Insolvency Readiness:
A Framework for Action

The Insolvency Readiness Framework translates early-action principles into clear, practical steps that build operational capability long before a liquidation order. Each component strengthens cross-jurisdiction coordination, clarifies responsibilities, and ensures Guaranty Funds have the information they need – when they need it.

Designed for real-time use before warning signs become crises, this framework makes the transition to Guaranty Fund support more effective if liquidation occurs. Consistent application across jurisdictions improves readiness, reduces uncertainty, reinforces policyholder protection nationwide and serves state insurance regulation.

Early Preparation	If Preparation Lags
Data is validated and organized for secure transfer	Time is needed to locate, clean, and confirm data before service can begin
Agreements with vendors/TPAs are drafted and ready to sign	Additional onboarding time may be required for vendors/ TPAs
Key operational partners are identified and briefed early	More effort needed to coordinate roles and responsibilities
Clear communications are prepared for immediate release	Increased demand on receivers and guaranty funds to respond to questions

A lag in any one of these areas will likely delay claims payment to policyholders by the guaranty funds. Agreements have been reached for receivers to advance these payments with reimbursement by the guaranty funds, however this is not consistent with state laws and creates additional risks that could deplete the liquidated estate.

Step One: While the Regulator Identifies Risk

Regulators are continuously evaluating carrier financial health, including key metrics like RBC, so that any sign of stress is handled proactively.

From the insolvency perspective, we've seen the factors listed below complicate insolvency and shorten the preparation time for liquidation:

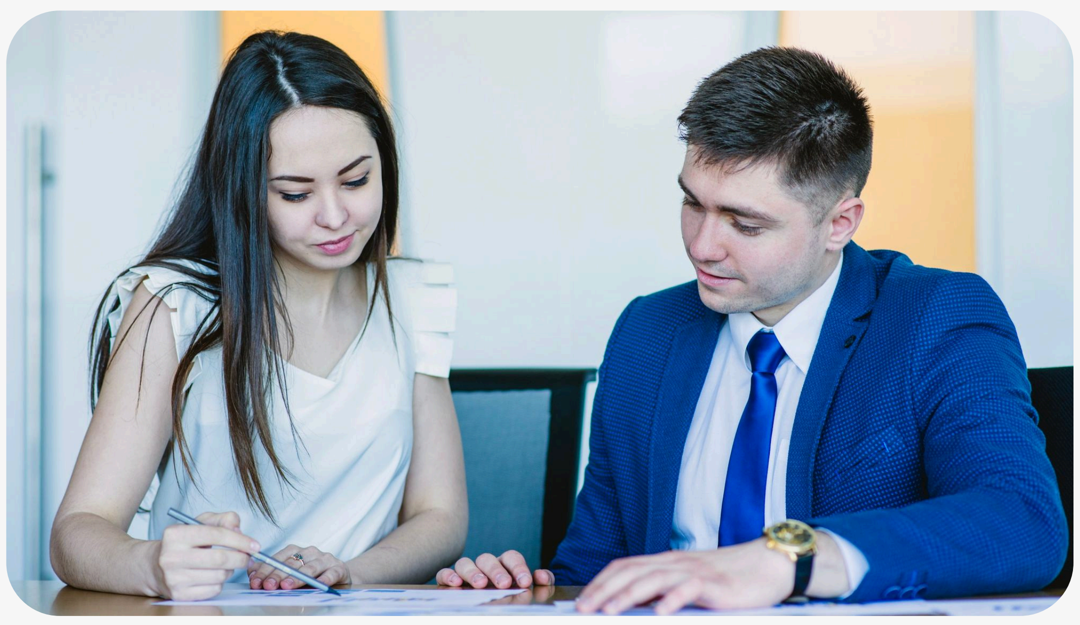
Data readiness
Troubled companies rely on outdated systems, slowing UDS conversion.

Complex structures + co-mingled data
Transfers, divisions, shared systems.

Litigation
Costly judgments drain resources.

Catastrophic losses
Disasters create hardship claims.

