company, a subsidiary of XYZ Holding Company."

(g) If a person deemed to be a "domestic insurer" under section [1402(a)(2)] 1402(a)(2)(i) of the act is being acquired, references to "the insurer" in Forms A and E shall refer to both the domestic subsidiary insurer and the person being acquired.

§ 25.18. Summary of registration—statement filing.

An annual registration statement filed under section 1404 of the act (40 P. S. § 991.1404) shall include the information required on Form C located in Appendix A as prescribed by this chapter. **[A copy of Form C shall be filed in any jurisdiction in which an insurer is authorized to do business, if requested by the chief insurance regulatory official of the jurisdiction.]**

§ 25.19. Alternative and consolidated registrations.

(a) Under section 1404(i) of the act (40 P. S. § 991.1404(i)) an insurer authorized to do business in this Commonwealth may file a registration statement on behalf of an affiliated insurer which is required to register under section 1404 of the act. A registration statement may include information regarding an insurer in the insurance holding company system even if the insurer is not authorized to do business in this Commonwealth. In lieu of filing a registration statement on Form B located in Appendix A, an insurer authorized to do business in this Commonwealth may file a copy of the registration statement or similar report which it is required to file in its state of domicile, if:

(1) The statement or report contains substantially similar information required to be furnished on Form B.

(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. 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 to 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 subsection (a).

(d) An insurer may take advantage of the provisions of section 1404(h) or (i) of the act without obtaining the prior approval of the Commissioner. The Commissioner reserves the right to require individual filings if the Commissioner deems that the filings are necessary in the interest of clarity, ease of administration or the public good.

§ 25.20. Disclaimers and termination of registration.

(a) A disclaimer of affiliation **under section 1404(g) of the act (40 P. S. § 991.1404(g))** or a request for termination of registration under section **[1404(g) and (k) of the act (40 P. S. § 991.1404(g) and (k))] 1404(k) of the act** claiming that a person does not, or will not upon the taking of some proposed action, control another person, referred to as the "subject," within this **[chapter, shall] subsection, must** 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 the affiliates of that person, the number and percentage of shares of the subject's **[voting securities] votes that shareholders would be entitled to cast in the election of directors** which are held of record or known to be beneficially owned, and the number of the shares concerning which there is a right to acquire, directly or indirectly.

(3) The material relationships and bases for affiliation between the subject and the person whose control is denied and the affiliates of that person.

(4) A statement explaining why the person should not be considered to control the subject **along with supporting information.**

(b) A request for termination of registration shall be deemed to have been granted unless the Department, within 30 days after receipt of the request, notifies the registrant otherwise.

§ 25.21. Transactions subject to prior notice—notice filing.

(a) An insurer required to give notice of a proposed transaction under section 1405(a)(2) of the act (40 P. S. § 991.1405(a)(2)) shall furnish the required information on Form D located in Appendix A as prescribed by this chapter.

(b) The insurer shall file an amendment to Form B reporting changes in the information furnished on Form D, including a change in the effective date of the transaction, within 15 days after the end of a month in which the transaction is effectuated.

(c) An insurer may not enter into a proposed transaction if a material change occurs in the information furnished on Form D unless the insurer has filed an amended Form D with the Department at least 30 days prior to entering into the transaction, or a shorter period the Department may permit, and the Department has not disapproved the amended transaction within that time period.

(d) New or amended management agreements, service contracts, tax allocation agreements, guarantees and cost-sharing arrangements (INCLUDING LEASES), involving a domestic insurer and a person in its insurance holding company system must:

- (1) Be filed for prior approval under section 1405(a)(2)(v) of the act.**
- (2) At a minimum and as applicable:**
 - (i) Identify the person providing services and the nature of the services.**
 - (ii) Set forth the methods to allocate costs.**
 - (iii) Require timely settlement, not less frequently than on a quarterly basis, and compliance with the NAIC Accounting Practices and Procedures Manual.**
 - (iv) Prohibit advancement of funds by the insurer to the affiliate except to pay for services defined in the agreement.**
 - (v) State that the insurer shall maintain oversight for functions provided to the insurer by the affiliate and that the insurer shall monitor services annually for quality assurance.**
 - (vi) Define books and records of the insurer to include the books and records developed or maintained under or related to the agreement.**
 - (vii) Specify that the books and records 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.**
 - (viii) Include standards for termination of the agreement with and without cause.**
 - (ix) Include provisions for indemnification of the insurer in the event of gross negligence or willful misconduct on the part of the affiliated providing the services.**
 - (x) Specify that, if the insurer is placed in receivership or seized by the Commissioner under Article V of The Insurance Department Act of 1921 (40 P. S. §§ 221.1—221.63):**
 - (A) The rights of the insurer under the agreement extend to the receiver or Commissioner.**
 - (B) The books and records shall immediately be made available to the receiver or Commissioner immediately upon the receiver or the Commissioner's request.**
 - (xi) Specify that the affiliate does not have an automatic right to terminate the agreement if the insurer is placed in receivership under Article V of The Insurance Department Act of 1921.**
 - (xii) Specify that the affiliate will continue to maintain systems, programs or other infrastructure notwithstanding a seizure by the Commissioner under Article V of The Insurance Department Act of 1921 and shall make them available to the receiver for as long as the affiliate continues to receive timely payment for services rendered.**

(e) For purposes of subsection (d), "amended" does not include:

(1) The continuation of an agreement or contract with no specified term or that is automatically renewed if provisions are not altered.

(2) The addition of an affiliate if the filing evidencing the notification of the addition is made with a domiciliary regulator in another state.

§ 25.21a. Enterprise risk report.

