

INSURANCE HOLDING COMPANY ACT

FORMS AND INSTRUCTIONS

Table of Contents

Section 1	Authority
Section 2	Purpose
Section 3	Severability Clause
Section 4	Forms - General Requirements
Section 5	Forms - Incorporation by Reference, Summaries and Omissions
Section 6	Forms - Extension of Time to Furnish
Section 7	Forms - Additional Information and Exhibits
Section 8	Definitions
Section 9	Subsidiaries of Domestic Insurers
Section 10	Acquisition of Control - Statement Filing (Form A)
Section 11	Amendments to Form A
Section 12	Acquisition of Section 1311(3) Insurers
Section 13	(Omitted)
Section 14	Annual Registration of Insurers - Statement Filing (Form B)
Section 15	Summary of Registration - Statement Filing (Form C)
Section 16	Amendments to Form B
Section 17	Alternative and Consolidated Registration
Section 18	Disclaimers of Affiliation
Section 19	Transactions Subject to Prior Notice - Notice Filing (Form D)
Section 20	Enterprise Risk Report
Section 21	Extraordinary Dividends and Reporting of All Dividends
Section 22	Adequacy of Surplus

Section 1 **Authority**

These forms are promulgated pursuant to the authority granted by Sections 249, 249a, 438, 1311, 1312, 1325, 1325a, 1341, and 1343 of the Insurance Code of 1956 (the "Code"), as amended.

Section 2 **Purpose**

The purpose of these forms and instructions is to set forth forms and procedural requirements which the Director deems necessary to carry out the provisions of the Insurance Holding Company System Regulatory Act, Chapter 13 of the Code, hereinafter referred to as "the Act." The information called for by these forms is hereby declared to be necessary and appropriate in the public interest and for the protection of the policyholders in this State.

Section 3 **Severability Clause**

If any provision of these forms, or the application thereof to any person or circumstance, is held invalid, such determination shall not affect other provisions or applications of these forms which can be given

effect without the invalid provision or application, and to that end the provisions of these forms are severable.

Section 4 Forms - General Requirements

- A. Forms A, B, C, D and F are intended to be guides in the preparation of the statements required by the Act. They are not intended to be blank forms which are to be filled in. The statements filed shall contain the numbers and captions of all items, but the text of the items may be omitted provided the answers thereto are prepared in such a manner as to indicate clearly the scope and coverage of the items. All instructions, whether appearing under the items of the form or elsewhere therein, are to be omitted. Unless expressly provided otherwise, if any item is inapplicable or the answer thereto is in the negative, an appropriate statement to that effect shall be made.

- B. One complete copy of each statement, including exhibits and all other papers and documents filed as a part thereof, shall be filed with the Director by personal delivery or mail addressed to: Director of the Department of Insurance and Financial Services, P.O. Box 30220, Lansing, MI 48909, or 530 W. Allegan St., 7th Floor, Lansing, MI 48933, Attention: Office of Insurance Evaluation. The copy shall be manually signed in the manner prescribed on the form. If an individual or group of individuals are ultimate controlling persons, the individuals shall sign the Form A, Form B and Form F statements. Unsigned copies shall be rejected. If the signature of any person is affixed pursuant to a power of attorney or other similar authority, a copy of the power of attorney or other authority shall also be filed with the statement.

- C. Statements should be prepared electronically. Statements shall be easily readable and suitable for review and reproduction. Debits in credit categories and credits in debit categories shall be designated so as to be clearly distinguishable as such on photocopies. Statements shall be in the English language and monetary values shall be stated in United States currency. If any exhibit or other paper or document filed with the statement is in a foreign language, it shall be accompanied by a translation into the English language and any monetary value shown in a foreign currency normally shall be converted into United States currency.

Section 5 Forms - Incorporation by Reference, Summaries and Omissions

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

- B. Where an item requires a summary or outline of the provisions of any document, only a brief statement shall be made as to the pertinent provisions of the document. In addition to the statement, the summary or outline may incorporate by reference particular parts of any exhibit or document currently on file with the Director which was filed within the preceding three (3) years and may be qualified in its entirety by such reference. In any case where two (2) or more documents required to be filed as exhibits are substantially identical in all material respects except as to the parties thereto, the dates of execution, or other details, a copy of only one of the documents need be filed

with a schedule identifying the omitted documents and setting forth the material details in which the documents differ from the documents, a copy of which is filed.

Section 6 Forms - Extension of Time to Furnish

If it is impractical to furnish any required information, document or report at the time it is required to be filed, there may be filed with the Director as a separate document:

- (1) Identifying the information, document or report in question;
- (2) Stating why the filing thereof at the time required is impractical; and
- (3) Requesting an extension of time for filing the information, document or report to a specified date. The request for extension shall be deemed granted unless the Director within 60 days after receipt thereof denies the request.

