# INSURER TRANSACTIONS WITH AFFILIATED COMPANIES

## RESPONSE TO SR 159 OF 2025

ECONOMIC ADVISORY SERVICES

**Informational Report**
**November 20, 2026**



LOUISIANA LEGISLATIVE AUDITOR

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LOUISIANA LEGISLATIVE AUDITOR

MICHAEL J. "MIKE" WAGUESPACK, CPA
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November 20, 2026

The Honorable J. Cameron Henry, Jr.,
President of the Senate
The Honorable Phillip R. Devillier,
Speaker of the House of Representatives

Dear Senator Henry and Representative Devillier:

This informational report provides the results of our review of insurer transactions with affiliated companies. This report is in response to Senate Resolution (S.R.) No. 159 of 2025. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the Louisiana Department of Insurance for their assistance during this review.

Respectfully submitted,

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

MJW/aa

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# Louisiana Legislative Auditor

**Michael J. "Mike" Waguespack, CPA**

## Insurer Transactions with Affiliated Companies
## Response to SR 159 of 2025

November 2026

*Audit Control #42240009*

# Introduction

This report provides information on property and casualty insurers' transactions with affiliated companies and their potential impact on solvency and affordability. Most insurers that serve the Louisiana market exist as part of an "insurance holding company system" in which multiple companies have common ownership, and each company is referred to as an "affiliate" of the other companies in the system.[1] Most insurers either pay or receive funds to or from affiliates in the form of reinsurance, management fees, dividends, or other types of transactions. In calendar years (CYs) 2021 through 2025, an average of 413 out of 418 (99%) insurers that sold personal-lines insurance in Louisiana reported engaging in transactions with affiliates each year.

In insurance regulation, **affiliates** are companies that an insurer directly or indirectly controls, is controlled by, or is under common control with.

An affiliate can be a parent company, subsidiary, or a sister company. An affiliate may be another insurer, a provider of insurance-related management or technology services, or a company in a different industry.

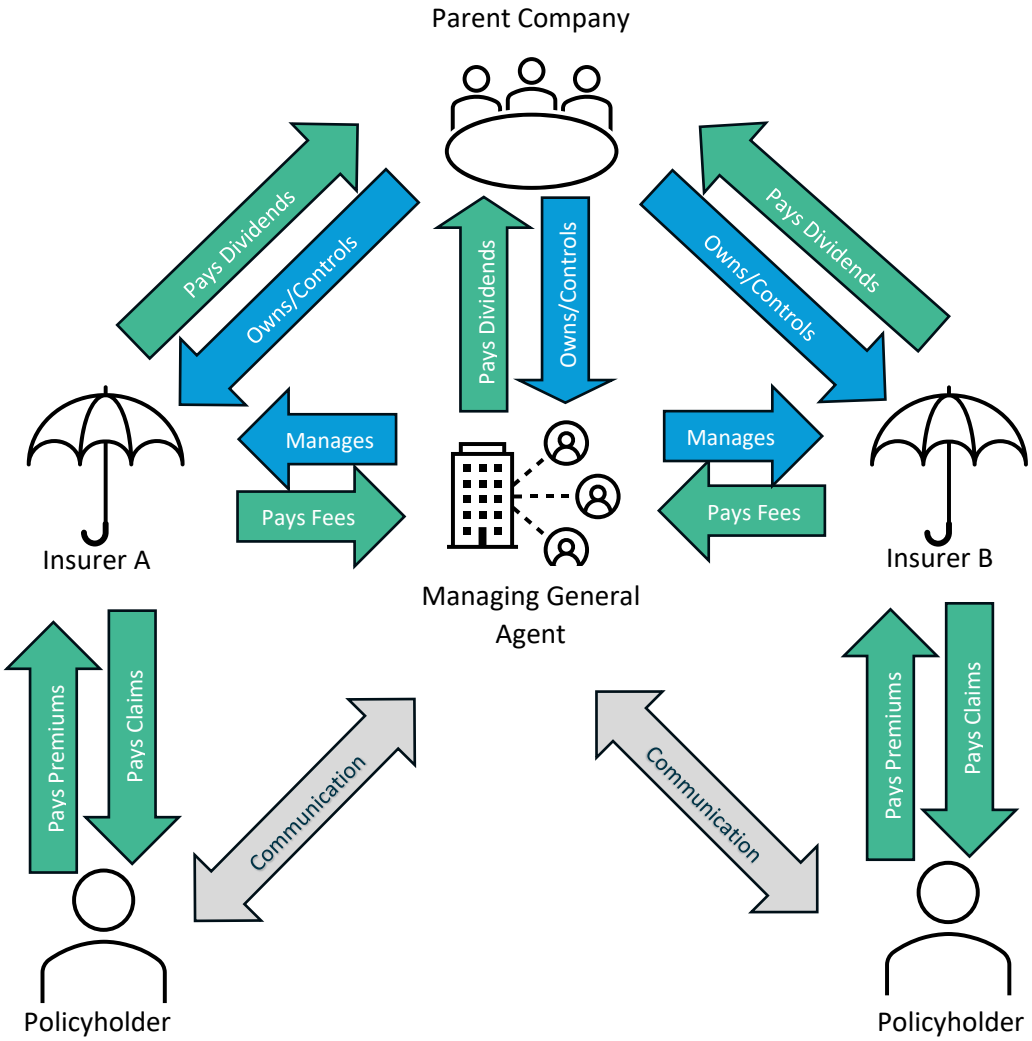
Louisiana law[2] imposes certain requirements on insurance holding company systems, consistent with the model law provisions published by the National Association of Insurance Commissioners (NAIC). Two overarching goals are to protect policyholders from insolvencies and excessively-high rates. Consistent with these goals, the fees and other terms for transactions between affiliated companies in an insurance holding company system are required to be fair and reasonable. To that end, insurance holding company systems are required to report on their affiliate relationships annually and provide prior notice for certain types of transactions to their domiciliary state regulator, and they are required to include information about their affiliate transactions in their annual statement.

The use of holding companies is an important part of how the insurance industry operates and manages risk. Louisiana law prohibits a domestic insurance company from engaging in other types of business, such as selling goods generally, but it allows insurance companies to be part of a holding company system with

[1] R.S. 22:691.2 defines affiliates and insurance holding company systems in the context of the Insurance Holding Company System Regulatory Law.
[2] R.S. 22:691.1 *et seq.*

affiliates that are involved in other industries. For example, some insurers active in Louisiana's market have affiliates in other industries, such as manufacturing. In addition, the use of multiple insurance companies enables insurers to compartmentalize risk. If some of an insurer's business segments suffer extreme losses, it can limit the damage to one subsidiary rather than forcing the entire enterprise to fold. This is what happened when the United Property & Casualty Insurance Company (UPCIC) became insolvent in 2022. UPCIC failed and was liquidated, but the parent company, United Insurance Holding Corporation (UIHC), survived. Policyholders whose policies were with other subsidiaries of UIHC, such as American Coastal Insurance Company, were not impacted. Exhibit 1 shows a simplified example of an insurance holding company system.

**Exhibit 1**
**Example of Insurance Holding Company System**




**Source:** Prepared by legislative auditor's staff.

Aside from legitimate uses of holding company systems, all 50 states and the District of Columbia have enacted laws to regulate insurance holding company systems. If left unregulated, bad actors could arrange for an insurer to pay an affiliated company for services at artificially high or low prices. This could serve as a means of excessively moving funds out of an insurer or overcharging consumers for insurance, undermining solvency and rate fairness protections. Insurers are primarily regulated by their state of domicile for affiliate transactions and their overall financial health. Insurance rates are regulated by the state of issue, i.e., where the policyholder lives or has property. Exhibit 2 summarizes the regulatory processes covered by this report.

**Exhibit 2**
**Overview of Selected Insurance Regulatory Processes**



### Rate Regulation

- Insurers must file rates for policies sold in Louisiana with the Louisiana Department of Insurance before using.
- Goal is to prohibit insurers from charging rates that are inadequate, excessive, or unfairly discriminatory or that do not comply with other legal provisions.



### Solvency Regulation

- Insurers are examined on a five-year schedule and are analyzed quarterly by the domiciliary regulator.
- Goal is to make sure insurer can pay policyholder claims.
- Regulators may order corrective action, such as halting dividends or contributing capital.



### Holding Company Regulation

- Companies must submit certain affiliate transactions to domiciliary regulator for prior approval and annual review.
- Transactions must have fair and reasonable terms and prices.
- Companies cannot distribute funds to affiliates if it would cause the insurer to be inadequately capitalized.

**Source:** Prepared by legislative auditor's staff.

We compiled this information in response to S.R. 159 of the 2025 Regular Session, which asked our office and the Louisiana Department of Insurance (LDI) to examine affiliated company relationships disclosed in regulatory filings, categorize the nature of payments made, assess whether such payments affected reported losses, surplus levels, or rate filings; and summarize findings from examinations by Louisiana and other state insurance departments related to such transactions.

To conduct this review, we obtained property and casualty annual statement filings from NAIC and analyzed summary data on affiliate transactions reported therein. Annual statements are prepared by insurers, audited by independent CPAs, and warehoused by NAIC. Insurers are required to provide a full and true statement of their assets, liabilities, condition, and affairs on their annual statement, although the annual statements of insurers based outside the United States (alien insurers) relate only to their transactions and affairs in the United States unless the commissioner requires otherwise. This means that the results in the annual statements include nationwide activity, as well as worldwide activity for insurers domiciled in the United States. LDI also provided us with information on their rate approval and financial examination processes as they pertain to affiliated company transactions, as well as information on financial examinations and holding company transaction reviews. Per the resolution, we focused on insurers who wrote personal lines coverage for property and automobile-related perils in Louisiana during the year 2021 through 2024, and we also included data for 2025. This includes the homeowners, farmowners, dwelling fire and allied lines, and private passenger automobile lines of coverage.[3] We included admitted insurers as well as surplus lines carriers.

The objective of this review was:

**To provide information on insurers' affiliated company transactions and potential recommendations.**

Our results are summarized on the next page and discussed in detail throughout the remainder of the report. Appendix A contains LDI's response. Appendix B contains our methodology. Appendix C contains additional detail on affiliate transaction reporting, and Appendix D shows net affiliate payments as a percentage of surplus.

**Informational reports are intended to provide more timely information than standards-based performance audits. While these informational reports do not follow *Government Auditing Standards*, we conduct quality assurance activities to ensure the information presented is accurate. We provided a draft to the Louisiana Department of Insurance and incorporated its feedback throughout this informational report.**

[3] The exact lines covered, along with their NAIC line codes, are fire (1.0), allied lines (2.1), homeowners (3.0), farmowners (4.0), private passenger auto no-fault (19.1), other private passenger auto (19.2), and private passenger auto property damage (22.1). We included insurers if they had direct premium written greater than zero for any of the calendar years 2021 through 2024.

# Objective: To provide information on insurers' affiliated company transactions and potential recommendations.

Overall, we found the following:

- **Affiliate transactions accounted for an average of 5.4% of personal lines insurance premiums in Louisiana in 2021 through 2025, although this varied significantly between companies.** Almost all insurers, 99% of those that sold personal lines property and casualty insurance in Louisiana, had affiliate transactions. The most common transaction with affiliates was reinsurance, while shareholder dividends had the largest net impact across all insurers.

- **On average, insurers that engage in affiliate transactions have similar insurance rates for consumers, but those that have management agreement, service contract, and tax sharing arrangement (MST) transactions or assume reinsurance from affiliates are less likely to be very highly capitalized.** The correlation between affiliate transaction usage and capitalization ratios does not mean that these transactions inherently have a negative impact on solvency, but it does provide additional motivation for such transactions to be considered as part of solvency regulation. We recommend that LDI consider collecting and analyzing more data from insurers to better understand the relationship between affiliate transaction usage, risk assessment, and residual risk acceptance.

- **LDI disapproved three out of 36 affiliate transaction agreements submitted to it for prior approval and had examination findings related to affiliate transactions on seven of the 13 examinations it has conducted since 2021.** We recommend that LDI consider collecting additional data from insurers as part of the rate review process to ensure that rates are not excessive or inadequate.

This information is discussed in more detail in the sections below.

## Affiliate transactions accounted for an average of 5.4% of personal lines insurance premiums in Louisiana in 2021 through 2025, although this varied significantly between companies.

Insurers report information on their transactions with affiliates in multiple places in their annual statement. This section primarily focuses on Schedule Y, Part 2, which provides an overall summary of these transactions, showing the net flow into and out of each entity in a holding company group, by transaction type. The information that each company reports in Schedule Y, Part 2, is not specific with regard to territory or line of coverage; instead, it reflects the total worldwide, company-wide dollar amount paid or received by each company to or from its affiliates. There are seven different types of transactions included in this exhibit. A description of various sources of data on affiliate transactions and an overview of these seven types of transactions are provided in Appendix C.

**Among insurers that sold personal lines insurance in Louisiana during CY 2021 through 2025, almost all (413 out of 418, or 99%) reported some kind of affiliate transaction.** The most common categories of transactions are reinsurance, management services, dividends, and capital contributions. At least one insurer operating in Louisiana engaged in each type of transaction, on each side of the transaction, either as a net payor or a net recipient of funds. For example, some insurers pay their affiliates as part of MST agreements, while other insurers are net recipients of funds under such transactions. For MST agreements, shareholder dividends, income from guarantees, and income from reinsurance, the majority of the insurers active in Louisiana that engage in each type of transaction do so as net payers. In contrast, shareholder dividends, purchases or sales of other securities, and other transactions not in the ordinary course of business more commonly result in a net inflow. Exhibit 3 shows the types of transactions and the number of companies reporting them, and whether the net flow of funds was a negative outflow to the affiliate or a positive inflow from the affiliate. If a company both pays and receives funds through a particular type of transaction, Schedule Y, Part 2 will only report the net amount, and Exhibit 3 classifies them based on whether that net amount is positive, negative, or zero. As seen in the exhibit, almost all companies, an average of 413 (99%) of the 418 that sold personal-lines insurance in Louisiana each year, had some kind of transaction with their affiliates.