Legislative changes
New liabilities (e.g., revival statutes).



Examination-Level Readiness

During financial exams, regulators can apply the NAIC IT examination standards[2] to simplify the liquidation.

The standards point regulators toward checking:

- Outdated vendors or claims systems
- Contracts for data transfer rights and ownership

Goal:
Ensure claim + policy data converts smoothly into NAIC UDS.

*Bonus: Improves risk management, business continuity, and governance.

Other Regulatory Proceedings

Early engagement opportunities arise in **Confidential Supervision, Run-Off, or Rehabilitation.**

Confidential Supervision / Run-Off

- Regulators can test data early with an IT vendor (similar to hiring consultants like actuaries). Keeps data validated and ready for insolvency.[1a]

Rehabilitation

- Focus stays on restoring financial health, but it's also a chance to confidentially plan the transition with guaranty funds using the provided framework.[1b]

Why it Matters

Taking action early substantially reduces downstream disruption. By identifying and resolving complex or outdated data systems, legal risks, and structural obstacles in advance, regulators eliminate critical barriers and prevent these issues from compounding the challenges of a potential future insolvency.

Key Takeaway:
Early examinations and proceedings give regulators a head start on planning–reducing disruption, cutting costs, and keeping consumers protected.

Next Steps:
Once insolvency is **more probable than not**, regulators, NCIGF staff, and the domiciliary guaranty fund should advance through **Steps 2-6 of this Playbook.**

References

[1a] Chapter 1, Section I(C), Paragraph 2 of the NAIC Receivers' Handbook.

[1b] Chapter 6, Section II(E), Paragraph 2 of the NAIC Receivers' Handbook.

[2] Pages 67, 112-114 for information about UDS in the NAIC Financial Condition Examiners Handbook

Step Two: Early Engagement with Guaranty Fund Stakeholders (Approx. 5-15 days)

Once risks are identified, **confidential engagement** with the **domiciliary guaranty fund** supports a seamless transition if liquidation becomes necessary.

Early planning by P&C guaranty funds centers on two priorities:

Open Claim Count

- Get an accurate count by line of business.
- Ensures proper staffing and determines if TPAs are needed for claims processing.

Data Preparation

- Test and confirm data conversion to the NAIC UDS format.
- Missing this step delays data transfer, burdens guaranty funds, and slows payments to policyholders.

Confidentiality

A confidentiality agreement is essential to both guaranty funds and regulators to support the Commissioner's duties.

- NCIGF staff and guaranty funds keep all shared materials confidential and privileged.
- They confirm in writing that non-public information will be protected.
- Guaranty funds defend against discovery requests or consent to insurer intervention if disclosure is sought –and notify all parties of any such request.
- Agreements must be tailored to each state's confidentiality statute for full compliance.

NAIC Endorsed Memorandum of Understanding (MOU)

The NAIC has adopted a recommended confidentiality agreement – the MOU[3] – vetted and endorsed by RITF, RFAWG, and the IT Examination Working Group.

It aligns with Model Law #390 and provides a proven framework for secure early

- Some states adopt evergreen MOUs to provide an ongoing watchlist of distressed companies.
- Others execute case-by-case MOUs, as needed.
- Guaranty funds will also accept regulator-initiated confidentiality agreements; the MOU is one reliable option.

Information Sharing Process

Under confidentiality protection, early coordination can be limited to:

- Regulator(s)
- Receiver
- IT Vendors
- Domiciliary guaranty fund (excluding Board of Directors)
- NCIGF staff (excluding members and Board of Directors)

Why it Matters

These written commitments protect company reputation, enable discreet preparation, and ensure information is used solely for liquidation planning.

Key Takeaway:
Confidential early engagement–grounded in NAIC Model Law #390–enables regulators and guaranty funds to plan securely, act swiftly, and protect consumers if liquidation occurs.

Next Steps:
Once engaged, NCIGF staff and the domiciliary guaranty fund assist Regulators through Steps 3-6 of the Playbook.