The ultimate controlling person of an insurer required to file an enterprise risk report under section 1404(k.1) of the act (40 P. S. § 991.1404(k.1)) shall furnish the required information on Form F as set forth in Appendix A. If the Commissioner approves a merger or acquisition of control, a revised enterprise risk report shall be filed within 30 days after the end of the month in which the acquisition of control occurs unless otherwise ordered by the Commissioner.

§ 25.22. All dividends and other distributions.

(a) Under section 1404(e) of the act (40 P. S. § 991.1404(e)) a registered insurer is required to report to the Department all dividends and other distributions to shareholders within 5 business days following the declaration thereof and at least 10 days, commencing from the date of receipt by the Department, prior to payment thereof. The report shall include the information set forth in section 1404(e) of the act and subsection [(c)(1)—(5). The] (c)(1)—(6) except that the information set forth in subsection [(c)(5)] (c)(6) is not required for dividends other than dividends reported under section 1405(b) of the act (40 P. S. § 991.1405(b)) and dividends and other distributions filed under section 337.8 of the act (40 P. S. § 459.8).

(b) Under section 337.8 of the act a domestic insurance company, association or exchange may pay dividends and other distributions to shareholders only out of unassigned funds as defined in section 337.8(e) of the act or upon approval of the Commissioner. Information filed with the Commissioner under section 337.8 of the act shall include the information set forth in subsection [(c)(1)—(5)] (c)(1)—(6).

(c) Requests for approval of extraordinary dividends or another extraordinary distribution to shareholders under section 1405(b) of the act shall include the following:

(1) The amount of the proposed dividend or other distribution.

(2) The date established for payment of the dividend or other distribution.

(3) A statement as to whether the dividend or other distribution is to be in cash or other property and, if in property, a description thereof, its cost 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 or other distribution is or is not extraordinary. The work paper shall include the following information with respect to the domestic insurer:

(i) The amounts, dates and form of payment of all dividends and other distributions made within the previous 12 consecutive months ending on the date fixed for payment of the proposed dividend and commencing on the day after the same day of the same month in the last preceding year.

(ii) Surplus, total capital and surplus, as of the 31st day of December next preceding.

(iii) The net income for the 12-month period ending the 31st of December next preceding.

(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 or other distribution approval is submitted.

(6) A statement demonstrating the transaction's compliance with section 1405(d) of the act by describing the effect of the proposed dividend or other distribution 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.

(6) 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 or other distribution approval is submitted.

(d) Reports of dividends and other distributions under this section shall include on the top of the first page the phrase: "Notice of Dividend or Other Distribution" and the name of the insurer.

(e) The insurer shall report changes in information furnished under subsection (c) within 15 days after the end of a month in which the dividend or other distribution is paid. If the dividend or other distribution is required to be reported on Form B located in Appendix A, the insurer shall report the changes as an amendment to Form B. If the dividend or other distribution is not subject to a Form B filing, the report of changes shall state on the top of the first page the phrase: "Change No. (insert number) to," and shall include the date of the change, date of declaration, amount paid, payment date, form of payment and the nature of and reason for the change.

(f) An insurer may not pay a dividend or other distribution under sections 337.8 or 1405(b) of the act (40 P. S. § § 459.8 and 991.1405(b)) if a material change occurs in the information reported under this section unless the insurer has filed an amended report with the Department at least 30 days prior to paying the dividend or other distribution, or a shorter period the Department may permit, and the Department has not disapproved the amended report within that time period.

§ 25.23. Adequacy of surplus.

The factors in section 1405(d) of the act (40 P. S. § 991.1405(d)) to be considered in determining whether an insurer's surplus is reasonable in relation to the insurer's outstanding liabilities and adequate to its financial needs 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 will consider the net effect 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. 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.

APPENDIX A

FORM A

**STATEMENT REGARDING THE ACQUISITION OF CONTROL OF OR
MERGER WITH A DOMESTIC INSURER**

FORM A

**STATEMENT REGARDING THE ACQUISITION OF CONTROL OF OR
MERGER WITH A DOMESTIC INSURER**

(Name of Domestic Insurer)

BY: (Name of Acquiring Person (Applicant))

Filed with the Insurance Department of the Commonwealth of Pennsylvania

Dated:

Name, title, address and telephone number of individual to whom notices and correspondence concerning this form should be addressed:

Item 1. Insurer and Method of Acquisition

State the name, NAIC code number and address of the domestic insurer to which this application relates and a brief description of how control is to be acquired.

Item 2. Identity and Background of the Applicant

A. State the name and address of the applicant seeking to acquire control over the insurer.

B. If the applicant is not an individual, state the nature of its business operations for the past five (5) years or for such lesser period as the person and any predecessors thereof shall have been in existence. Briefly describe the business intended to be done by the applicant and the applicant's subsidiaries.

C. Furnish a chart or listing clearly presenting the identities and the interrelationships among the applicant and all affiliates of the applicant. **[No affiliate need be identified if its total assets are equal to less than 1/2 of 1% of the total assets of an ultimate controlling person affiliated with the applicant.]** Indicate in the chart or listing the percentage of voting securities of each person which is owned or controlled by the applicant or by any other person. If control of any person is maintained other than by the ownership or control of voting securities, indicate the basis of control. As to each person specified in the chart or listing indicate the type of organization (e.g. corporation, trust, partnership) and the state or other jurisdiction of domicile. If court proceedings involving a reorganization or liquidation are pending with respect to any such person, indicate which person, and set forth the title of the court, nature of proceedings and the date when commenced.