**Management agreements, service contracts, and tax sharing (MST) agreements** are a common means by which insurers organize and fund management and administrative activities for the affiliated entities within an insurance holding company system.

A **managing general agent (MGA)** agreement is reported as an MST agreement if the MGA and the insurer it serves are affiliates.

**Exhibit 3**
**Number of Companies Receiving or Paying Affiliates for Specific Services**
**CY 2021 through 2025 Annual Average**

| Type of Transaction | Pays Affiliate | Zero Net Payment Reported | Receives Payment from Affiliate | Total Number of Companies |
|---|---|---|---|---|
| MST Agreements | 193 | 174 | 51 | 418 |
| Shareholder Dividend | 118 | 256 | 44 | 418 |
| Capital Contribution | 45 | 305 | 68 | 418 |
| Purchases/Sales of Other Securities | 22 | 371 | 25 | 418 |
| Income/Disbursements from Guarantees | 2 | 415 | 1 | 418 |
| Income/Disbursements from Reinsurance* | 275 | 27 | 116 | 418 |
| Other Transactions, Not in Ordinary Course of Business | 6 | 402 | 10 | 418 |
| **Net Total Effect, All Transactions** | **298** | **5** | **115** | **418** |

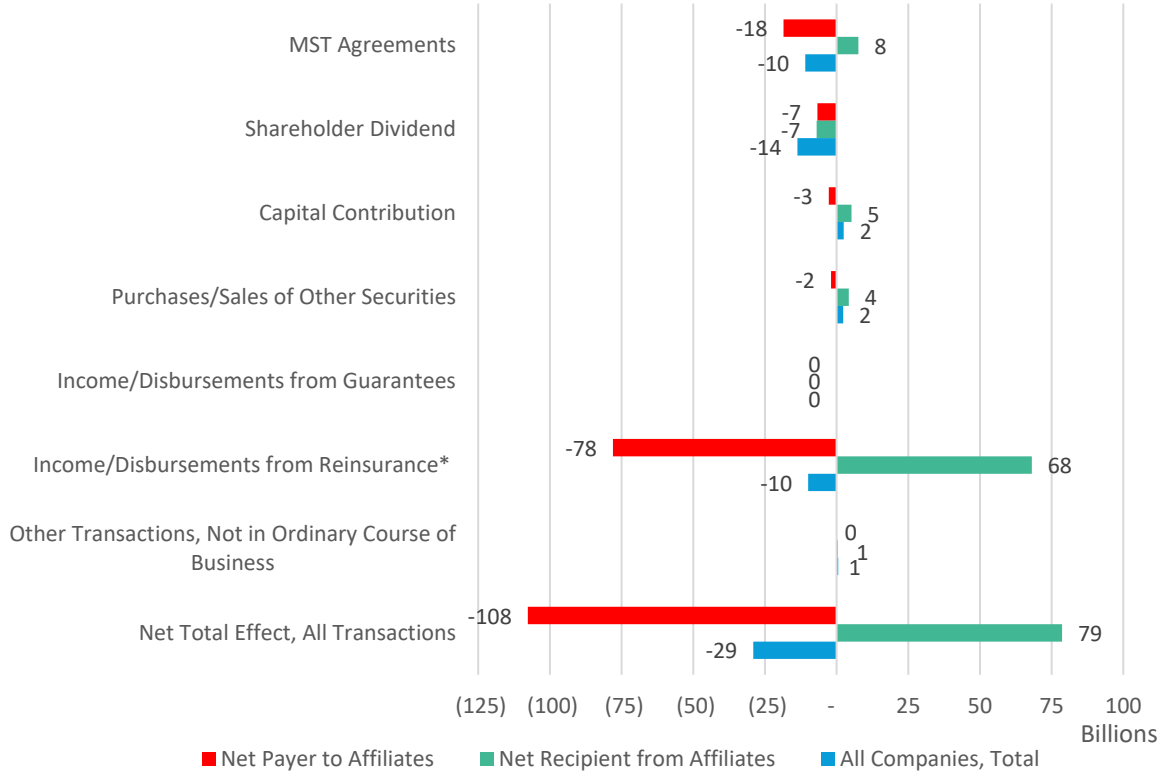
* We estimated reinsurance flows using Schedule F reinsurance data instead of using Schedule Y data so that we could include reinsurance pooling agreements, which are excluded from Schedule Y, Part 2, per NAIC's instructions.
**Note:** Includes worldwide, company-wide activities for insurers writing personal lines insurance in Louisiana.
**Source:** Prepared by legislative auditor's staff based on analysis of annual statement filings.

**The net effect of affiliate transactions was that insurers paid $29.1 billion per year to affiliates.** This represents $107.7 billion paid, net of $78.7 billion received, by Louisiana insurers to or from their affiliates. The largest category, in terms of the gross flow of funds in or out, was reinsurance. Insurers that had net payments to affiliates paid $78.7 billion, while those that were net recipients received $68 billion, netting to $10 billion in outflows each year. The largest transaction type in terms of the net total impact across all insurers was shareholder dividends, which were $13.6 billion per year, or 47% of the total net payments out. In the aggregate, across all transaction types, the annual net outflows were 5.6% of direct premiums written, or 4.7% of policyholder surplus. Exhibits 4 and 5 show the amounts paid and received for each type of transaction in dollars and as a percentage of direct premium written for the insurers in each group. Appendix Exhibit D.1 shows amounts paid and received as a percentage of policyholder surplus. As seen in the exhibits, reinsurance is the largest category, both in terms of the absolute dollars transferred as well as when measured in comparison to premiums and surplus.

**Direct premium** is the premium that an insurer receives or earns for policies that it issues to its own policyholders, before accounting for reinsurance.

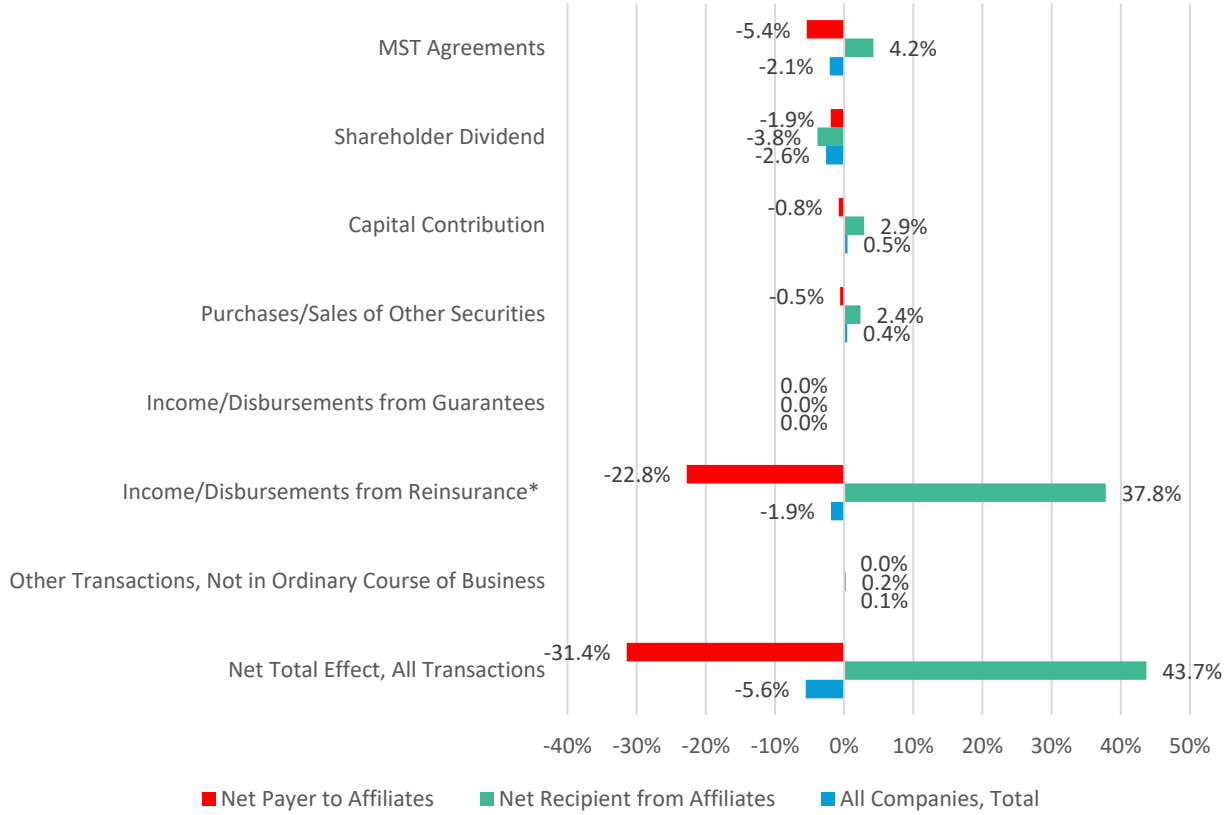
**Policyholder surplus** (**surplus**) is the value of admitted assets that an insurer has in excess of its liabilities, based on statutory accounting principles.

## Exhibit 4
## Net Payments from or to Affiliates, by Transaction Type
## CY 2021-2025 Average, in Billions of Dollars




***** We estimated reinsurance flows using Schedule F reinsurance data instead of using Schedule Y data so that we could include reinsurance pooling agreements, which are excluded from Schedule Y, Part 2, per NAIC's instructions.
**Note:** "Net payer to affiliates" and "net recipient from affiliates" categories are based on the direction of the total net flow for all transaction types. Amounts reflect worldwide, company-wide activities for insurers writing personal lines insurance in Louisiana.
**Source:** Prepared by legislative auditor's staff based on analysis of insurer annual statements.

**Exhibit 5**
**Net Payments from or to Affiliates, by Transaction Type**
**CY 2021-2025 Average, as a percentage of Direct Premium Written**



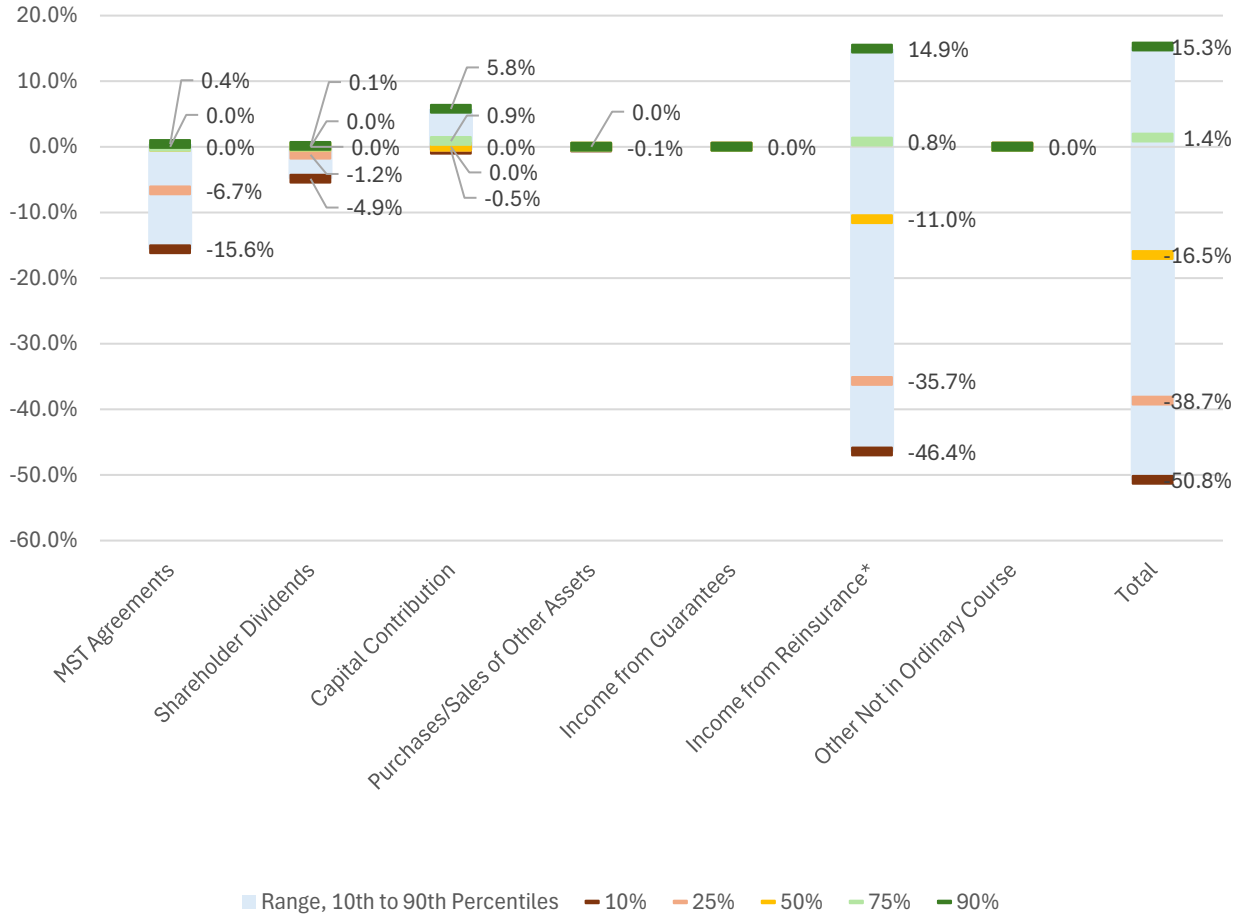

***** We estimated reinsurance flows using Schedule F reinsurance data instead of using Schedule Y data so that we could include reinsurance pooling agreements, which are excluded from Schedule Y Part 2, per NAIC's instructions.
**Note:** "Net payer to affiliates" and "net recipient from affiliates" categories are based on the direction of the total net flow for all transaction types. Percentages for "Net Payer to Affiliates" and "Net Recipient from Affiliates" will not total to the "All Companies, Total" percentage because the denominators are the direct premium written for each of those three categories. Amounts include worldwide, company-wide activities for insurers writing personal lines insurance in Louisiana.
**Source:** Prepared by legislative auditor's staff based on analysis of insurer annual statements.