Alternative Solution:
If your statutory framework may limit this type of engagement, move to Step 3 and hire an IT vendor experienced with NAIC UDS to begin data evaluation. Regulators can often do this under a confidentiality agreement using the same authority used to hire actuaries or auditors. For P&C insurers, early data preparation is often the top priority once liquidation becomes imminent.

References

[3] Memorandum of Understanding (MOU) adopted by the NAIC Financial Condition (E) Committee in 2022.

Step Three: Data Evaluation (Approx. 30-60 days)

Prioritize Data Integrity

Data integrity is a common obstacle in P&C liquidations. Address it early to prevent delays.

Engage IT Support

Bring in an **IT vendor** to analyze and extract company data for conversion into **NAIC-approved** UDS records.

Enables policyholder protection through faster guaranty fund payments post-insolvency.

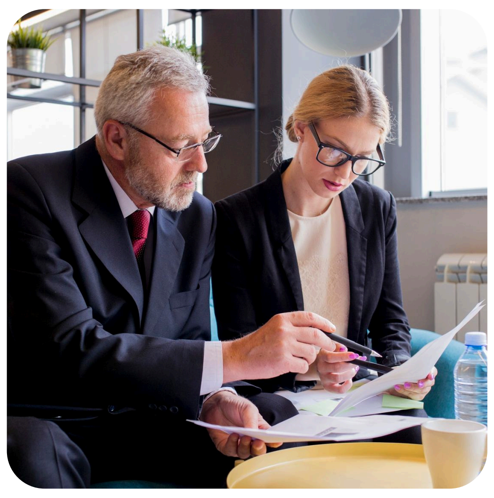
Supports timely financial reporting for both the Receiver and the insolvent company.

Why it Matters

Early data evaluation ensures claims processing starts immediately after liquidation—protecting policyholders and easing the Receiver's administrative load.

Key Takeaway:
Test data early. Fix issues now. It saves time, reduces chaos, and speeds claim payments later.

Learn more:
See details on NAIC UDS and Home - GSI. NCIGF staff can suggest vendors used in past insolvencies. Please reach out to legal@ncigf.org.



Step Four: Insolvency Readiness Review (Approx. 5-15 days)

While recovery is underway, **guaranty funds can support and prepare** by staying proactive and insolvency-ready.

Key Collaboration Areas

Guaranty Funds + Regulators should focus on:

Data evaluation
Test and confirm data accuracy and transferability *(Step 3*)*.

Monitor exposures
Flag business lines or claim types likely to cause high volumes or hardships.

Align staffing
Cross-train teams and keep critical staff.

Prepayment agreements
Where possible, authorize immediate payment of critical claims (e.g., workers' comp, pharmacy benefits).

Why It Matters

Early, coordinated planning saves time and effort once the insolvency occurs and allows all parties to focus on other necessary matters once the insolvency occurs.

Key Takeaway:
Broader coordination, stronger readiness, and capacity across regulators, receivers, and guaranty funds, all while protecting policyholders more seamlessly.

Next Steps:
As risk rises, expand confidential engagement (Steps 4–5) beyond the domiciliary guaranty fund to other affected states—especially those with the largest claim counts.

Step Five: Prepare Collaborative Operations (Approx. 5-15 days)