Item 3. Identity and Background of Individuals Associated with the Applicant

Furnish a **third-party background check upon request and** biographical affidavit for (1) the applicant if the applicant is an individual or (2) all persons who are directors, executive officers or owners of 10% or more of the voting securities of the applicant if the applicant is not an individual. Biographical affidavits filed with the Department within the immediately preceding 3 years need not be included if there has been no change in the information already on file.

Biographical affidavits shall be signed in the original and shall include the following:

- A. Name and business address.
- B. Present principal business activity, occupation or employment including position and office held and the name, principal business and address of any corporation or other organization in which employment is carried on.
- C. Material occupations, positions, offices or employment during the last five (5) years, giving the starting and ending date of each and the name, principal business and address of any business corporation or other organization in which each occupation, position, office or employment was carried on. If any occupation, position, office or employment required licensing by or registration with any Federal, state or municipal governmental agency, indicate that fact, the current status of the licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith.
- D. Whether or not the person has ever been convicted in a criminal proceeding (excluding minor traffic violations) during the last ten (10) years and, if so, give the date, nature of conviction, name and location of court, and penalty imposed or other disposition of the case.

The Department will accept copies of original, signed biographical affidavits filed with the chief insurance regulatory official of another jurisdiction if the following conditions are met:

- (1) The identity of the chief insurance regulatory official holding the original affidavit and the date of the original filing are provided in this statement.
- (2) The original affidavit was filed within the immediately preceding three years.
- (3) There has been no change in the information required in the affidavit.

Item 4. Nature, Source and Amount of Consideration

A. Describe the nature, source and amount of funds or other considerations used or to be used in effecting the merger or other acquisition of control. If any part of the same is represented or is to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding or trading securities, furnish a description of the transaction, the names of the parties thereto, the relationship, if any, between the borrower, and the lender, the amounts borrowed or to be borrowed, and copies of all agreements, promissory notes and security arrangements relating thereto.

B. Explain the criteria used in determining the nature and amount of the consideration.

C. If the source of the consideration is a loan made in the lender's ordinary course of business and if the applicant wishes the identity of the lender to remain confidential, the applicant must specifically request that the identity be kept confidential.

Item 5. Future Plans of Insurer

Describe any plans or proposals which the applicant may have to declare an extraordinary dividend, to liquidate the insurer, to sell its assets to or merge it with any person or persons or to make any other material change in its business operations or corporate structure or management.

Item 6. Voting Securities to be Acquired

State the number of shares of the insurer's voting securities which the applicant, its affiliates and any person listed in Item 3 plan to acquire, and the terms of the offer, request, invitation, agreement or acquisition, and a statement as to the method by which the fairness of the proposal was arrived at.

Item 7. Ownership of Voting Securities

State the amount of each class of any voting security of the insurer which is beneficially owned or concerning which there is a right to acquire beneficial ownership by the applicant, its affiliates or any person listed in Item 3.

Item 8. Contracts, Arrangements, or Understandings with Respect to Voting Securities of the Insurer

Give a full description of any contracts, arrangements or understandings with respect to any voting security of the insurer in which the applicant, its affiliates or any person listed in Item 3 is involved, including, but not limited to, transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies. The description shall identify the person with whom such contracts, arrangements or understandings have been entered into.

Item 9. Recent Purchases of Voting Securities

Describe any purchases of any voting securities of the insurer by the applicant, its affiliates or any person listed in Item 3 during the twelve (12) calendar months preceding the filing of this statement.

Include in the description the dates of purchase, the name of the purchasers, and the consideration paid or agreed to be paid therefor.

State whether any shares so purchased are hypothecated.

Item 10. Recent Recommendations to Purchase

Describe any recommendations to purchase any voting security of the insurer made by the applicant, its affiliates or any person listed in Item 3, or by anyone based upon interviews or at the suggestion of the applicant, its affiliates or any person listed in Item 3 during the twelve (12) calendar months preceding the filing of this statement.

Item 11. Agreements with Broker-Dealers

Describe the terms of any agreement, contract or understanding made with any broker-dealer as to solicitation of voting securities of the insurer for tender and the amount of any fees, commissions or other compensation to be paid to broker-dealers with regard thereto.

Item 12. Financial Statements and Exhibits

A. Financial statements and exhibits, and **three-year financial projection of the insurer(s)** shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached.

B. The financial statements shall include the annual financial statements of the persons identified in Item 2(c) for the preceding five (5) fiscal years (or for such lesser period as the applicant and its affiliates and any predecessors thereof shall have been in existence), and similar information covering the period from the end of the person's last fiscal year, if that information is available. Statements may be prepared on either an individual basis, or, unless the Commissioner otherwise requires, on a consolidated basis if consolidated statements are prepared in the usual course of business.

The annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that the statements present fairly the financial position of the applicant and the results of its operations for the year then ended, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles or permitted under law. If the applicant is an insurer which is actively engaged in the business of insurance, the financial statements need not be certified, provided they are based on the Annual Statement of that person filed with the insurance department of the person's domiciliary state and are in accordance with the requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of that state.

C. If the acquiring person is an individual, the Department may require the filing of Federal income tax returns in lieu of audited financial statements. Any returns filed shall be given confidential treatment and shall not be subject to subpoena and shall not be made public by the Department or any other person.

D. File as exhibits copies of all tender offers for, requests or invitations for, tenders of, exchange offers for, and agreements to acquire or exchange any voting securities of the insurer and (if distributed) of additional soliciting material relating thereto, any proposed employment, consultation, advisory or management contracts concerning the insurer, annual reports to the stockholders of the insurer and the applicant for the last two fiscal years, and any additional documents or papers required by this chapter.