**Affiliate payments commonly ranged from a 38.7% outflow to a 1.4% inflow relative to each insurer's direct and assumed premiums written, with the median insurer having a 16.5% net outflow to its affiliates.** To understand the impact of affiliate fees on individual insurers, it can be helpful to compare the amounts paid or received relative to each insurer's direct and assumed premium revenue.[4] This shows the magnitude of affiliate transactions relative to the size of each individual insurer. Exhibit 6 shows the range of affiliate transactions as a percentage of direct and assumed premiums written, along with

[4] Direct and assumed premiums measure the gross revenue an insurer takes in from its own policies as well as those it assumes as a reinsurer for its affiliates. Some insurers assume significantly more premiums than they receive from their direct business, so analyzing direct premiums only for individual insurers can understate an individual insurer's true size.

various percentiles showing the distribution. This exhibit reinforces the results shown previously that reinsurance is the most impactful category of affiliate transaction. Ten percent of insurers had an overall average net payment to their reinsurers of 46.4% or more, while 10% received 14.9% or more. MST agreements ranged from 15.6% net outflows to 0.4% net inflows for the 10th and 90th percentiles of insurers, respectively. This exhibit confirms that the results shown in the previous exhibits, which were aggregated across all insurers, are rather representative of the widespread use of affiliate transactions and the broad impact of these transactions on a large number of insurers.

**Exhibit 6**
**Affiliate Transactions as a Percentage of Direct and Assumed Premiums**
**CY 2021-2025 Average**




* We estimated reinsurance flows using Schedule F reinsurance data instead of using Schedule Y data so that we could include reinsurance pooling agreements, which are excluded from Schedule Y Part 2, per NAIC's instructions.
**Note:** Amounts include worldwide, company-wide activities for insurers writing personal lines insurance in Louisiana. Percentages were calculated using direct and assumed written premiums as the denominator.
**Source:** Prepared by legislative auditor's staff based on analysis of annual statement data.

**Reinsurance was the most common affiliate transaction, with funds typically flowing from the ceding insurer to the assuming reinsurer.** Besides looking at the flow of funds between insurers and their affiliated reinsurers, we can also look at the type of reinsurance transaction, i.e., whether the insurer in question was the ceding or assuming party. During CY 2021-2025, 369 (88.3%) of the 418 insurers operating in the state ceded reinsurance to an affiliate, making this the most common affiliate transaction identified. However, only 214 insurers (51.2%) assumed reinsurance from an affiliate. The aggregate flow of funds in a reinsurance transaction is typically from the ceding insurer to the assuming insurer, although funds can flow in the opposite direction, particularly when losses are above average or when a catastrophe occurs.[5] This can be seen when analyzing the aggregate flow of funds from reinsurance for each insurer based on its role in the transaction, as shown in Exhibit 7. For insurers that cede only, the net outflows for reinsurance were $43.5 billion per year. However, for those that assume only or that both cede and assume, net inflows from affiliates for reinsurance were $34.2 billion.

**Reinsurance Terminology**

**Reinsurance** is when an insurer pays another insurer, who will reimburse the former for some or all of its losses. Reinsurance is commonly described as insurance for insurance companies.

**Ceding** is when an insurer pays premiums to a reinsurer, and receives payment from the reinsurer for losses.

**Assuming** is the same transaction, but viewed from the perspective of the reinsurer. An assuming reinsurer receives premiums, and pays losses.

Most of the insurers in this study (78.2%) both cede and assume reinsurance to or from another insurer, whether affiliated or unaffiliated.

**Exhibit 7**
**Affiliate Reinsurance Cash Flows, by Role in Transaction**
**Average Annual Totals, in Millions**
**CY 2021-2025**

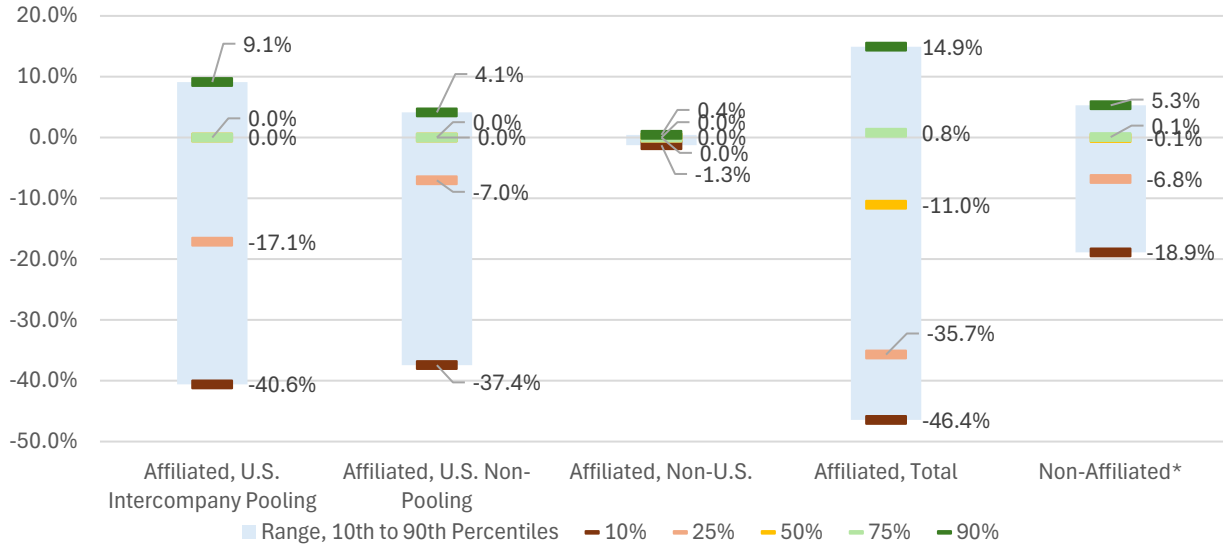
| Role in Affiliate Reinsurance Transactions | Paid to affiliates | Received from Affiliates | Grand Total |
|---|---|---|---|
| Cede Only | -$45,208.1 | $1,742.6 | -$43,465.4 |
| Assume Only | -15.1 | 3,495.2 | 3,480.1 |
| Both Cede and Assume | -36,834.1 | 67,515.3 | 30,708.2 |
| None* | -11.3 | 301.9 | 290.6 |
| **Total** | **-$82,077.6** | **$73,091.1** | **-$8,986.5** |

* We identified insurers' roles in affiliate reinsurance transactions based on their premiums written, as reported in the Underwriting and Investment Exhibit, Part 1B. The amounts shown here are losses and loss adjustment expenses, which can be incurred after the premium is written.
**Note:** Amounts include worldwide, company-wide activities for insurers writing personal lines insurance in Louisiana.
**Source:** Prepared by legislative auditor's staff using information from annual statements.

[5] Under Statement of Statutory Accounting Principles (SSAP) No. 62R, a reinsurance transaction cannot be classified as such unless it is reasonably possible for the assuming reinsurer to experience a significant loss, or unless the ceding company has ceded substantially all of the insurance risk to the reinsurer.

**Affiliate reinsurance transactions account for the majority of reinsurance premium ceded or assumed by insurers writing in Louisiana, with pooling reinsurance being the largest category.** Pooling reinsurance is a common arrangement in which multiple insurers that are part of a holding company system can pool their risks. The pool generally serves to combine the pooled premiums and losses for all of the insurers participating in the pool, and each insurer shares a pre-determined percentage of the pool's premiums and losses.[6] In other words, if one entity in the pool has a bad year with high losses, but the other members have more normal years, this serves to spread the high losses over a wider base of premiums. Other non-pooling affiliate transactions are also common, although they typically account for a smaller flow of funds as a percentage of premiums. Reinsurance transactions with non-US affiliates are small, rarely accounting for more than 1% of premiums in either direction. The remaining flows for reinsurance are comprised of non-affiliated insurers, whether based in the U.S. or elsewhere, as well as mandatory and voluntary pools and protected cells.[7] Exhibit 8 shows reinsurance flows by type of reinsurance, measured as a percentage of direct and assumed premiums written.

**Exhibit 8**
**Net Fund Flows by Reinsurance Type, As a Percentage of Direct and Assumed Premium**
**CY 2021-2025**



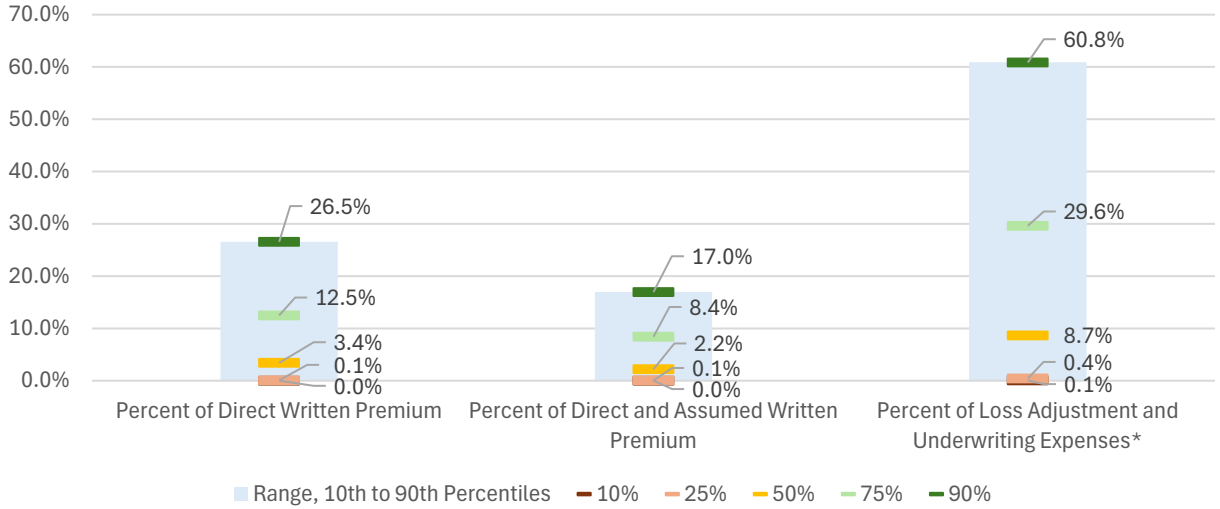

***** Non-affiliated reinsurance includes U.S. and non-U.S. unaffiliated insurers, mandatory and voluntary pools, and protected cells.
**Note:** Amounts include worldwide, company-wide activities for insurers writing personal lines insurance in Louisiana.
**Source:** Prepared by legislative auditor's staff using annual statement data.

[6] NAIC Statutory Issue Paper No. 97, paragraph 9, provides a technical definition.
[7] According to NAIC, a protected cell is an insurance-linked security retained within the insurance or reinsurance company, used to insulate the proceeds of the securities offering from the general business risks of the insurer, granting an additional comfort level for investors of the securitized instrument.

**For insurers that reported paying management fees to an affiliate, the expense generally accounted for 0.0% to 17.0% of the payer's total direct and assumed premiums, or 0.1% to 60.8% of the insurer's loss adjustment and underwriting expenses.** Management fees are payments for management and administrative services.[8] These management fees can cover services such as underwriting (evaluating) policy applications and deciding whether to accept the risk, binding policies, adjusting or paying claims, negotiating and entering into reinsurance contracts, collection of premiums, or other management and administrative services. The fees paid to managing general agents (MGAs) are a type of management fee. MGAs are a type of manager that produces and underwrites at least 5% an insurer's direct written premium and handles claims or reinsurance for the insurer.[9] In most cases, management fees are paid to affiliates, with 54.5% of insurers having paid management fees to an affiliate, and only 15.5% having paid such fees to non-affiliates. Management fees may be billed based on an hourly rate, a flat annual rate, a percentage of premiums, or some other agreed-upon basis. Exhibit 9 shows the typical range of management fees reported in the Underwriting and Investment Exhibit, expressed as a percentage of direct written premiums, direct and assumed written premiums, and as a percentage of total underwriting expenses.[10] As seen in the exhibit, management fees to affiliates rarely exceeded 27% of an insurer's direct premium written for insurers that have them. When analyzed as a percentage of direct and assumed premiums written, management fees to affiliates rarely exceed 17% of such premiums.

[8] Insurers must report management fees in a footnote in the Underwriting and Investment Exhibit, Part 3, which separates the fees paid for affiliates and non-affiliates. Insurers must allocate the fee to specific line items, e.g., rent, salaries, commissions, loss adjustment expense, as if these costs had been borne directly by the company.
[9] R.S. 22:1622(4).
[10] The management fees paid to affiliates in Exhibit 9 are one component of the affiliated MST transaction amounts in Exhibits 3 through 6. MST transactions include amounts received net of those paid, and they also add net amounts received from income-tax sharing agreements.