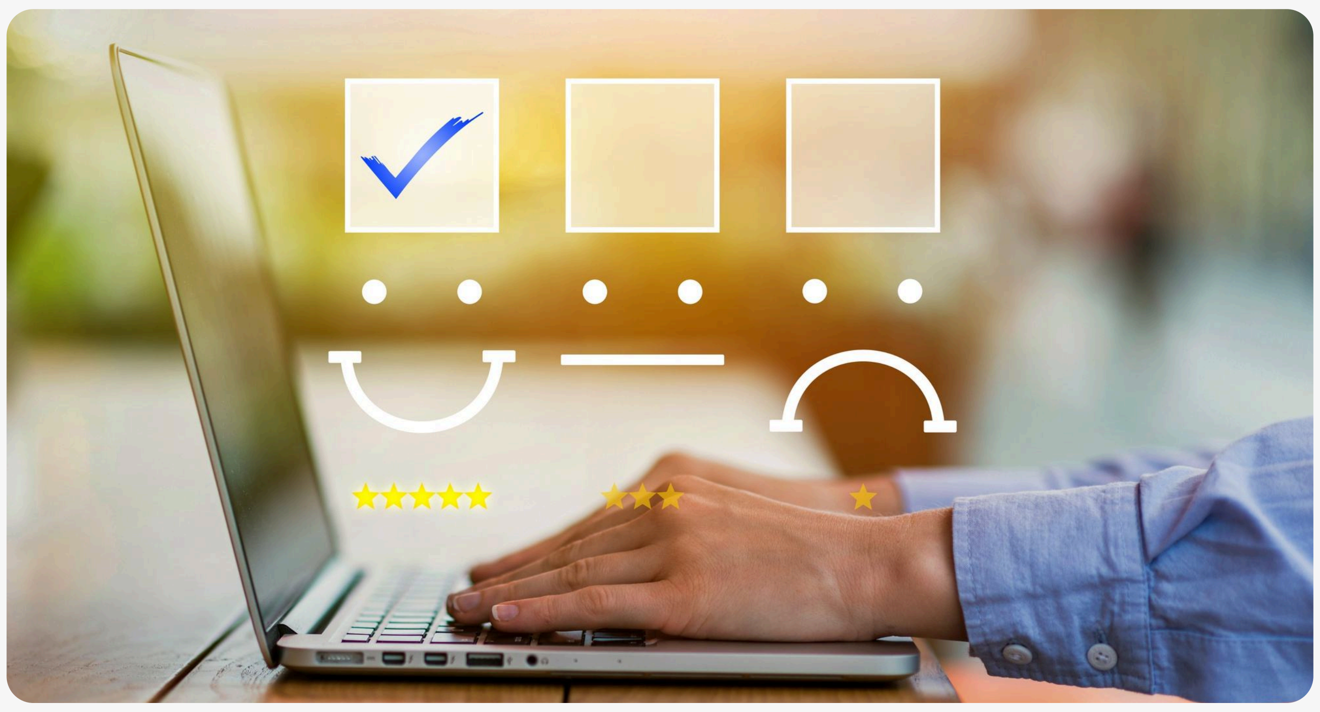
Ready for Liquidation

Guaranty funds use **early information** to stage claims systems, staffing, communications, and financial tools for **immediate activation** at liquidation.

A well-planned handoff means **faster claim intake**, **timely payments**, **clear communication**, and **minimal disruption**—all in line with statutory responsibilities.[4]