Item 13. Agreement Requirements for Enterprise Risk Management

Applicant agrees to provide, to the best of its knowledge and belief, the information required by Form F within thirty (30) days after the end of the month in which the acquisition of control occurs and annually thereafter as long as control exists or upon request as necessary for the Commissioner to evaluate enterprise risk of the insurer unless otherwise ordered by the Commissioner.

Item 14. Signature and Certification

Signature and certification required as follows:

SIGNATURE

Pursuant to the requirements of Section 1402 of the act _____ has caused this application to be duly signed on its behalf in the City of _____ and State of _____ on the _____ day of _____, _____.

(SEAL)

Name of Applicant

BY (Name) (Title)

Attest:

(Signature of Officer)

(Title)

CERTIFICATION

The undersigned deposes and says that (s)he has duly executed the attached application dated _____, _____, for and on behalf of _____; that (s)he is the _____ of such
(Name of Applicant) (Title of Officer)
company and that (s)he is authorized to execute and file such instrument. Depo-
nent further says that (s)he is familiar with such instrument and the contents
thereof, and that the facts therein set forth are true to the best of his/her knowl-
edge, information and belief.

(Signature)

(Type or print name beneath)

FORM B

INSURANCE HOLDING COMPANY SYSTEM ANNUAL REGISTRATION
STATEMENT

Filed with the Insurance Department of the Commonwealth of Pennsylvania by
(Name of Registrant) on behalf of the following insurance companies:

Name Address
NAIC Code Number State of Domicile
Date: _____, _____

Name, title, address and telephone number of individual to whom notices and
correspondence concerning this statement should be addressed:

Item 1. Identity and Control of Registrant

Furnish the exact name of each insurer registering or being registered (hereinafter called "the Registrant"), the home office address and principal executive offices of each; the date on which each Registrant became part of the insurance holding company system; and the method(s) by which control of each Registrant was acquired and is maintained.

Item 2. Organizational Chart

Furnish a chart or listing clearly presenting the identities of and interrelationships among all affiliated persons within the insurance holding company system. **[No affiliate need be shown if its total assets are equal to less than 1/2 of 1% of the total assets of an ultimate controlling person within the insurance holding company system unless it has assets valued at or exceeding \$5,000,000.]** The chart or listing should show the percentage of each class of voting securities of each affiliate which is owned, directly or indirectly, by another affiliate.

If control of any person within the system is maintained other than by the ownership or control of voting securities, indicate the basis of such control. As to each person specified in the chart or listing indicate the type of organization (e.g., corporation, trust, partnership) and the state or other jurisdiction of domicile.

Item 3. Ultimate Controlling Person

As to an ultimate controlling person in the insurance holding company system furnish the following information:

- A. Name.
- B. Home office address.

C. Principal executive office address.

D. The organizational structure of the person, i.e., corporation, partnership, individual, trust, etc.

E. The principal business of the person.

F. The name and address of any person who holds or owns 10% or more of any class of voting security, the class of the security, the number of shares held of record or known to be beneficially owned, and the percentage of class so held or owned.

G. If court proceedings involving a reorganization or liquidation are pending, indicate the title and location of the court, the nature of proceedings and the date when commenced.

Item 4. Biographical Information

[Furnish] If the ultimate controlling person is a corporation, an organization, a limited liability company, or other legal entity, furnish the following information for the directors and executive officers of an ultimate controlling person in the form of biographical affidavits signed in the original: the individual's name and address, his or her principal occupation and all offices and positions held during the past five **[(5)]** years, and any conviction of crimes other than minor traffic violations during the past **[ten] five** years. **If the ultimate controlling person is an individual, furnish the following information in the form of a biographical affidavit signed in the original: the individual's name and address, his or her principal occupation and all offices and positions held during the past five years, and any conviction of crimes other than minor traffic violations.** Biographical affidavits filed with the Department within the immediately preceding **[3] three** years need not be included if there has been no change in the information already on file. The Department will accept copies of original, signed biographical affidavits filed with the chief insurance regulatory official of another jurisdiction if the following conditions are met:

(1) The identity of the chief insurance regulatory official holding the original affidavit and the date of the original filing are provided in this statement.

(2) The original affidavit was filed within the immediately preceding 3 years.

(3) There has been no change in the information required in the affidavit.

Item 5. Transactions and Agreements

Briefly describe the following agreements in force, and transactions currently outstanding or which have occurred during the last calendar year, including extraordinary dividends and other material transactions reported under §§ 25.21 and 25.22 of this chapter, between the Registrant and its affiliates:

A. Loans, other investments, or purchases, sales or exchanges of securities of the affiliates by the Registrant or of the Registrant by its affiliates;

B. Purchases, sales or exchanges of assets;

C. Transactions not in the ordinary course of business, including contributions of assets to Registrant;

D. Guarantees or undertakings for the benefit of an affiliate which result in an actual contingent exposure of the Registrant's assets to liability, other than insurance contracts entered into in the ordinary course of the Registrant's business;

E. All management agreements, service contracts and all cost-sharing arrangements;

F. Reinsurance agreements;

G. Dividends and other distributions to shareholders;

H. **[Consolidated tax] Tax** allocation agreements; and

I. Any pledge of the Registrant's stock and/or of the stock of any subsidiary or controlling affiliate, for a loan made to any member of the insurance holding company system.

Sales, purchases, exchanges, loans or extensions of credit, investments or guarantees involving one-half of 1% or less of the Registrant's admitted assets as of the 31st day of December next preceding shall not be deemed material and need not be disclosed.

The description shall be in a manner as to permit the proper evaluation thereof by the Commissioner, and shall include at least the following: the effective date, nature and purpose of the transaction, the nature and amounts of any payments or transfers of assets between the parties, the identity of all parties to the transaction, and relationship of the affiliated parties to the Registrant.