Section 7 Forms - Additional Information and Exhibits

In addition to the information expressly required to be included in Form A, Form B, Form C, Form D and Form F, the Director may request such further material information, if any, as may be necessary to make the information contained therein not misleading. The person filing may also file such exhibits as it may desire in addition to those expressly required by the statement. The exhibits shall be so marked as to indicate clearly the subject matters to which they refer. Changes to Forms A, B, C, D or F shall include on the top of the cover page the phrase: "Change No. [insert number] to" and shall indicate the date of the change and not the date of the original filing.

Section 8 Definitions

- A. "Executive officer" means chief executive officer, chief operating officer, chief financial officer, treasurer, secretary, controller, and any other individual performing functions corresponding to those performed by the foregoing officers under whatever title.
- B. "Ultimate controlling person" means a controlling person who is not controlled by any other person.
- C. Unless the context otherwise requires, other terms found in these forms are used as defined in the Code. Other nomenclature or terminology is according to industry usage if not defined by the Code.

Section 9 Subsidiaries of Domestic Insurers

The authority to invest in subsidiaries under Section 1305 of the Act is in addition to any authority to invest in subsidiaries which may be contained in any other provision of the Insurance Code.

Section 10 Acquisition of Control - Statement Filing

A person required to file a statement pursuant to Section 1311 of the Act shall furnish the required information on Form A, hereby made a part of these forms and instructions.

Section 11 Amendments to Form A

The applicant shall promptly advise the Director of any changes in the information furnished on Form A arising subsequent to the date upon which the information was furnished but prior to the Director's disposition of the application.

Section 12 Acquisition of Section 1311(3) Insurers (Commercial Domestic)

- A. If the person being acquired is deemed to be a "domestic insurer" solely because of the provisions of Section 1311(3) of the Act, the name of the domestic insurer on the cover page should be indicated as follows:

"ABC Insurance Company, a subsidiary of XYZ Holding Company."

- B. Where a Section 1311(3) insurer is being acquired, references to "the insurer" contained in Form A shall refer to both the domestic subsidiary insurer and the person being acquired.

Section 13 (Omitted)

Section 14 Annual Registration of Insurers - Statement Filing

An insurer required to file an annual registration statement pursuant to Section 1324 of the Act shall furnish the required information on Form B, hereby made a part of these forms and instructions, by May 1 of each year for the immediately preceding calendar year.

Section 15 Summary of Registration - Statement Filing

An insurer required to file an annual registration statement pursuant to Section 1324 of the Act is also required to furnish information required on Form C, hereby made a part of these forms and instructions, by May 1 of each year for the immediately preceding calendar year.

Section 16 Amendments to Form B

- A. An amendment to Form B shall be filed within fifteen (15) days after the end of any month in which there is a material change to the information provided in the annual registration statement.
- B. Amendments shall be filed in the Form B format with only those items which are being amended reported. Each amendment shall include at the top of the cover page.

"Amendment No. [insert number] to Form B for [insert year]" and shall indicate the date of the change and not the date of the original filings.

Section 17 Alternative and Consolidated Registrations

- A. Any authorized insurer may file a registration statement on behalf of any affiliated insurer or insurers which are required to register under Section 1324 of the Act. A registration statement may include information not required by the Act regarding any insurer in the insurance holding company system even if the insurer is not authorized to do business in this State. In lieu of filing a registration statement on Form B, the authorized insurer may file a copy of the registration statement or similar report which it is required to file in its State of domicile, provided:

- (1) The statement or report contains substantially similar information required to be furnished on Form B; and
- (2) The filing insurer is the principal insurance company in the insurance holding company system.

- B. The question of whether the filing insurer is the principal insurance company in the insurance holding company system is a question of fact and an insurer filing a registration statement or report in lieu of Form B on behalf of an affiliated insurer, shall set forth a brief statement of facts which

will substantiate the filing insurer's claim that it, in fact, is the principal insurer in the insurance holding company system.

- C. With the prior approval of the Director, an unauthorized insurer may follow any of the procedures which could be done by an authorized insurer under Subsection A above.
- D. Any insurer may take advantage of the provisions of Section 1329 or 1330 of the Code without obtaining the prior approval of the Director. The Director, however, reserves the right to require individual filings if he or she deems such filings necessary in the interest of clarity, ease of administration, or the public good.

Section 18 Disclaimers of Affiliation

A petition for disclaimer of affiliation or a request for termination of registration claiming that a person does not, or will not upon the taking of some proposed action, control another person (hereinafter referred to as the "subject") shall contain the following information:

- (1) The number of authorized, issued and outstanding voting securities of the subject;
- (2) With respect to the person whose control is denied and all affiliates of such person, the number and percentage of shares of the subject's voting securities which are held of record or known to be beneficially owned, and the number of shares concerning which there is a right to acquire, directly or indirectly;
- (3) All material relationships and bases for affiliation between the subject and the person whose control is denied and all affiliates of such person;
- (4) A statement explaining why the person should not be considered to control the subject.