**Exhibit 9**
**Management Fees to Affiliates Relative to Premiums and Expenses**
**CY 2021 to 2025**




* Underwriting and investment expenses are adjusted to add back ceding commissions.
**Note:** Percentiles are for insurers that reported having non-zero management fees to affiliates in their Underwriting and Investment Exhibit, Part 3, footnote a. Amounts include worldwide, company-wide activities for insurers writing personal lines insurance in Louisiana.
**Source:** Prepared by legislative auditor's staff using information from annual statements.

## On average, insurers that engage in affiliate transactions have similar insurance rates for consumers, but those that have MST transactions or assume reinsurance from affiliates are less likely to be very highly capitalized.

**Losses** for an insurance company are the dollar value that an insurer must pay or expects that it will have to pay for events covered by the insurance policies it writes or reinsures.

An insurer that transacts with an affiliate may have to pay or be paid by the affiliate as a result of the transaction. S.R. 159 asks us to analyze the impact of affiliate transactions on losses, rate filings, and surplus, and each of these can be impacted by affiliate transactions: reinsurance transactions can affect losses, MST and reinsurance transactions can impact rate filings, and all types of transactions can impact surplus. Aside from the direct, accounting consequences of each of these transactions, we can also analyze whether the use of particular affiliate transactions is correlated with higher or lower losses, rates, or surplus levels. For example, payments to an affiliate for management services or cost or tax sharing have no direct impact on losses, but we can still compare the average loss ratios between those that pay, are paid, or have zero payments as a result of such transactions. The amounts that an insurer pays its affiliates for reinsurance,

management services, or other transactions may partly offset the amount it would have paid to unaffiliated companies or spent on in-house management services. Analyzing the correlation between financial ratios and affiliate transaction usage enables us to account for offsetting differences in fund flows in the unaffiliated and in-house categories.

**Affiliate reinsurance transactions directly impacted insurers' incurred losses, but we estimate that the impacts roughly canceled out in the aggregate.** Reinsurance is generally the most important direct means by which affiliate transactions can affect losses. Approximately 94% of insurers reported some reinsurance transaction with an affiliate. These reinsurance transactions are significant because they impact the net income of each individual insurer. In the aggregate, however, the $265.8 billion in losses ceded to affiliates were nearly offset by the $264 billion in losses assumed from affiliates.[11] Exhibit 10 shows the average annual amount of losses and loss adjustment expense (LAE) assumed and ceded for insurers, based on their role in reinsurance transactions with affiliates.[12]

**Exhibit 10**
**Impact of Affiliate Reinsurance on Incurred Losses and LAE**
**CY 2021-2025, Average Annual Totals, in Millions**

| Role in transaction | No. of Insurers | Assumed | Ceded | Net Effect |
|---|---|---|---|---|
| Cedes only | 171 | $69 | $69,723 | -$69,654 |
| Assumes only | 16 | 4,613 | 28 | 4,585 |
| Cedes and assumes | 198 | 259,321 | 195,745 | 63,576 |
| No affiliate reinsurance | 33 | 2 | 301 | -299 |
| **Totals** | **418** | **$264,005** | **$265,797** | **-$1,792** |

**Note:** Amounts include worldwide, company-wide activities for insurers writing personal lines insurance in Louisiana.
**Source:** Prepared by legislative auditor's staff based on analysis of annual statements.

**Insurers that assume reinsurance from affiliates tended to have lower net loss ratios than those that only ceded reinsurance to affiliates.** Loss ratios are a way of measuring what percentage of an insurer's premium revenue goes toward losses. Direct loss ratios show an insurer's losses and LAE as a percentage of premiums for the policies that it issues directly, while net loss ratios add the effects of reinsurance assumed and subtract those of reinsurance ceded. As shown in Exhibit 11, direct loss ratios ranged from 66.4% to 77.0% among the four groups. This shows the underlying loss performance before reinsurance. Insurers that only cede reinsurance to affiliates did not have direct loss ratios that were statistically significantly different from those of other insurers that assume reinsurance from affiliates. However, insurers that assume reinsurance

[11] The transfer of losses through a reinsurance transaction generally has no impact on the combined, ultimately paid losses of the ceding insurer and the assuming reinsurer. The aggregate impact here is not exactly zero because we had to use estimates and because some affiliated insurers were outside of our scope because they did not write personal lines insurance in Louisiana. Furthermore, the insurer and reinsurer may use separate estimation methodologies to prepare incurred losses.
[12] Each insurer's role in affiliate reinsurance transactions was determined based on their ceded and assumed premiums written to and from affiliates, respectively, per the Underwriting and Investment Exhibit, Part 1B.

from affiliates tended to have lower net loss ratios than those that cede only. One reason for this is that, for insurers that assume reinsurance from affiliates, the premiums assumed were typically larger than the losses assumed, which decreases the net loss ratio. This is consistent with the observation in the previous section that reinsurance in most cases results in a net flow of funds from the ceding insurer to the assuming reinsurer. [13]

For affiliated MST and management fee transactions, [14] there were no statistically significant differences in direct or net loss ratios, indicating that MST and management fee transaction usage is not significantly correlated with differences in business practices that affect loss ratios.

**Exhibit 11**
**Comparison of Loss Ratios by Affiliate Transaction Activity**
**CY 2021-2025**

| Affiliate Transaction Use | Direct Loss Ratio | Net Loss Ratio |
|---|---|---|
| **Reinsurance transactions with affiliates** | | |
| Cedes only | 0.690 | 0.778 |
| Assumes only | 0.665 | 0.688* |
| Cedes and assumes | 0.664 | 0.708* |
| No affiliate reinsurance | 0.770 | 0.903* |
| **MST transactions with affiliates** | | |
| No MST payments | 0.702 | 0.721 |
| MST payer | 0.667 | 0.748 |
| MST payee | 0.686 | 0.734 |
| **Paid management fees to affiliates** | | |
| Did not pay | 0.685 | 0.752 |
| Paid fees | 0.676 | 0.729 |

**Note**: Cells with loss ratios that were statistically significantly different from the base category denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. The base category is "cedes only" for reinsurance, and "non-payer" for management/cost/tax. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. Results were obtained using multivariate regression to hold constant insurer size, product mix, and other variables. See Appendix B for detailed methodology.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statements.

**Insurers that assume reinsurance from affiliates generally had higher expense ratios and profit margins than those that cede.** We compared gross expense ratios and profit margins between groups of insurers based on whether they had affiliate transactions and what their role was in those

[13] The results in Exhibit 11 are based on a common set of observations for which direct and net loss ratios could be calculated, excluding outliers. Net loss ratios could not be calculated for the 35% of insurers that had zero net earned premium (most commonly because they ceded 100% or more of their direct and assumed premium) since this would result in a zero denominator. We also excluded insurer-years with direct or net loss ratios in the 1st and 99th percentiles of the distribution for each, as well as insurers who had negative direct or net losses. Appendix B contains more information.
[14] Each insurer's role in affiliate MST transactions was based on whether a positive, negative, or zero amount was reported in the management agreements and services contracts column in Schedule Y, Part 2. Insurers that pay management fees were identified based on the Underwriting and Investment Exhibit, Part 3, footnote identifying management fees paid to affiliates.

transactions. The gross expense ratio measures operating expenses[15] for categories other than losses, loss adjustment expense, and investment expenses, as a percentage of the company's direct and assumed premiums written.[16] The largest difference in expenses is in acquisition, commission, and brokerage expenses, with insurers that cede only having zero net expenses for this category, on average. Insurers who cede reinsurance commonly receive a "ceding commission" from the reinsurer, which is accounted for as an offset to commissions. A ceding insurer thus may have paid commissions for its direct business, but the ceding commission it receives can partially or fully offset this expense. Profit margins are higher for insurers that both cede and assume than for those that cede only, whether measured as a percentage of premiums or surplus.

**MST transactions with affiliates were significant predictors of higher expense ratios.** Affiliated manager use is one potential element of an MST relationship, which includes affiliated manager transactions as well as service contracts and tax sharing agreements.[17] We analyze profitability in two ways: first, as a percentage of direct and assumed premiums earned, and second, as a percentage of surplus.[18] Controlling for other differences between insurers, such as their overall volume of business and their types of insurance offered, the typical insurer that does not have affiliated MST transactions has a gross expense ratio of around 4.8%, but this increases to 9.9% for those with affiliated MST payments, a difference of 5.1 percentage points. The largest difference is in acquisitions, commissions, and brokerage expenses.[19] The payment of management fees was not associated with higher or lower expenses overall. Exhibit 12 illustrates this difference in expense ratios. Profitability, measured by net income ratios, did not vary significantly based on manager use or MST flows.

[15] Insurance Expense Exhibit, Part 1, line 25, columns 2 through 4.
[16] We use the gross expense ratio and gross profit margins to account for the additional expenses that an insurer may incur as part of managing the additional risk that comes with the assumed business.
[17] MST transactions are based on Schedule Y, Part 2, while management fee transactions were identified using the Underwriting and Investment Exhibit, Part 3.
[18] The profit margin based on surplus is a more meaningful benchmark because it relates the net income for owners to the owners' contributed capital and reinvested profits.
[19] Taxes, licenses, and fees are taken from the Insurance Expense Exhibit, Part 1, column 4. They include state and local insurance taxes net of guaranty association credits, insurance department licenses and fees, gross guaranty association assessments, and all other taxes (excluding Federal and foreign income). Real estate taxes are typically reported under other categories.

**Exhibit 12**
**Comparison of Expense Ratios and Profit Margins**
**By Affiliate Transaction Activity**
**CY 2021-2025**

| Affiliate Transaction Use | Acquisition, Commission, & Brokerage Expense Ratio | General Expense Ratio | Taxes, Licenses, & Fees Ratio | Total Expense Ratio | Net Income | |
|---|---|---|---|---|---|---|
| | | | | | Ratio of Direct & Assumed Premiums Earned | Ratio of Surplus |
| **Reinsurance transactions with affiliates** | | | | | | |
| Cedes only | 0.000 | 0.018 | 0.006 | 0.024 | 0.017 | 0.027 |
| Assumes only | 0.157‡ | 0.064‡ | 0.019‡ | 0.241‡ | 0.030 | 0.053 |
| Both | 0.060‡ | 0.033‡ | 0.011‡ | 0.105‡ | 0.030† | 0.060† |
| None | 0.067‡ | 0.069‡ | 0.015‡ | 0.151‡ | -0.066† | -0.122‡ |
| **MST transactions with affiliates** | | | | | | |
| No MST payments | 0.020 | 0.021 | 0.007 | 0.048 | 0.017 | 0.042 |
| MST payer | 0.050‡ | 0.038‡ | 0.012‡ | 0.099‡ | 0.019 | 0.023 |
| MST payee | 0.070‡ | 0.033‡ | 0.012‡ | 0.115‡ | 0.023 | 0.047 |
| **Paid management fees to affiliates** | | | | | | |
| Did not pay | 0.044 | 0.027 | 0.010 | 0.080 | 0.021 | 0.030 |
| Paid fees | 0.037 | 0.033* | 0.010 | 0.080 | 0.017 | 0.038 |

**Note**: Values statistically significant from the base category are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. The base category is the first listed in each section. Results are adjusted to hold constant insurer size, product mix, and other variables. Acquisition, commission, and brokerage expense ratio can be negative as a result of ceding commissions. See Appendix B for detailed methodology.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statements.

**MST and reinsurance transactions can be reflected in rate filings.** Admitted property and casualty insurers are generally required to file their rates for personal lines coverages with LDI prior to using them.[20] LDI is required to disapprove a rate that it finds to be excessive, inadequate, or unfairly discriminatory.[21] "Excessive" rates are defined in statute as having profit or

**Admitted insurers** are those whose policies are guaranteed by the Louisiana Insurance Guaranty Association (LIGA). Admitted insurers must generally file rates with LDI before using them. These insurers write 92% of the personal lines insurance in Louisiana.

**Surplus lines insurers** do not participate in LIGA and are not required to file rates with LDI.

[20] R.S. 22:1451. Since the passage of Act 10 of 2024, insurers are not required to obtain prior approval from LDI. Instead, LDI has 30 days in which it can disapprove a rate filing. Unless the insurer is notified otherwise, the rate is deemed approved.
[21] R.S. 22:1465. LDI rate review staff's role is separate from that of the domiciliary state regulator who reviews the transactions within holding company systems. LDI's rate review regulator can deny a rate filing if the expense provision is unreasonably high for any insurance to be sold in Louisiana by an admitted insurer, regardless of where the insurer is domiciled. Holding company regulators in Louisiana can deny approval for an affiliate transaction for any admitted or surplus lines insurer domiciled in this state if the terms are unfair or if it does not conform to legal requirements. In CY 2021-2025, admitted insurers wrote 92% of the personal lines property and auto insurance in Louisiana, while domestic insurers wrote 15%.

expense provisions that are unreasonably high for the insurance provided or the services rendered, respectively.[22] MST transactions can impact the expense provision, while reinsurance transactions can impact the reinsurance provision. LDI staff can question a rate filing if they have concerns about the expense or reinsurance provision or other aspects of the methodology or proposed rates, which the company can respond to by providing more information or by adjusting their proposed rates or methodology.[23]

**Affiliate transactions are typically not correlated with higher or lower auto or homeowners insurance rates for large insurers.** Because rate filings can be impacted by expense ratios, reinsurance costs, and profit provisions, and because these vary between insurers based on affiliate transactions, it is logical to ask whether such transactions are correlated with higher or lower rates. To shed light on this question, we analyzed the premiums in 41 private passenger automobile and 41 homeowners rate filings for the largest insurers in each line of coverage. The insurers who submitted these filings accounted for 77% of the homeowners insurance and 89% of the private passenger auto insurance provided in Louisiana in 2025. LDI requires insurers to submit an exhibit as part of their rate filing in which the company calculates what their rate would be for standardized example consumers in various locations across the state. Based on an analysis of these standardized rating examples, we found that the use of affiliate transactions was generally not significantly correlated with higher or lower rates. The one exception was for homeowners, where insurers that are net payers in MST transactions tend to have lower rates, on average, than those that have no such transaction or that are net recipients. However, this was the only category in which there was a statistically significant difference between insurers based on whether they did or did not transact with affiliates. For the other categories, while there were differences between categories, they were not large in comparison to the overall variation between insurers, which is why the differences were not statistically significant. Exhibit 13 shows the average standardized example rates for the insurers we analyzed for homeowners and private passenger auto insurance. The exhibit shows the results for four sets of comparisons based on whether the insurers in each category did or did not transact with affiliates.