Item 6. Litigation or Administrative Proceedings

A brief description of any litigation or administrative proceedings of the following types, either then pending or concluded within the preceding fiscal year, to which an ultimate controlling person or any of its directors or executive officers was a party or of which the property of an ultimate controlling person or any of its directors or executive officers is or was the subject; give the names of the parties and the court or agency in which the litigation or proceeding is or was pending:

A. Criminal prosecutions or administrative proceedings by any government agency or authority which may be relevant to the trustworthiness of any party thereto; and

B. Proceedings which may have a material effect upon the solvency or capital structure of an ultimate controlling person including, but not necessarily limited to, bankruptcy, receivership or other corporate reorganizations.

Item 7. Statement Regarding Plan or Series of Transactions

The insurer shall furnish a statement that transactions entered into since the filing of the prior year's annual registration statement are not part of a plan or series of like transactions, the purpose of which is to avoid statutory threshold amounts and the review that might otherwise occur.

Item 8. Financial Statements and Exhibits

A. Financial statements and exhibits should be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached.

B. [The] If the ultimate controlling person is a corporation, an organization, a limited liability company, or other legal entity, the financial statements shall include the annual financial statements of any ultimate controlling person in the insurance holding company system as of the end of the person's latest fiscal year. Financial statements are required for an ultimate controlling person who is an individual as well as for a corporation or other type of business organization.

If a holding company system includes more than one ultimate controlling person, annual financial statements are required for each ultimate controlling person unless the Commissioner, in the Commissioner's discretion, finds that annual financial statements for one or more of the ultimate controlling persons are not necessary to carry out the act.

If at the time of the initial registration, the annual financial statements for the latest fiscal year are not available, annual statements for the previous fiscal year may be filed and similar financial information shall be filed for any subsequent period to the extent that information is available. Financial statements may be prepared on either an individual basis, or unless the Commissioner otherwise requires, on a consolidated basis if the consolidated statements are prepared in the usual course of business.

Other than with respect to the foregoing, such financial statement shall be filed in a standard form and format adopted by the NAIC unless an alternative form is accepted by the Commissioner. Documentation and financial statements filed with the Securities and Exchange Commission or audited GAAP financial statements shall be deemed to be an appropriate form and format.

Unless the Commissioner otherwise permits, the annual financial statements shall be accompanied by the certificate of an independent public accountant to the effect that the statements present fairly the financial position of an ultimate controlling person and the results of its operations for the year then ended, in conformity with generally accepted accounting

principles or with requirements of insurance or other accounting principles prescribed or permitted under law. If an ultimate controlling person is an insurer which is actively engaged in the business of insurance, the annual financial statements need not be certified, provided they are based on the Annual Statement **[of the insurer with the chief insurance regulatory official of]** **filed in** the insurer's domiciliary jurisdiction and are in accordance with requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of that jurisdiction. Any ultimate controlling person who is an individual may file personal financial statements that are reviewed rather than audited by an independent public accountant. The review shall be conducted in accordance with standards for review of personal financial statements published in the *Personal Financial Statements Guide* by the American Institute of Certified Public Accountants. Personal financial statements shall be accompanied by the independent public accountant's Standard Review Report stating that the accountant is not aware of any material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles.

C. Exhibits shall include copies of the latest annual reports to shareholders of an ultimate controlling person and proxy material used by an ultimate controlling person; and any additional documents or papers required by this chapter.

Item 9. Form C Required

A Form C, Summary of Registration Statement, must be prepared and filed with this Form B.

Item 10. Corporate Governance and Internal Controls

The insurer shall furnish a 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 will continue to maintain and monitor corporate governance and internal control procedures.

Item 11. Signature and Certification

SIGNATURE

Pursuant to the requirements of Section 1404 of the act, the Registrant has caused this annual registration statement to be duly signed on its behalf in the City of _____ and State of _____ on the _____ day of _____,

(SEAL)

Name of Registrant

BY (Name) (Title)

Attest:

(Signature of Officer)

(Title)

CERTIFICATION

The undersigned deposes and says that (s)he has duly executed the attached annual registration statement dated _____, _____, for and on behalf of _____ ; that (s)he is the _____ of such com
(Name of Company) (Title of Officer)
pany and that (s)he is authorized to execute and file such instrument. Deponent further says that (s)he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his/her knowledge, information and belief.

(Signature)

(Type or print name beneath)

FORM C

SUMMARY OF REGISTRATION STATEMENT

Filed with the Insurance Department of the Commonwealth of Pennsylvania by

(Name of Registrant) on behalf of the following insurance companies:

Name

Address

NAIC Code Number

State of Domicile

Date: _____, _____

Name, title address and telephone number of individual to whom notices and correspondence concerning this statement should be addressed:

Furnish a brief description, including a reference to any amendments filed in the intervening year, of all items in the current annual registration statement which represent changes from the prior year's annual registration statement. The description shall include the date and dollar amount of each change, identify any previous filings as a result of the change by amendment number or by type and date of filing, be in a manner as to permit the proper evaluation thereof by the Commissioner, and shall include specific references to Item numbers in the annual registration statement and to the terms contained therein.

Changes occurring under Item 2 of Form B, insofar as changes in the percentage of each class of voting securities held by each affiliate is concerned, need only be included where the changes are ones which result in ownership or holdings of ten (10) percent or more of voting securities, loss or transfer of control, or acquisition or loss of partnership interest.