The burden of proof for establishing that an affiliation does not exist shall rest with the petitioner and is subject to approval by the Director.

Section 19 Transactions Subject to Prior Notice - Notice Filing

- A. An insurer required to give notice of a proposed transaction pursuant to Section 1341 of the Act shall furnish the required information on Form D, hereby made a part of these regulations.
- B. Agreements for cost sharing services and management services shall at a minimum and as applicable:
 - (1) Identify the person providing services and the nature of such services;
 - (2) Set forth the methods to allocate costs;
 - (3) Require timely settlement, not less frequently than on a quarterly basis, and compliance with the requirements in the NAIC Accounting Practices and Procedures manual;
 - (4) Prohibit advancement of funds by the insurer to the affiliate except to pay for services defined in the agreement;
 - (5) State that the insurer will maintain oversight for functions provided to the insurer by the affiliate and that the insurer will monitor services annually for quality assurance;

- (6) Define books and records of the insurer to include all books and records developed or maintained under or related to the agreement;
- (7) Specify that all books and records of the insurer are and remain the property of the insurer, held for the benefit of the insurer and are subject to the control of the insurer;
- (8) State that all funds and invested assets of the insurer are the exclusive property of the insurer, held for the benefit of the insurer and are subject to the control of the insurer;
- (9) Include standards for termination of the agreement with and without cause;
- (10) Include provisions for indemnification of the insurer in the event of gross negligence or willful misconduct on the part of the affiliate providing the services;
- (11) Specify that, if the insurer is placed in receivership or seized by the Director under Chapter 81 of the Code:
 - a. All of the rights of the insurer under the agreement extend to the receiver or Director; and,
 - b. All books and records will immediately be made available to the receiver or the Director, and shall be turned over to the receiver or Director immediately upon the receiver or the Director's request;
- (12) Specify that the affiliate has no automatic right to terminate the agreement if the insurer is placed in receivership pursuant to Chapter 81 of the Code;
- (13) Specify that the affiliate will continue to maintain any systems, programs, or other infrastructure notwithstanding a seizure by the Director under Chapter 81 of the Code, and will make them available to the receiver, for so long as the affiliate continues to receive timely payment for services rendered.

Section 20 Enterprise Risk Report

The ultimate controlling person of an insurer required to file an enterprise risk report pursuant to Section 1325a of the Code shall furnish the required information on Form F, hereby made a part of these forms and instructions.

Section 21 Extraordinary Dividends and Reporting of All Dividends

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

- (a) The amounts, dates and form of payment of all dividends or distributions (including regular dividends but excluding distributions of the insurers own securities) paid within the period of twelve (12) consecutive months ending on the date fixed for payment of the proposed dividend for which approval is sought and commencing on the day after the same day of the same month in the last preceding year;
 - (b) Surplus as regards policyholders (total capital and surplus) as of the 31st day of December next preceding;
 - (c) If the insurer is a life insurer, the net gain from operations for the 12-month period ending the 31st day of December next preceding;
 - (d) If the insurer is not a life insurer, the net income less realized capital gains for the 12-month period ending the 31st day of December next preceding and the two preceding 12-month periods; and
 - (e) If the insurer is not a life insurer, the dividends paid to stockholders excluding distributions of the insurer's own securities in the preceding two (2) calendar years;
- (5) A balance sheet and statement of income for the period intervening from the last annual statement filed with the Director and the end of the month preceding the month in which the request for dividend approval is submitted; and
- (6) A brief statement as to the effect of the proposed dividend upon the insurer's surplus and the reasonableness of surplus in relation to the insurer's outstanding liabilities and the adequacy of surplus relative to the insurer's financial needs.
- B. Subject to Section 1343(4) of the Act, any domestic insurer that is a member of an insurance holding company system and declares a shareholder dividend shall report the dividend to the Director within 5 business days after declaring the dividend and at least 10 business days before the payment.
- Subject to Section 1343(5) of the Act, an insurer subject to registration under Section 1324 of the Act shall not pay any extraordinary dividend or make any other extraordinary distribution to its shareholders until 30 days after the Director has received notice of the declaration and has not disapproved or has approved the payment within that period.
- C. All filings pursuant to Section 1343 of the Code, which either report the declaration of all dividends prior to payment or request approval of an extraordinary dividend shall be directed to the attention of the Office of Insurance Evaluation.

Section 22 Adequacy of Surplus

The factors set forth in Sections 403, 436a, 1341, 1342, and 1343 of the Code 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. Instead, the Director will consider the net effect of all of these factors, plus other factors bearing on the financial condition of the insurer. In comparing the surplus maintained by other insurers, the Director will consider the extent to which each of these factors varies from company to company and in determining the quality and liquidity of investments in subsidiaries, the Director will consider the individual subsidiary and may discount or disallow its valuation to the extent that the individual investments so warrant.