[22] R.S. 22:1452(C)(6).
[23] R.S. 22:1464(A).

**Exhibit 13**
**Comparison of Homeowners and Auto Rates**
**By Affiliate Transaction Activity**
**CY 2021-2025**

| Category of Insurer | Auto Premium | Homeowners Premium |
|---|---|---|
| **Reinsurance ceded to affiliates** | | |
| Did not cede | n.a.[a] | 4,163 |
| Reinsurance ceder | 2,684 | 3,574 |
| **Reinsurance assumed from affiliates** | | |
| Did not assume | 2,778 | 3,741 |
| Reinsurance assumer | 2,607 | 3,519 |
| **MST transaction with affiliates** | | |
| No MST payments | 2,781 | 4,167 |
| MST payer | 2,623 | 3,210‡ |
| MST payee | 2,779 | 3,756 |
| **Paid management fees to affiliates** | | |
| Did not pay | $2,664 | $3,428 |
| Paid fees | 2,713 | 3,854 |

[a] All of the auto insurance rate filings that we reviewed were for companies that ceded reinsurance to affiliates; 89% of insurers statewide cede reinsurance to affiliates.
**Note**: Values statistically significant from the base category are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. The base category is the first listed category in each section. All amounts in the table are shown in inflation-adjusted dollars based on August 2026 prices. See Appendix B for detailed methodology.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statements and rate filings.

**All affiliate transactions can impact surplus.** Because surplus includes (among other items) the retained earnings of the insurer, less dividends to shareholders, plus capital contributed by shareholders, all affiliate transactions can impact surplus. Having adequate surplus, in turn, is one of the most important ways for an insurer to avoid insolvency. Insurers are required to report the impact of their affiliate transactions on surplus in Schedule Y, Part 2 of their annual statement. While the impact of affiliate transactions on rates is important because it represents an ongoing cost to an insurer's policyholders, good capitalization and solvency are important because an insolvency affects not only the policyholders of the failed company, but also all Louisiana firms and households that have insurance with other, solvent insurers, and taxpayers generally, since insolvencies of admitted insurers are resolved through LIGA assessments that are passed on to policyholders of other insurers or taken as credits against state premium tax.

**Insurers that have MST transactions with affiliates or that assume reinsurance from affiliates are less likely to be very highly capitalized than those that do not.**[24] We analyzed insurers' risk-based capital (RBC) ratios, which measure how much capital each insurer holds relative to the minimum amount of

[24] We also found that insurers with affiliated reinsurers tended to have higher RBC ratios, but we were not able to determine how much of this was due to better capitalization versus lower retention. Insurers with affiliated reinsurers retained only 7% of their premiums, compared to 53% retained by insurers with no affiliated reinsurance transactions.

capital that regulatory authorities have deemed necessary to support the insurer's operations. The NAIC determines the RBC formula and does not permit states to modify it. All property and casualty insurers with direct written premium in Louisiana submitted RBC reports. A higher RBC ratio generally indicates that the insurer is better capitalized and is stronger financially. We analyzed whether the use of affiliate transactions was correlated with a higher likelihood of equaling or exceeding an RBC ratio of 300%, below which insurers experience progressively stricter oversight.[25] We also considered the likelihood of an insurer's having RBC ratio of at least 600%, more than twice the minimum required to avoid regulatory intervention. We found that MST payers had lower RBC ratios on average than non-payers, and that insurers that cede only had higher RBC ratios than those that assume only or both assume and cede. MST payers were also less likely than non-payers to have ratios of at least 300%. Exhibit 14 shows the percentage of insurers that had RBC ratios of at least 300% or at least 600%. The correlation between affiliate transaction usage and RBC ratios does not mean that these transactions inherently have a negative impact on solvency, but it does provide additional motivation for such transactions to be considered as part of solvency regulation.

**Exhibit 14**
**Analysis of Capitalization**
**By Affiliate Transaction Activity**
**CY 2021-2025**

| Category of Insurer | Average RBC Ratio | Proportion with RBC at Least 300% | Proportion with RBC at Least 600% |
|---|---|---|---|
| **Reinsurance transactions with affiliates** | | | |
| Cedes only | 5,249% | 0.983 | 0.758 |
| Assumes only | 2,991%‡ | 0.978 | 0.686‡ |
| Both | 1,792%‡ | 0.956† | 0.506‡ |
| None | 2,012%‡ | 0.892‡ | 0.556‡ |
| **MST transactions with affiliates** | | | |
| No MST payments | 4,861% | 0.976 | 0.690 |
| MST payer | 2,477%‡ | 0.952† | 0.565‡ |
| MST payee | 2,383%‡ | 0.955 | 0.530‡ |
| **Paid management fees to affiliates** | | | |
| Did not pay | 3,988% | 0.958 | 0.615 |
| Paid fees | 3,411% | 0.965 | 0.605 |

**Note**: Statistical significance denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. Results are adjusted to hold constant insurer size, product mix, and other variables. See Appendix B for detailed methodology.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statements.

Eleven of the 12 insurers that became insolvent in 2021 and 2022 had RBC ratios above 300% at the end of 2019, which is above the level that triggers regulatory intervention under the RBC framework. As late as the end of CY 2020,

[25] Under the RBC framework, a company action level event occurs when RBC falls below 200% of the authorized control level, or when RBC is between 200% and 300% of the authorized control level and the combined ratio exceeds 120%. A company action level event requires the insurer's management to act to raise the RBC ratio.

when insurers knew that the 2020 hurricane season had brought significant damage, all twelve of the soon-to-be insolvent insurers still reported RBC capital levels above 200%, indicating that they had sufficient capital and reinsurance to withstand another 1-in-100 year hurricane loss scenario. Furthermore, 10 of the 12 had RBC ratios of at least 300% and did not trigger provisions in the RBC framework that would require them to improve their financial stability, e.g., by contributing more capital, reducing expenses, managing their exposure, or other measures. However, they were ultimately not able to withstand a second severe hurricane season in CY 2021, along with other factors such as the rapid hardening of the reinsurance market and the high cost of labor and materials in the pandemic-era economy, among other factors. Exhibit 15 shows the RBC ratios for the 10 insolvent insurers in the years prior to their insolvency. The dark green cells show insurers that had RBC ratios of at least 600%, light green shows those between 300% and 600%, yellow shows those between 200% and 300%, and pink shows those below 200%.

**Exhibit 15**
**Capitalization of Insolvent Insurers**

| Insurer Name (NAIC Code) | Insolvency Filing Date | RBC Ratio (%) | | |
|---|---|---|---|---|
| | | 2019 | 2020 | 2021 |
| Southern Fidelity (10136) | 6/15/2022 | 413 | 252 | 169 |
| FedNat (10790)* | 9/27/2022 | 323 | 302 | 313 |
| Maison (14568)* | | 305 | 347 | 304 |
| United Property & Casualty (10969) | 2/27/2023 | 378 | 301 | 302 |
| Weston Property & Casualty (11853) | 8/8/2022 | 457 | 531 | 317 |
| Gulfstream Property & Casualty (12237)* | 7/28/2021 | 314 | 324 | n.a. |
| Gulfstream Select (16417)* | | 56,906 | 44,390 | n.a. |
| Lighthouse (13207) | 4/28/2022 | 231 | 293 | n.a. |
| Access Home (14134) | 11/18/2021 | 542 | 403 | n.a. |
| Lighthouse Excalibur (15918) | 5/17/2022 | 1,012 | 709 | n.a. |
| Americas (27898) | 1/14/2022 | 500 | 453 | n.a. |
| State National Fire (43664) | 11/17/2021 | 784 | 319 | n.a. |

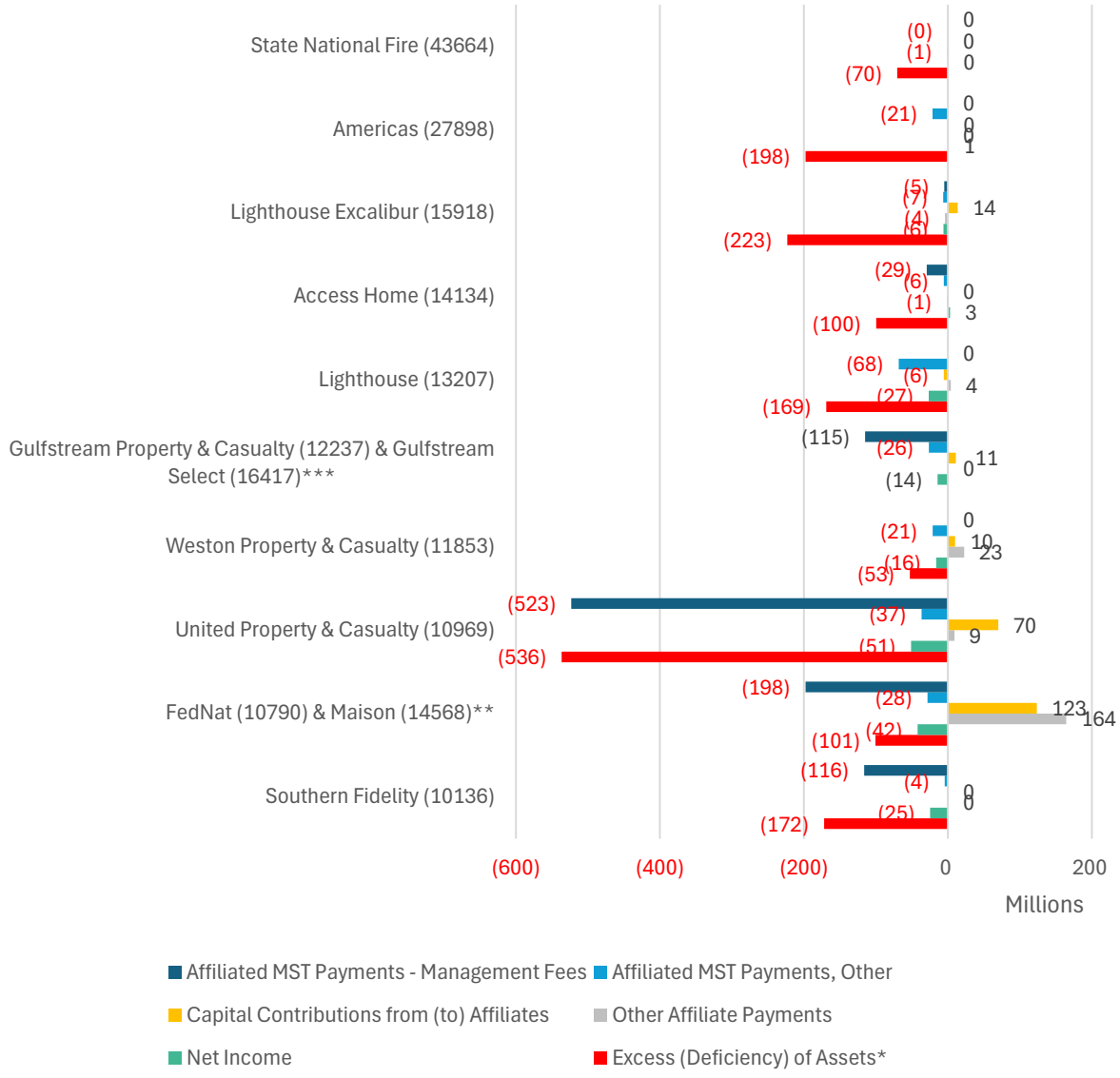
* FedNat and Maison were merged in 2022 prior to their insolvency, as did Gulfstream Property & Casualty and Gulfstream Select in 2021.
**Source:** Prepared by legislative auditor's staff using information from annual statement data and Global Receivership Information Database (GRID) from NAIC.

**Affiliate transactions negatively impacted the surplus of 10 of the 12 insurers that became insolvent in 2021 and 2022, and positively impacted two.** Insolvency reports prepared by the appointed receiver for the five Louisiana-domiciled insurers that became insolvent cited affiliate transactions as a secondary, but contributing cause to the insolvencies. During CYs 2017-2019, the soon-to-be insolvent insurers engaged in transactions that had a range of impacts on their surplus. All 12 paid affiliates through MST transactions, but there were at least seven[26] for which the amounts paid out through MST transactions were more than a third of the eventual deficiency of assets, as can be seen in Exhibit 16. Eight of

[26] Southern Fidelity, FedNat, Maison, United Property and Casualty, Weston Property and Casualty, Lighthouse, and Access Home. Deficiency of assets data were not available for the two Gulfstream companies.

the 12 also had negative net income during these three years, and for those eight, MST payments were larger in absolute value than their net income.