Changes occurring under Item 4 of Form B need only be included where: an individual is, for the first time, made a director or executive officer of an ultimate controlling person; a director or executive officer terminates his or her responsibilities with an ultimate controlling person; or in the event an individual is named president of an ultimate controlling person.

If a transaction disclosed on the prior year's annual registration statement has been changed, the nature of the change shall be included.

If a transaction disclosed on the prior year's annual registration statement has been effectuated, furnish the mode of completion and any flow of funds between affiliates resulting from the transaction.

The insurer shall furnish a statement that transactions entered into since the filing of the prior year's annual registration statement are not part of a plan or series of like transactions whose purpose it is to avoid statutory threshold amounts and the review that might otherwise occur.

FORM D

PRIOR NOTICE OF A TRANSACTION

Filed with the Insurance Department of the Commonwealth of Pennsylvania by
(Name of Registrant) on behalf of the following insurance companies:

Name

Address

NAIC Code Number State of Domicile Date: _____, _____

Name, title, address and telephone number of individual to whom notices and
correspondence concerning this statement should be addressed:

Item 1. Identity of Parties to Transaction

Furnish the following information for each of the parties to the transaction:

- A. Name.
- B. Home office address.
- C. Principal executive office address.
- D. The organizational structure, i.e. corporation, partnership, individual, trust, etc.
- E. A description of the nature of the parties' business operations.
- F. Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by any other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties.
- G. If the transaction is with a non-affiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction.

Item 2. Description of the Transaction

Furnish the following information for each transaction for which notice is being given:

- A. A statement as to whether notice is being given under Section 1405(a)(2)(i), (ii), (iii), or (iv) or (v) of the act.
- B. A description of the nature and purpose of the transaction, including the anticipated immediate and long-term effect of the transaction on the financial condition of the insurer.
- C. **A statement of how the transaction meets the fair and reasonable standard of section 1405(a)(1)(i) of the Act (40 P. S. § 991.1405(a)(1)(i)).**
- [C] D. The proposed effective date of the transaction.

E. A copy of the management agreement, service contracts, tax allocation agreement, guarantee or cost-sharing arrangement.

Item 3. Sales, Purchases, Exchanges, Loans, Extensions of Credit, Guarantees, Investments, Pledges of Assets or Contributions to Surplus equal to or exceeding 3% of the insurer's admitted assets or 25% of surplus as regards policyholders reported pursuant to 40 P.S. §991.1405(a)(2)(i). Furnish a brief description of the amount and source of funds, securities, property or other consideration for the sale, purchase, exchange, loan, extension of credit, guarantee, investment, or pledge of assets, including assets to be received by the domestic insurer as a contribution to its surplus; whether any provision exists for purchase by the insurer filing notice, by any party to the transaction, or by any affiliate of the insurer filing notice; a description of the terms of any securities being received, if any; and a description of any other agreements relating to the transaction such as contracts or agreements for services, consulting agreements and the like. If the transaction involves other than cash, furnish a description of the consideration, its cost and its fair market value, together with an explanation and supporting documentation of the basis for valuation.

If the transaction involves a loan, extension of credit or a guarantee, furnish a description of the maximum amount which the insurer will be obligated to make available under the loan, extension of credit or guarantee, the date on which the credit or guarantee will terminate, and any provisions for the accrual of or deferral of interest.

If the transaction involves an investment, guarantee or other arrangement, state the time period during which the investment, guarantee or other arrangement will remain in effect, together with any provisions for extensions or renewals of the investments, guarantees or arrangements. Furnish a brief statement as to the effect of the transaction upon the insurer's surplus and the insurer's accounting treatment.

No notice need be given **under this item** if the maximum amount which can at any time be outstanding or for which the insurer can be legally obligated under the loan, extension of credit or guarantee is less than [5%] **3%** of the insurer's admitted assets or 25% of its surplus as of the 31st day of December next preceding. **Please see item 6 for the reporting of matters below these thresholds.**

Item 4. Loans or Extensions of Credit to a Non-Affiliate

If the transaction involves a loan or extension of credit to any person who is not an affiliate, furnish a brief description of the agreement or understanding whereby the proceeds of the proposed transaction, in whole or in substantial part, are to be used to make loans or extensions of credit to, to purchase the assets of, or to make investments in, any affiliate of the insurer making the loans or extensions of credit, and specify in what manner the proceeds are to be used to loan to, extend credit to, purchase assets of or make investments in any affiliate. Describe the amount and source of funds, securities, property or other consideration for the loan or extension of credit and, if the transaction is one involving consideration other than cash, a description of its

cost and its fair market value together with an explanation of and supporting documentation for the basis of valuation. Furnish a brief statement as to the effect of the transaction upon the insurer's surplus.

No notice need be given if the loan or extension of credit is one which equals less than [5%] 3% of the insurer's admitted assets or 25% of its surplus as of the 31st day of December next preceding.

Item 5. Reinsurance

If the transaction is a reinsurance agreement or modification thereto, as described by Section 1405(a)(2)(iii) of the act **or a reinsurance pooling agreement or modification thereto as described by Section 1405(a)(2)(iii)(C) of the act**, furnish a description of the known and/or estimated amount of liability to be ceded and/or assumed in each calendar year, the period of time during which the agreement will be in effect, and a statement whether an agreement or understanding exists between the insurer and non-affiliate to the effect that any portion of the assets constituting the consideration for the agreement will be transferred to one or more of the insurer's affiliates. Furnish a brief description of the consideration involved in the transaction, and a brief statement as to the effect of the transaction upon the insurer's surplus.

Notice shall be given for all reinsurance pooling agreements including modifications thereto.