What Guaranty Funds Can Do Now

Claim Management



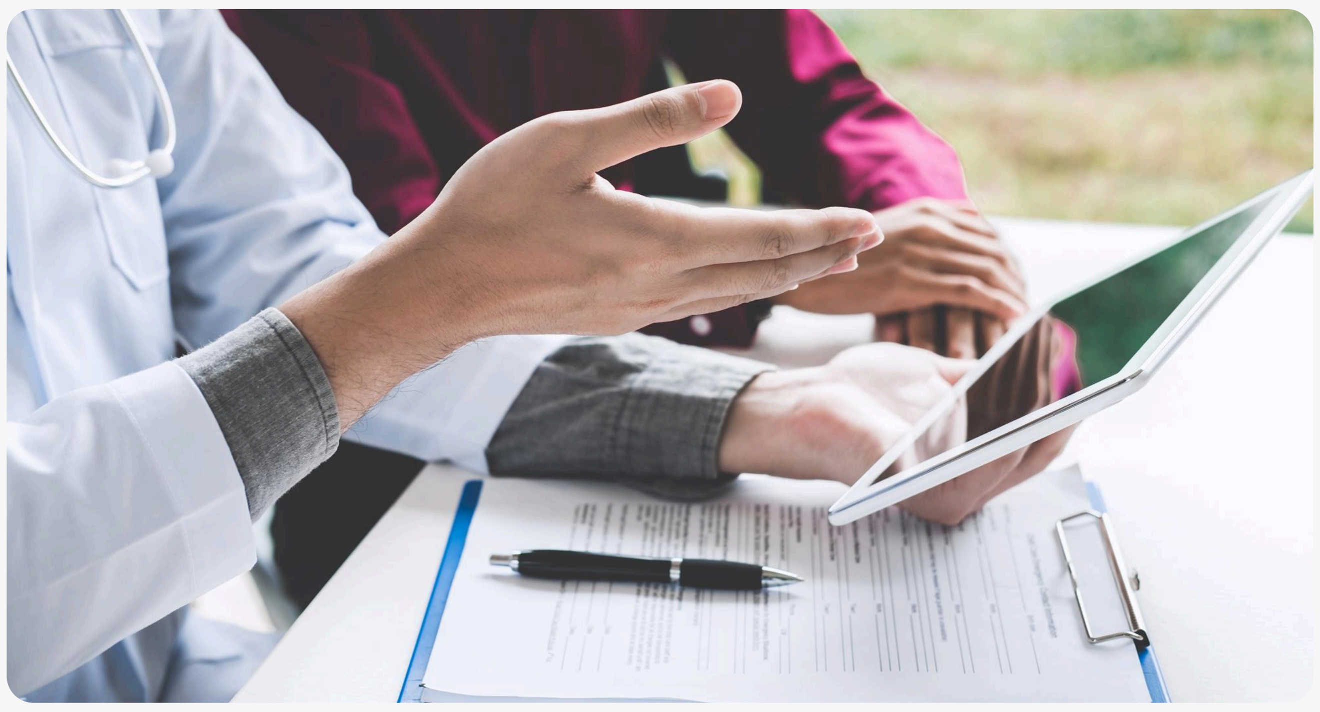
Claims review + triage

Prep intake systems (call centers, UDS validation). Prioritize hardship or time-sensitive claims. Share estimated payment timelines with regulators based on company size, line, and data quality.

Unearned premium refunds

Work with Receiver/Regulator to calculate and return unearned premiums quickly—reducing policyholder disruption and helping consumers secure new coverage faster.

Communications



Policyholder outreach

Develop and regularly update FAQs tailored to the insolvency to cut confusion and streamline claims handling.

Coordinate with NCIGF

In multi-state cases, align operations and share updates under confidentiality protocols.

Staffing

Internal

Cross-train employees to handle multiple insurance lines and redeploy as needed. Engage specialized adjusters for complex claims.

Third-party administrators (TPAs)

Negotiate agreements for immediate capacity—covering cyber, worker's comp, pharmacy benefits, and general adjusting.

Financial Readiness

Assessment readiness

Prepare for potential member insurer assessments. Manage communications to ensure timeliness, transparency, and statutory compliance.

Why it Matters

Early coordination helps regulators ensure a smooth liquidation—speeding claims handling, stabilizing policyholders, and maintaining public confidence in the resolution process.

> **Key Takeaway:**
> Pre-stage systems, align communications, flex staffing, and prepare finances so operations launch seamlessly at liquidation.

References

[4] NAIC Model Laws, Regulations, Guidelines and Other Resources—Fall 2023

Step Six: Maintain Readiness

Plan Early. Protect Better.

Early planning ensures the strongest protection for policyholders and claimants.

The goal isn't to disrupt the Regulators goal of recovery—it's to ensure a clean handoff if liquidation becomes unavoidable. Without it, regulators risk a crisis-mode transfer that frustrates consumers.

Quiet Readiness

As regulators and company leaders work toward recovery, guaranty funds can prepare quietly by:

- Validating NAIC UDS data integrity
- Monitoring potential claim exposures
- Aligning staffing resources
- Ensuring access to liquidity

Why it Matters

This approach supports regulator efforts without disruption—and preserves the guaranty system's ability to step in seamlessly if insolvency occurs.

> **Key Takeaway:**
> Early readiness protects consumers, strengthens recovery, and ensures stability—no matter the outcome.