**Exhibit 16**
**Insolvent Insurers' Deficiency of Assets, as of CY 2025 and 2026**
**Total Net Income and Affiliate Payments, CY 2017-2019**
**Millions of Dollars**




* Deficiency of assets under liabilities is reported as of March 31, 2026 for the Louisiana-domiciled insurers, Lighthouse, Lighthouse Excalibur, Americas, Maison, and State National. The others were reported as of various quarter ends in 2025.
** FedNat and Maison merged in 2022.
*** Excess (Deficiency) of Assets is not available for the two Gulfstream companies, which merged in 2021, because they entered liquidation prior to the effective date of the Florida statute requiring insolvency reports.
**Source:** Prepared by legislative auditor's staff using receivership reports and annual statement data from NAIC.

Exhibit 16 also shows the impact of capital contributions, which are a notable contrast to the MST payments described previously because these increased surplus. The most noteworthy example of this were FedNat and Maison, which received $123 million from affiliates in the form of capital contributions. These reduced their eventual deficiency (following their merger) by 55%. Affiliate capital contributions also reduced the eventual deficiencies of United and Weston by 12% and 16%, respectively.

**MST transactions do not appear to be the direct cause of the insolvencies of 2021 and 2022, although they may have been a contributing factor.** Despite paying $789 million to affiliates in CYs 2017 through 2019, the 12 insolvent companies retained adequate capital and reinsurance to absorb the losses they estimated that they would sustain in a 1-in-100-year hurricane catastrophe event. Additional analysis is necessary to fully understand the causes of the insolvencies. In risk management, the term "residual risk" refers to the risk that remains after an insurer takes action in response to risk, e.g., through risk sharing, which transfers the risk to reinsurers. Two different perspectives regarding residual risk can help to explain how insurers that appeared to be well capitalized could become insolvent so quickly. One is that they had consciously accepted a certain amount of residual risk, and the other is that they underestimated how much residual risk they were accepting.

In terms of residual risk acceptance, the RBC framework evaluates insurers based on their catastrophe losses under a 1-in-100 probable maximum loss (PML) scenario. An insurer can choose to accept the residual risk of becoming insolvent if it experiences losses above this amount with no penalty for their financial strength under the RBC framework. Insurers calculate and disclose their direct and net losses from higher severity scenarios and other types of catastrophes to regulators on their RBC worksheets for informational purposes, but they do not impact the company's regulatory RBC ratio. A more risk-averse insurer could design its business strategy and risk management framework to remain solvent even in less frequent, more severe loss scenarios, such as a 1-in-250 PML.

In contrast, underestimating risk can occur if an insurer's projected losses are too low for a given loss scenario. For example, if an insurer has inaccurate data about the properties and risks they are insuring, this could result in inaccurate loss estimates. Some policies assumed by Louisiana Citizens Property Insurance Corporation from the insolvent insurers were noted to have been underinsured.[27] The NAIC notes that catastrophe modes often use assumptions to fill in missing information about structures, which can increase the uncertainty of the modeled output.[28] When insurers conduct modeling and run thousands of simulations of their losses from various catastrophe types, the final 1-in-100 PML estimate could be

[27] See previous LLA report, "Financial Condition of the Residential Property Insurance Market," issued Oct. 13, 2022, p. 6. ACN 40210037. URL: https://app.lla.state.la.us/go.nsf/get?OpenAgent&arlkey=40210037APPP-CK6MQW

[28] NAIC, *Catastrophe Modeling Primer*, December 2024 Exposure Draft. URL: https://content.naic.org/sites/default/files/inline-files/10_23_24%20Exposure%20Draft%20of%20Cat%20Modeling%20Primer.pdf.

biased if the underlying data are inaccurate. At least one of these factors, conscious acceptance of residual risk or inaccurate risk assessment, was likely to be an underlying cause of the insolvencies. Exhibit 17 describes these risks.

**Exhibit 17**
**Affiliate Transaction Risk Factors**

**Visible in RBC ratio**

- Low surplus levels.
- Surplus funds invested in risky assets.
- RBC ratios that are consistently just above the 300% minimum level to avoid triggering a company-action level event.

**Visible in RBC documentation, but not in ratio**

- Use of occurrence-based probable maximum loss, rather than aggregate (NAIC prefers aggregate but permits occurrence).
- Lack of reinsurance above 1-in-100 catastrophe risk level.
- Failure to account for demand surge and storm surge.
- High retention of catastrophe risks, leading to depletion of capital if there are consecutive years with catastrophes.

**Not visible in RBC ratio or documentation**

- Inaccurate risk data (e.g., $300,000 home insured for $200,000, inaccurate roof age/materials).
- Disclosed or undisclosed transactions that create contingent liabilities and obligations.
- Affiliate transactions with estimated profit margins that would exceed the allowable ordinary dividend ratio.

**Source:** Prepared by legislative auditor's staff.

**LDI should consider conducting further data collection and analysis relating to the solvency risks arising from affiliated manager agreements.** LDI has broad authority to request data from all insurers operating in the state,[29] and may examine any insurer, whether foreign or domestic. LDI has primary responsibility for ordering corrective actions to be taken by Louisiana-domiciled insurers, and the commissioner of insurance is empowered to bar foreign insurers from operating in Louisiana if they are in an unsound financial condition or are hazardous to the public.[30]

[29] R.S. 22:1984(A).
[30] R.S. 22:611 et seq. provides LDI's authority over domestic insurers to enforce RBC requirements, including §620 granting it backup authority to require corrective action of a foreign insurer if its domiciliary regulator fails to do so. R.S. 22:436(C) applies to surplus lines carriers, domestic, foreign, and alien, while R.S. 22:337 applies to foreign and alien admitted insurers.

Given that all 12 of the insolvent insurers had MST transactions with affiliates, and that insurers with such transactions are still more likely to be undercapitalized as of CY 2025, LDI should remain vigilant towards such arrangements, as well as new innovations that may create similar risks. These can include risks that would be visible in the RBC ratio and methodology, as well as business arrangements and risk-taking that would not be so visible. LDI officials noted that the amount of residual risk retained or the use of affiliate transactions by themselves do not prove that an insurer used an inappropriate business model or has an elevated risk of insolvency. However, further analysis of RBC filings or of company data could help LDI to identify insurers or transactions that warrant further attention.

LDI can obtain RBC data from NAIC in an electronic format to identify insurers that use modeling practices that may underestimate risk (e.g., not accounting for demand surge) or that are more vulnerable to high-severity, low-frequency catastrophe losses because of their regional concentration or lack of reinsurance. As an informational exercise, LDI could also recalculate RBC ratios using higher severity hurricane losses, such as a 1-in-250 year probable maximum loss scenario, to assess the risks to the state's insurance market from events more severe than those that insurers are required to withstand under the current RBC formula. Insights gained from this analysis may identify differences in risk management strategies to guide further regulatory and legislative policymaking.

In addition, LDI could expand its testing of policy or exposure data. Currently, LDI officials stated that they analyze policy data as part of their testing of loss reserves, in accordance with NAIC's guidelines for financial examinations. However, financial examinations generally take place at five-year intervals, and the testing of policy data is done to test loss reserving, not catastrophe modeling. Furthermore, 85% of the state's personal lines insurance is sold by foreign insurers, which LDI is permitted but not required to examine. LDI could explore ways of obtaining and testing individual policy-level data from insurers against external sources, such as permit information, real estate listings, property tax assessments, or other sources. If an insurer has numerous properties listed as recently built in a jurisdiction requiring permitting, but no building permits exist for said properties, this could indicate inaccurate year built information. Because, all else being equal, newer homes tend to have lower loss amounts after a hurricane than older homes, this kind of inaccurate data could lead an insurer to underestimate its catastrophe risks. This kind of analysis may present costs to insurers and to LDI to prepare, obtain, and analyze the information. LDI should consider these costs in light of the potential incremental benefit of avoiding future insolvencies.

Solvency regulation remains important when the insurance industry enters into a "soft" market, during which insurers compete for market share, reduce their prices and loosen underwriting standards, which may cause them to charge rates that are less than the actuarially indicated rate.[31] Although the low prices charged

[31] The insurance industry operates experiences cycles, switching between hard and soft markets. Wang et al. (2012), "U.S. Property-Casualty Underwriting Cycle Modeling and Risk Benchmarks,"

during a soft market may be beneficial to consumers in the short term, this can create solvency risks if insurers prioritize short-term profits without adequate regard for long-term risks from infrequent but severe hurricanes. Solvency regulation can reduce the likelihood that a soft market leads to future insolvencies that cost policyholders and taxpayers.

**Recommendation 1:** LDI should analyze insurer regulatory filings to identify insurer business models that result in higher residual risk acceptance and to determine if higher risk acceptance is correlated with certain types of affiliate transactions.

**Summary of Management's Response:** LDI partially agrees with this recommendation. LDI agrees that analysis of regulatory filings and the use of statistical methods to focus on insurers warranting further review. However, LDI disagrees that the amount of residual risk retained or the existence of an affiliate transaction should, standing alone, be treated as evidence of an inappropriate business model or elevated solvency risk. See Appendix A for the full response.

**Recommendation 2:** LDI should consider collecting additional data from property insurers so that it can increase the frequency and scope of its testing for recordkeeping practices that could lead to inaccurate estimation of risk, and to determine if these practices are correlated with certain types of affiliate transactions.

**Summary of Management's Response:** LDI partially agrees with this recommendation. LDI agrees that accurate exposure and property-characteristic data are important to insurer risk assessment and catastrophe modeling and that materially inaccurate underlying information may affect an insurer's assessment of the risk it has retained. However, LDI does not believe that broad recurring collection of data from all property insurers is the most effective or proportionate approach. LDI agrees to consider whether its existing data collection and oversight processes can be supplemented with targeted, risk-based validation of material exposure fields. See Appendix A for the full response.

*Variance.* https://doi.org/10.66573/001c.127631. Werner and Modlin (2016), "Chapter 13: Other Considerations," *Basic Ratemaking.*

## LDI disapproved three out of 36 affiliate transaction agreements submitted to it for prior approval and had examination findings related to affiliate transactions on seven of the 13 examinations it has conducted since 2021.

State insurance regulators have multiple processes in place that enable them to evaluate affiliate transactions within an insurance holding company system for their impact on an insurer's solvency and the transaction's conformity to legal requirements. These include:

- **Annual Registration (Form B).**[32] Insurers that are part of an insurance holding company system must disclose transactions and ownership relations within the system to their domiciliary regulator every year.
- **Prior Approval (Form D).**[33] Insurers must give prior notice to their domiciliary regulator for certain affiliate transactions. For Louisiana-domiciled insurers, LDI has 30 days in which it can disapprove a transaction. If LDI does not disapprove the transaction, it is implicitly approved, and the insurer may enter into the transaction.
- **Financial Analyses and Examinations.** Domiciliary regulators conduct a financial examination once every five years, and monitor an insurer's financial position quarterly between examinations. These can lead to the discovery of problems with the reporting or execution of affiliate transactions.

**LDI approved all 27 affiliate reinsurance transaction agreements submitted to it for prior notice since 2021.** For reinsurance, LDI requires insurers to report the known or estimated liability to be assumed or ceded, the consideration involved in the transaction, and the effect of the transaction upon the insurer's surplus. According to LDI management, LDI's review of reinsurance transactions is primarily focused on whether the legal terms of the transaction are fair and reasonable, whether the transaction meets the risk-transfer requirements for reinsurance under statutory accounting principles,[34] and whether the transaction complies with the provisions of R.S. 22:651 et seq. regarding credit for reinsurance.

LDI also tests for whether the terms of reinsurance transactions are fair and reasonable. LDI officials stated that, while they do benchmark ceding commissions on proportional reinsurance between affiliates, they consider benchmarking the pricing of excess-of-loss reinsurance transactions to be out of scope for their reviews. Excess-of-loss reinsurance pricing depends on global market conditions, as

[32] LAC 37:XIII.135 contains the instructions for this form.
[33] LAC 37:XIII.139 contains the instructions for this form.
[34] Statement of Statutory Accounting Principles No. 62R, promulgated by NAIC.

well as the specific risks transferred and how they affect the degree of concentration in each party's risk exposure. Instead, LDI officials stated that they test for fair and reasonable terms for excess-of-loss reinsurance based on whether the transaction satisfies the risk-transfer requirement under statutory accounting principles. LDI approved all reinsurance transactions submitted to it for prior approval since 2021.

**LDI denied three of the 9 affiliated MGA transaction agreements that were submitted to it for prior approval since 2021.** Insurers are required to report all management, service, or cost-sharing agreements to LDI for prior approval.[35] LDI's disclosure requirements, patterned off of the NAIC model regulation, require insurers to furnish a brief description of the managerial responsibilities to be performed, and a brief description of the basis for compensation and the terms under which payment or compensation is to be made. For cost-sharing arrangements, insurers must report what expenses or costs are covered, and the accounting basis and cost allocation methods to be used. LDI's review considers the pricing relative to market data, as well as the insurer's solvency and the potential impact of a proposed transaction on the insurer's solvency.