No notice need be given for reinsurance agreements or modifications thereto if the reinsurance premium **[is less than 5% of the insurer's surplus as of the 31st day of December next preceding; or the change in the insurer's liabilities or any transfer of assets required to fund the transaction equals or exceeds 25% of the insurer's surplus as of the 31st day of December next preceding, including those agreements which may require as consideration the transfer of assets from an insurer to a nonaffiliate, if an agreement or understanding exists between the insurer and nonaffiliate that any portion of the assets will be transferred to one or more affiliates of the insurer] or the projected reinsurance premium or change in the insurer's liabilities in any of the next three years, in connection with the reinsurance agreement or modification thereto is less than 5% of the insurer's surplus as regards policyholders, as of the 31st day of December next preceding.**

Item 6. Management Agreements, Service Contracts, Tax Allocation Agreements, Guarantees and Cost-Sharing Arrangements reported pursuant to 40 P.S. §991.1405(a)(2)(v).

A. For management agreements and service contracts, furnish:

(1) A brief description of the managerial responsibilities, or services to be performed.

(2) A brief description of the agreement, including a statement of its duration, together with brief descriptions of the basis for compensation and the terms under which payment or compensation is to be made.

B. For cost-sharing arrangements, furnish:

(1) A brief description of the purpose of the agreement.

(2) A description of the period of time during which the agreement is to be in effect.

(3) A brief description of each party's expenses or costs covered by the agreement.

(4) A brief description of the accounting basis to be used in calculating each party's costs under the agreement.

(5) A brief statement as to the effect of the transaction upon the insurer's policyholder surplus.

(6) A statement regarding the cost allocation methods that specifies whether proposed charges are based on "cost or market." If market based, rationale for using market instead of cost, including justification for the company's determination that amounts are fair and reasonable.

(7) A statement regarding compliance with the NAIC Accounting Practices and Procedure Manual regarding expense allocation.

C. For tax allocation agreements and guarantees, furnish:

(1) A brief description of the purpose of the agreement.

(2) A description of the period of time during which the agreement is to be in effect.

(3) A brief statement as to the effect of the transaction upon the insurer's policyholder surplus.

(4) A statement regarding compliance with the NAIC Accounting Practices and Procedure Manual regarding expense allocation.

Item [6]Z. Signature and Certification

Signature and certification required as follows:

SIGNATURE

Pursuant to the requirements of Section 1405 of the act, _____ has caused this notice to be duly signed on its behalf in the City of _____ and State of _____ on the ____ day of _____, _____.

(SEAL)

Name of Applicant

By (Name) (Title)

Attest:

(Signature of Officer)

(Title)

CERTIFICATION

The undersigned deposes and says that (s)he has duly executed the attached notice dated _____, _____, for and on behalf of _____ ; that (s)he is the _____ of such
(Name of Applicant) (Title of Officer)
company and that (s)he is authorized to execute and file such instrument. Depo-
nent further says that (s)he is familiar with such instrument and the contents
thereof, and that the facts therein set forth are true to the best of his/her knowl-
edge, information and belief.

(Signature)

(Type or print name beneath)

FORM E

PRE-ACQUISITION NOTIFICATION STATEMENT OF THE POTENTIAL
COMPETITIVE IMPACT OF A PROPOSED MERGER OR ACQUISITION

(Name of Insurer)

BY: (Name of Acquiring Persons)

Filed with the Insurance Department of the Commonwealth of Pennsylvania

Date:

Name, title, address and telephone number of person completing this statement:

Item 1. Name and Address

State the names and addresses of acquiring persons.

Item 2. Name and Addresses of Affiliated Persons

State the names and addresses of the persons affiliated with those listed in Item 1. Describe their affiliations.

Item 3. Nature and Purpose of Proposed Merger or Acquisition

State the nature and purpose of the proposed merger or acquisition.

Item 4. Nature of Business

State the nature of the business performed by each of the persons identified in response to Item 1 and Item 2.

Item 5. Market and Market Share

State specifically what market and market share the persons identified in Item 1 and Item 2 currently enjoy in this Commonwealth in each insurance market which, under section 1403(b)(2)(v) of the act (40 P. S. § 1403(b)(2)(v)), causes the proposed merger or acquisition not to be exempted from Article XIV of the act. Provide historical market and market share data for each person identified in Item 1 and Item 2 for the past 5 years, or for the number of years the person and any predecessors thereof have been transacting business if less than 5 years, and identify the source of the data. **Provide a determination as to whether the proposed acquisition or merger, if consummated would violate the competitive standards as stated in Section 1403 of the Act (40 P. S. § 991.1403(d)(1)). If the proposed acquisition or merger would violate competitive standards, provide justification of why the acquisition or merger would not substantially lessen competition or create a monopoly in the Commonwealth.**

For purposes of this item, market means direct written insurance premium in this Commonwealth for a line of business as contained in the annual statement required to be filed by insurers licensed to do business in this Commonwealth.

Item 6. Signature and Certification

Signature and certification required as follows:

SIGNATURE

Pursuant to the requirements of Section 1402 of the act _____ has caused this application to be duly signed on its behalf in the City of _____ and State of _____ on the _____ day of _____, _____.

(SEAL)

Name of Applicant

BY (Name) (Title)

Attest:

(Signature of Officer)

(Title)

CERTIFICATION

The undersigned deposes and says that (s)he has duly executed the attached application dated _____, _____, for and on behalf of _____; that (s)he is the _____ of such company
(Name of Applicant) (Title of Officer)
and that (s)he is authorized to execute and file such instrument. Deponent further says that (s)he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his/her knowledge, information and belief.