**Based on a review of 116 examinations by Louisiana and three other state insurance departments, 20 examinations had findings that were related in some way to affiliate transactions**. LDI examination staff summarized the findings from 116 exams for us that they themselves conducted or that they were able to review through reciprocal relationships with other insurance departments. Based on this review, we identified 20 examinations that had findings relating to affiliate transactions. We further counted the number of exams with findings related to financial reporting, regulatory reporting, improper payments, or asset/liability misstatement. We counted an exam multiple times if it fit more than one of these categories. The most common issues were with regulatory reporting, with 14 exams citing such issues. These were instances in which insurers did not file a report, such as a Form D, or include all details on their report regarding an affiliate transaction. In 10 cases, affiliate transactions were not properly reported on the insurer's annual statement and its attached schedules. Five exams cited improper payments, e.g., in which an insurer paid an affiliate without a written agreement in place, or in which payments were reconciled inaccurately between affiliates. For four insurers, exam findings identified issues that could affect the accuracy of the insurer assets and liabilities, a significant issue since it could indicate that the insurer is not as strong as it appears to be based on its annual statement. For two of these four, the insurers were required to write-down their surplus because of the examination findings. For the remaining two, one would have had to amend its banking agreement or lose the ability to count its deposits with its bank as admitted assets, and the other had an investment policy that lacked appropriate controls and put the company at risk of investment losses, which would translate to a loss of surplus. Exhibit 18 summarizes the examination results.

[35] R.S. 22:691.7(A)(2)(d).

| Exhibit 18<br>Summary of Examination Results<br>CY 2019-2025 | | | |
|---|---|---|---|
| **Description** | **Louisiana** | **Other States*** | **Total** |
| Affiliate Financial Reporting Findings | 2 | 8 | 10 |
| Affiliate Payment-Related Findings | 2 | 3 | 5 |
| Affiliate Regulatory Reporting Findings | 6 | 8 | 14 |
| Affiliate Asset or Liability Reporting Finding | 2 | 2 | 4 |
| Any Affiliate Findings | 7 | 13 | 20 |
| Number of Examinations Reviewed (with and without Findings) | 13 | 103 | 116 |
| * Illinois, Indiana, and Nebraska. These were the three states whose domestic insurers accounted for the largest percentage of personal lines premiums written in Louisiana, except for Texas, which classifies its insurance examinations as confidential and privileged under the Texas Insurance Code Section 401.058.<br>**Source:** Prepared by legislative auditor's staff based on LDI's summary of examinations conducted by LDI and three other states. | | | |

The affiliate-related findings in financial examinations are sometimes subtle. For example, one examination finding related to an acquisition of an insurer that involved a contingent pledge of voting shares, which was contrary to what was initially disclosed in the Form A filing. If the pledge were enforced, this would result in a transfer of control requiring prior regulatory approval, which was problematic in this instance because the holding company regulator had not approved it. Furthermore, the company had not included the required note disclosure for this pledge in its annual statements for multiple years after the regulator approved its Form A.

**LDI could require additional information from insurers to make affiliate transactions more visible by default in rate filings, although this additional testing may require additional resources.** LDI could add to the reporting requirements on insurers to make affiliate transactions more visible to its rate reviewers. However, the benefit of requiring this additional information should be considered in light of the cost to insurers to provide it, and the cost to LDI if it has to expand its workflow to conduct additional analysis on an ongoing basis.

In rate filings, insurers show the calculations behind their reinsurance provisions, but it is not always possible to reconcile the inputs for that calculation to source documentation or audited financial statements, nor are companies required to disclose if the reinsurance involved is being ceded to an affiliate. The reinsurance contracts applicable to a given rate filing may not have been in effect during the most recent annual statement period. Furthermore, reinsurance contracts will often cover multiple territories and insurance products, so insurers must determine how much of the cost of reinsurance should be allocated to a specific filing.[36] Allocations

[36] Allocations are often based on product definitions that are more granular than the annual statement categories, such as the distinction between condo owners, non-tenant homeowners, and renters insurance, all of which are typically priced separately but are all included as forms of homeowners

are also often based on projected losses or recoveries generated by a catastrophe model, which are not included in the annual statement.

LDI could request additional information that would give its actuaries and other rate review staff better visibility by default regarding such transactions. If a high level of detail is desired, this requirement could include itemizing the reinsurance premiums and recoveries by reinsurer with its numeric identifier (e.g., NAIC company code) and an indication of whether it is affiliated. For a more streamlined approach, LDI could add a required yes-no question to an exhibit in the rate filing indicating if the reinsurance provision or other provisions included transactions with affiliates.

LDI officials noted that their actuaries have substantial experience in reviewing rate filings and can question rate filings any time they have concerns, even if the reinsurance data included in the filing is not audited. Furthermore, LDI cited market competition as a complementary force in preventing insurers from charging excessive rates.

**Recommendation 3:** LDI should consider whether to require insurers to submit additional information on affiliate transactions as a part of the rate review process to ensure that rates are not excessive or inadequate.

**Summary of Management's Response:** LDI partially agrees with this recommendation. LDI agrees that rate reviewers should have sufficient information to evaluate the reinsurance and expense provisions, and supports adding a targeted disclosure to the actuarial checklist required to be submitted with rate filings. LDI does not agree that affiliate status by itself is an actuarial determinant of whether a rate is excessive or inadequate. LDI supports adding a targeted disclosure to the actuarial checklist that is required to be filed with rate filings. See Appendix A for the full response.

insurance on Line 4 of the annual statement. Furthermore, the NAIC annual statement requires reinsurance to be allocated to specific lines of coverage, but not to specific states.

# APPENDIX A: MANAGEMENT'S RESPONSE

LOUISIANA DEPARTMENT OF INSURANCE
TIMOTHY J. TEMPLE
COMMISSIONER

November 17, 2026

Michael J. "Mike" Waguespack, CPA

Louisiana Legislative Auditor

**Re: Insurer Transactions with Affiliated Companies - Response to SR 159 of 2025**

Dear Mr. Waguespack:

The Louisiana Department of Insurance (LDI) appreciates the work undertaken by the Louisiana Legislative Auditor (LLA) in response to Senate Resolution 159 of the 2025 Regular Session and the opportunity to provide insurance regulatory and actuarial expertise during the review. SR 159 addresses several related but distinct regulatory functions, including financial solvency oversight, insurance holding company regulation, affiliate-transaction review, and rate regulation. Each function evaluates transactions for a different regulatory purpose and under different statutory and professional standards.

LDI agrees with LLA's underlying objectives of protecting policyholders, identifying material solvency risks, ensuring reliable insurer information, and maintaining effective review of costs reflected in rates. LDI partially disagrees, however, with the three recommendations as presently framed because certain proposed analyses may not, standing alone, establish the regulatory conclusions they are intended to inform. LDI believes in can more effectively address LLA's underlying concerns through targeted enhancements to existing risk-based regulatory processes, as described below.

**Recommendation 1:** ***LDI should analyze insurer regulatory filings to identify insurer business models that result in higher residual risk acceptance and to determine if higher risk acceptance is correlated with certain types of affiliate transactions.***

LDI partially agrees with Recommendation 1. LDI agrees that regulatory filings should be used to identify and monitor material solvency risks, including catastrophe exposure, risk retention, reinsurance structure, concentrations of risk, capital adequacy, and the assumptions underlying an insurer's catastrophe-risk assessment. LDI does not agree, however, that the amount of residual risk retained or the existence of an affiliate transaction should, standing alone, be treated as evidence of an inappropriate business model or elevated solvency risk.

Insurers necessarily accept and manage risk, and appropriate retention levels vary substantially based on an insurer's capital position, geographic and product concentrations, diversification, underwriting capacity, reinsurance structure, and the price and availability of reinsurance. The regulatory question is therefore not simply whether an insurer retains more risk than another insurer, but whether the insurer adequately identifies, finances, manages, and maintains capital appropriate to the risks it retains.

LDI also agrees that statistical relationships identified in regulatory data may be useful as screening indicators warranting further review. A correlation between residual-risk measures and particular affiliate transactions, however, would not establish that the affiliate transaction caused

the risk or that either the transaction or the insurer's retention strategy was inappropriate. Such indicators should be evaluated together with the insurer's full solvency profile and the economic substance of the transaction.

To address LLA's underlying concern, LDI agrees to evaluate whether its existing financial-analysis process can incorporate additional risk-based review of information already available through risk-based capital and other regulatory filings, including catastrophe-risk retention, reinsurance protection, concentration, and other relevant solvency indicators. Where those indicators identify a material concern, LDI can evaluate the insurer's affiliate arrangements as part of the broader financial analysis rather than treating affiliate status as an independent proxy for solvency risk.

**Recommendation 2:** ***LDI should consider collecting additional data from property insurers so that it can increase the frequency and scope of its testing for recordkeeping practices that could lead to inaccurate estimation of risk, and to determine if these practices are correlated with certain types of affiliate transactions.***

LDI partially agrees with Recommendation 2. LDI agrees that accurate exposure and property-characteristic data are important to insurer risk assessment and catastrophe modeling and that materially inaccurate underlying information may affect an insurer's assessment of the risk it has retained. LDI therefore agrees with the objective of identifying material weaknesses in insurer exposure data.

LDI does not believe, however, that broad recurring collection and independent validation of policy-level property data from all property insurers is necessarily the most effective or proportionate regulatory approach. Such a program could require significant data collection, normalization, matching, and analysis by both insurers and LDI. In addition, the reliability and comparability of external sources such as assessment, permit, and real-estate records may vary by jurisdiction and by data element. Any expansion of data collection should therefore be targeted to information material to insurance regulation and evaluated against the expected regulatory benefit and the resources required.

LDI currently reviews insurer financial condition through its financial-analysis and examination processes and has engaged insurers and catastrophe-model vendors regarding property valuation and exposure information used in estimating insured losses. LDI agrees to consider whether those existing processes can be supplemented with targeted, risk-based validation of material exposure fields when identified indicators warrant additional review. Such indicators could include material inconsistencies in exposure data, significant changes in modeled catastrophe losses, unusual risk concentrations, examination findings, or other information suggesting that the insurer's underlying exposure information may not reliably reflect the risks insured.

LDI would not regard the presence of an affiliate transaction, standing alone, as evidence of deficient recordkeeping. Where data-quality concerns are identified, however, LDI can consider relevant affiliate management, underwriting, or service arrangements in determining the source of the data and responsibility for maintaining its accuracy.

**Recommendation 3:** ***LDI should consider whether to require insurers to submit additional information on affiliate transactions as a part of the rate review process to ensure that rates are not excessive or inadequate.***

LDI partially agrees with Recommendation 3. LDI agrees that rate reviewers should have sufficient information to evaluate the reinsurance and expense provisions reflected in a property and casualty rate filing and to determine whether the resulting rates comply with Louisiana's statutory standards. LDI does not agree, however, that affiliate status is itself an actuarial determinant of whether a rate is excessive or inadequate.

Rate review evaluates the cost and effect of reinsurance and other expenses reflected in the filing under the same actuarial principles regardless of whether the counterparty is affiliated or unaffiliated. An affiliate relationship does not, by itself, establish that a cost incorporated into the filing is unreasonable, and an unaffiliated transaction is not necessarily reasonable merely because the parties are unrelated. The appropriate actuarial inquiry remains whether the costs and assumptions reflected in the filing are adequately supported and produce rates that satisfy Louisiana law and applicable Actuarial Standards of Practice.

LDI nevertheless recognizes LLA's narrower transparency concern that existing rate-filing materials may not always make the presence of affiliated reinsurance readily apparent to the rate reviewer. LDI therefore supports adding a targeted disclosure to Exhibit B - Actuarial Checklist identifying whether a filing's reinsurance provision includes material transactions with an affiliate. Where the disclosure or other aspects of the filing raise questions regarding support for the reinsurance provision, LDI may request additional transaction-specific information through the existing rate-review process.

This targeted approach would provide rate reviewers visibility into affiliated reinsurance arrangements without requiring duplicative submission of detailed information for every affiliate transaction regardless of its materiality or relevance to the filing.

LDI recognizes that affiliate transactions warrant appropriate regulatory scrutiny. Louisiana's holding company, financial examination, solvency, and rate-review frameworks are designed to identify and address material concerns arising from those transactions. LDI remains committed to evaluating those processes and implementing targeted improvements when they will strengthen regulatory oversight and benefit Louisiana policyholders.

LDI appreciates LLA's work and welcomes the opportunity to continue working with LLA and the Legislature on these important issues. Should you have any questions regarding this letter, please reach out to LDI Deputy Commissioner Thomas Travis, Office of Solvency, at his email thomas.travis@ldi.la.gov, or his office 225.342.3136.

Sincerely,



**Tim Temple**
Commissioner of Insurance
State of Louisiana

NLT/mb

# APPENDIX B: SCOPE AND METHODOLOGY

## Summary Statistics

We obtained annual statement data prepared by insurers and submitted to the NAIC in an electronic format. Our analysis focused on 430 insurers that we identified as having written personal lines insurance during calendar years 2021-2024, where personal lines coverage includes fire (1.0), allied lines (2.1), homeowners (3.0), farmowners (4.0), private passenger auto no-fault (19.1), other private passenger auto (19.2), and private passenger auto property damage (22.1). The data include one observation per insurer, per year.