(Signature)

(Type or print name beneath)

FORM F

ENTERPRISE RISK REPORT

Filed with the Insurance Department of _____

By

E. Business plan of the insurance holding company system and summarized strategies for next 12 months.

F. Identification of material concerns of the insurance holding company system raised by a supervisory college, if any, in last year.

G. Identification of insurance holding company system capital resources and material distribution patterns.

H. Identification of any negative movement, or discussions with rating agencies which may have caused, or may cause, potential negative movement in the credit ratings and individual insurer financial strength ratings assessment of the insurance holding company system (including both the rating score and outlook).

I. Information on corporate or parental guarantees throughout the holding company and the expected source of liquidity should such guarantees be called upon.

J. Identification of any material activity or development of the insurance holding company system that, in the opinion of senior management, could adversely affect the insurance holding company system.

The Registrant/Applicant may attach the appropriate form most recently filed with the U.S. Securities and Exchange Commission, provided the Registrant/Applicant includes specific references to those areas listed in Item 1 for which the form provides responsive information. If the Registrant/Applicant is not domiciled in the U.S., it may attach its most recent public audited financial statement filed in its country of domicile, provided the Registrant/Applicant includes specific references to those areas listed in Item 1 for which the financial statement provides responsive information.

ITEM 2: OBLIGATION TO REPORT.

If the Registrant/Applicant has not disclosed any information pursuant to Item 1, the Registrant/Applicant shall include a statement affirming that, to the best of its knowledge and belief, it has not identified enterprise risk subject to disclosure pursuant to Item 1.

ITEM 3: SIGNATURE AND CERTIFICATION

SIGNATURE AND CERTIFICATION

Signature and certification required as follows:

SIGNATURE

Pursuant to the requirements of Section 1404 of the act, the Registrant has caused this enterprise risk report to be duly signed on its behalf in the City of _____ and State of _____ on the _____ day of _____, _____.

(SEAL)

Name of Registrant

By (Name) (Title)

Attest:

(Signature of Officer)

(Title)

CERTIFICATION

The undersigned deposes and says that (s)he has duly executed the attached enterprise risk report dated _____, _____, for and on behalf of (Name of Company); that (s)he is the (Title of Officer) of such company and that (s)he is authorized to execute and file such instrument. Deponent further says that (s)he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his/her knowledge, information and belief.

(Signature)

(Type or print name beneath)

The Final Form Regulation listed below has been sent to the following:

<i>Reg #</i>	<i>Regulation Title</i>	<i>Date Sent</i>	<i>3/7/2014</i>
<i>11-252</i>	<i>Holding Company Systems</i>		

Mr. Samuel R. Marshall
President
Insurance Federation of Pennsylvania, Inc.
1600 Market St.
Philadelphia, PA 19103
Phone (215) 665-0505 X00000

Letter Co-Author
EMail sammy1@ifpenn.org



March 6, 2014

Mr. David Sumner
Executive Director
Independent Regulatory Review Comm.
333 Market Street, 14th Floor
Harrisburg, PA 17101

Re: Insurance Department Final Regulation No. 11-252, Rules and Procedural Requirements for Insurance Company Holding Systems

Dear Mr. Sumner:

Pursuant to Section 5a(c) of the Regulatory Review Act, enclosed for your information and review is final regulation 31 Pa. Code, Chapter 25, Rules and Procedural Requirements for Insurance Company Holding Systems.

The purpose of this final-form rulemaking is to update Chapter 25 in accordance with amendments made to Article XIV of the act by the act of July 5, 2012 (P. L. 1111, No. 136) (Act 136). Chapter 25 sets forth rules and procedural requirements applicable to insurance holding company systems.

If you have any questions regarding this matter, please contact me at (717) 787-4429.

Sincerely yours,

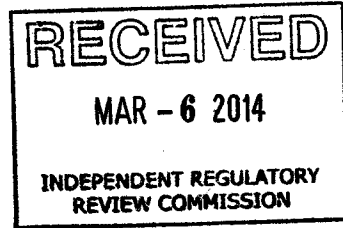
A handwritten signature in black ink that reads "Peter J. Salvatore". The signature is written in a cursive style with a prominent initial "P".

Peter J. Salvatore
Regulatory Coordinator

**TRANSMITTAL SHEET FOR REGULATIONS SUBJECT TO THE
REGULATORY REVIEW ACT**

I.D. NUMBER: 11-252
 SUBJECT: RULES AND PROCEDURAL REQUIREMENTS FOR INSURANCE HOLDING COMPANY SYSTEMS
 AGENCY: DEPARTMENT OF INSURANCE

TYPE OF REGULATION



- Proposed Regulation
- X Final Regulation
- Final Regulation with Notice of Proposed Rulemaking Omitted
- 120-day Emergency Certification of the Attorney General
- 120-day Emergency Certification of the Governor
- Delivery of Tolled Regulation
 - a. With Revisions
 - b. Without Revisions

FILING OF REGULATION

DATE	SIGNATURE	DESIGNATION
		<i>HOUSE COMMITTEE ON INSURANCE</i>
3.6.14	<i>Tina C Peck</i>	MAJORITY CHAIR <u>REP. TINA PICKETT</u>
3-6-14	<i>Linda Lopez</i>	MINORITY CHAIR
		<i>SENATE COMMITTEE ON BANKING & INSURANCE</i>
3-6-14	<i>Colleen Kennedy</i>	MAJORITY CHAIR <u>SEN. DONALD C. WHITE</u>
3-6-14	<i>Alexandra</i>	MINORITY CHAIR
3/6/14	<i>K Cooper</i>	INDEPENDENT REGULATORY REVIEW COMMISSION
		ATTORNEY GENERAL
		LEGISLATIVE REFERENCE BUREAU