**Exhibit B.1**
**Summary Statistics – All Insurers**
**CY 2021-2025**

| Variable | N | Min | Percentiles | | | | | Max | Mean |
|---|---|---|---|---|---|---|---|---|---|
| | | | 5% | 25% | 50% | 75% | 95% | | |
| **Direct Premium Written** | | | | | | | | | |
| Total | 2,088 | -$0.7 B | $14 M | $0.2 B | $0.5 B | $1.2 B | $5.0 B | $67 B | $1.3 B |
| Personal Lines in LA | 2,088 | -$1.3 M | $0 | $32 K | $1.0 M | $8.6 M | $112 M | $1.7 B | $22.8 M |
| **Direct Losses Incurred** | | | | | | | | | |
| Total | 2,088 | -$0.6 B | $5.6 M | $91 M | $0.2 B | $0.6 B | $3.0 B | $46 B | $76 M |
| Personal Lines in LA | 2,088 | -$86 M | -$0.9 M | $0 | $0.3 M | $4.5 M | $91 M | $2.4 B | $17 M |
| **Other Financial Metrics** | | | | | | | | | |
| Surplus | 2,090 | $4.6 M | $16 M | $56 M | $128 M | $0.5 B | $5.6 B | $170 B | $1.5 B |
| **Loss Ratios (Percent of Premiums Earned)** | | | | | | | | | |
| Direct | 2,066 | -1.4 M | 0.32 | 0.54 | 0.64 | 0.76 | 1.12 | 59.38 | -695.24 |
| Net | 1,342 | -38 M | 0.26 | 0.60 | 0.69 | 0.79 | 1.34 | 1.1 M | -30 K |
| **Expense Ratios (Percentage of Direct and Assumed Premium Written)** | | | | | | | | | |
| Acquisition | 2,078 | -3.24 | -0.08 | 0 | 0.01 | 0.10 | 0.21 | 0.51 | 0.04 |
| General | 2,078 | -7,017 | 0 | 0 | 0.02 | 0.05 | 0.10 | 124.85 | -3.26 |
| Tax, License, Fees | 2,078 | -2.36 | 0 | 0 | 0.01 | 0.02 | 0.03 | 6.80 | 0.01 |
| Total | 2,078 | -7,024 | -0.01 | 0 | 0.04 | 0.15 | 0.28 | 110.74 | -3.22 |
| **Net Income Ratio, as Percentage of** | | | | | | | | | |
| Direct Premium Earned | 2,077 | -1,668 | -0.13 | 0.00 | 0.01 | 0.06 | 0.41 | 2.3 M | 1,096 |
| Surplus | 2,090 | -5.44 | -0.18 | 0.01 | 0.03 | 0.09 | 0.22 | 7.71 | 0.03 |
| **RBC Metrics** | | | | | | | | | |
| RBC Ratio | 2,087 | 0.75 | 3.08 | 4.56 | 8.14 | 48.38 | 171.65 | 13,093 | 61.35 |
| Above 300% | 2,087 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 0.96 |
| Above 600% | 2,087 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 0.61 |

**Note:** K denotes thousands, M denotes millions, and B denotes billions.
**Source**: Prepared by legislative auditor's staff using annual statement data from NAIC.

As can be seen in Exhibit B.1, some ratio metrics had outliers that affected the means, particularly for the ratios. We utilized two methodologies to remove outliers. First was to exclude insurers with direct written premiums of less than $10,000,000 per year. These insurers accounted for 4% of the insurer-year observations, but less than 0.1% of the direct premiums written for personal lines insurance in Louisiana during this five-year period. The second was to exclude insurers that had direct or net loss ratios that were in the 1st or 99th percentiles of each distribution, or that had negative direct or net losses. Loss ratios were calculated using earned premiums in the denominator. This second approach was only used for Exhibit 11 and the accompanying paragraph. Exhibit B.2 and B.3 provide summary statistics for both sub-samples.

**Exhibit B.2**
**Summary Statistics – Insurers Direct Premium Earned >= $10 M**
**CY 2021-2025**

| Variable | N | Min | Percentiles | | | | | Max | Mean |
|---|---|---|---|---|---|---|---|---|---|
| | | | 5% | 25% | 50% | 75% | 95% | | |
| **Direct Premium Written** | | | | | | | | | |
| Total | 1,996 | $11 M | $52 M | $191 M | $517 M | $1.2 B | $5.1 B | $67 B | $1.3 B |
| Personal Lines in LA | 1,996 | -$1.3 M | $0 | $43 K | $1.1 M | $9.4 M | $120 M | $1.7 B | $24 M |
| **Direct Losses Incurred** | | | | | | | | | |
| Total | 1,996 | -$108 M | $20 M | $104 M | $264 M | $663 M | $3.0 B | $46 B | $796 M |
| Personal Lines in LA | 1,996 | -$86 M | -$0.9 M | $0 | $0.4 M | $5.0 M | $97 M | $2.4 B | $18 M |
| **Other Financial Metrics** | | | | | | | | | |
| Surplus | 1,998 | $4.6 M | $18 M | $58 M | $141 M | $555 M | $5.8 B | $170 B | $1.5 B |
| **Loss Ratios (Percent of Premiums Earned)** | | | | | | | | | |
| Direct | 1,994 | -0.68 | 0.35 | 0.54 | 0.64 | 0.76 | 1.04 | 34.52 | 0.70 |
| Net | 1,296 | -38 M | 0.32 | 0.61 | 0.69 | 0.79 | 1.28 | 1 M | -31 K |
| **Expense Ratios (Percentage of Direct and Assumed Premium Written)** | | | | | | | | | |
| Acquisition | 1,996 | -0.44 | -0.08 | 0 | 0.01 | 0.09 | 0.20 | 0.35 | 0.04 |
| General | 1,996 | -0.04 | 0 | 0 | 0.02 | 0.05 | 0.09 | 0.51 | 0.03 |
| Tax, License, Fees | 1,996 | -0.03 | 0 | 0 | 0.01 | 0.02 | 0.03 | 0.20 | 0.01 |
| Total | 1,996 | -0.29 | -0.01 | 0 | 0.04 | 0.15 | 0.28 | 0.78 | 0.08 |
| **Net Income Ratio, as Percentage of** | | | | | | | | | |
| Direct Premium Earned | 1,996 | -3.37 | -0.11 | 0.00 | 0.01 | 0.06 | 0.32 | 31.41 | 0.09 |
| Surplus | 1,998 | -5.44 | -0.17 | 0.01 | 0.03 | 0.10 | 0.22 | 7.71 | 0.03 |
| **RBC Metrics** | | | | | | | | | |
| RBC Ratio | 1,998 | 0.75 | 3.08 | 4.54 | 7.92 | 46.47 | 168.09 | 10,001 | 51.16 |
| Above 300% | 1,998 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 0.96 |
| Above 600% | 1,998 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 0.61 |

**Note:** K denotes thousands, M denotes millions, and B denotes billions.
**Source**: Prepared by legislative auditor's staff using annual statement data from NAIC.

| Exhibit B.3<br>Summary Statistics – Excluding Loss Ratio Outliers<br>CY 2021-2025 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Variable | N | Min | Percentiles | | | | | Max | Mean |
| | | | 5% | 25% | 50% | 75% | 95% | | |
| **Direct Premium Written** | | | | | | | | | |
| Total | 1,237 | -$248 K | $45 M | $191 M | $577 M | $1.4 B | $6.0 B | $67 B | $1.6 B |
| Personal Lines in LA | 1,237 | -$1.3 M | $0 | $54 K | $1.3 M | $11 M | $120 M | $1.7 B | $28 M |
| **Direct Losses Incurred** | | | | | | | | | |
| Total | 1,237 | $136 K | $16 M | $99 M | $298 M | $770 M | $3.5 B | $46 B | $963 M |
| Personal Lines in LA | 1,237 | -$86 M | -$0.8 M | $0 | $0.5 M | $5.4 M | $97 M | $2.4 B | $21 M |
| **Other Financial Metrics** | | | | | | | | | |
| Surplus | 1,237 | $4.6 M | $28 M | $94 M | $28 M | $1.2 B | $8.3 B | $170 B | $2.4 B |
| **Loss Ratios (Percent of Premiums Earned)** | | | | | | | | | |
| Direct | 1,237 | 0.05 | 0.35 | 0.56 | 0.66 | 0.76 | 1.04 | 2.44 | 0.68 |
| Net | 1,237 | 0 | 0.43 | 0.61 | 0.69 | 0.78 | 1.15 | 8.05 | 0.74 |
| **Note:** K denotes thousands, M denotes millions, and B denotes billions.<br>**Source**: Prepared by legislative auditor's staff using annual statement data from NAIC. | | | | | | | | | |

Exhibit B.4 shows summary statistics for the rate filing data, presented separately for the auto and homeowners filings.

| Exhibit B.4<br>Summary Statistics – Rate Filing Sample<br>CY 2021-2025 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Variable | N | Min | Percentiles | | | | | Max | Mean |
| | | | 5% | 25% | 50% | 75% | 95% | | |
| **Homeowners Sample** | | | | | | | | | |
| Rates | 14,760 | 619 | 1,213 | 2,108 | 2,967 | 4,355 | 8,303 | 24,283 | 3,623 |
| Regression Weights | 14,760 | 0 | 1,925 | 15,991 | 30,400 | 57,090 | 110,857 | 122,014 | 40,538 |
| Earliest Year Effective | 14,760 | 2022 | 2023 | 2024 | 2025 | 2026 | 2026 | 2026 | 2024.8 |
| MST Payer | 14,760 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 0.56 |
| No MST | 14,760 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 0.41 |
| MST Recipient | 14,760 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0.03 |
| Cedes Reinsurance to Affiliates | 14,760 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 0.88 |
| Assumes Reinsurance from Affiliates | 14,760 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 0.49 |
| Pays Management Fee to Affiliates | 14,760 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 0.46 |
| **Auto Sample** | | | | | | | | | |
| Rates | 3,962 | 405 | 1,019 | 2,089 | 3,937 | 6,248 | 12,511 | 24,091 | 4,790 |
| Regression Weights | 3,962 | 1,655 | 2,162 | 7,516 | 13,393 | 37,987 | 163,004 | 229,244 | 38,331 |
| Earliest Year Effective | 3,962 | 2018 | 2024 | 2025 | 2026 | 2026 | 2026 | 2026 | 2025.2 |
| MST Payer | 3,962 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 0.52 |
| No MST | 3,962 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 0.46 |
| MST Recipient | 3,962 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0.02 |
| Cedes Reinsurance to Affiliates | 3,962 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1.00 |
| Assumes Reinsurance from Affiliates | 3,962 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 0.50 |
| Pays Management Fee to Affiliates | 3,962 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 0.53 |

**Source**: Prepared by legislative auditor's staff using annual statement data from NAIC and rate filings.

**Regression Results**

The results in Exhibits 11 through 14 are based on regressions using the annual statement data, as well as rate filing data in the case of Exhibit 13. The regression coefficients were used to generate estimated mean values of the dependent variable for each of the affiliate transaction categories, holding all other covariates constant. For Exhibits 11, 12, and 14, the specific covariates included the natural log of direct premium written, percentage of direct premium written for auto insurance, percentage of direct premium written for property insurance, categorical variables for the overall business mix of the insurer (80% or more property, 50% to 80% property, 80% or more auto, some other mix of business lines), year indicator variables, and separate coefficients by year for the percentage of business in auto and property insurance (respectively). We also controlled for each insurer's exposure to catastrophe losses by including a series of indicator variables for state-year combinations where the statewide direct loss ratio for property was greater than 100%. These indicators were then interacted with each insurer's share of its direct premium earned in that state during the year in question. The results in Exhibit 13 control for the example location and number for each rating scenario proposed by LDI, as well as the year that the rates would first go into effect for new policies or renewals. The results in Exhibit 13 are also weighted based on the population in the parishes closest to each location for homeowners and auto, and the auto weights are also based on population in each age category because the first four of the seven example scenarios are based on drivers 21 years of age or younger. Because there were two example locations in St. Tammany Parish, the population of St. Tammany was allocated to Mandeville, which was closer to its centroid, and Slidell rating examples received zero weight.

Exhibits B.5 through B.7 show the coefficient estimates from the loss ratio regressions supporting Exhibit 11. Each coefficient shows the increase (or decrease) in the specified loss ratio associated with the type of affiliate transaction activity indicated. Affiliate transaction activity was represented with mutually exclusive indicator variables. We conducted separate regressions for each type of activity. Because these results were the most sensitive to the treatment of outliers, we included multiple specifications in the exhibit below in each of the three columns. As seen in the exhibit, the signs on the coefficients are consistent across specifications for net loss ratios, although the standard errors are higher for the specification that only excludes small insurers, rather than excluding the highest and lowest percentiles. Exhibit B.5 also shows that, when the direct loss ratio regression is expanded to include an additional 779 insurers that do not have a net loss ratio in the 2$^{nd}$ to 98$^{th}$ percentile, insurers that both cede and assume or that have no affiliate reinsurance tend to have higher direct loss ratios than those that cede only.

The remainder of this appendix is structured as follows. Exhibits B.8 through B.10 contain regression coefficients supporting Exhibits 12 through 14 in the report. Exhibits B.11 through B.19 provide a comparison between the coefficient estimates obtained by including indicators for only one transaction type at a time, as well as by including the indicators for all transactions simultaneously.

| Exhibit B.5<br>Loss Ratio Analysis<br>Regression Results Supporting Exhibit 11<br>Affiliate Reinsurance Independent Variables | | | |
|---|---|---|---|
| **Variables** | **Excluding DLR and NLR Outliers** | **Excluding Small Insurers** | **Excluding Own Outliers Only** |
| **Dependent variable: Direct Loss Ratio (DLR)** | | | |
| *Independent variables* | | | |
| Assumes only | -0.026<br>(0.037) | -0.028<br>(0.048) | 0.019<br>(0.033) |
| Both cedes and assumes | -0.027<br>(0.025) | 0.026<br>(0.077) | 0.031†<br>(0.014) |
| No affiliate reinsurance | 0.080<br>(0.053) | 0.058<br>(0.061) | 0.120†<br>(0.048) |
| N | 1,236 | 1,216 | 2,015 |
| **Dependent variable: Net Loss Ratio (NLR)** | | | |
| *Independent variables* | | | |
| Assumes only | -0.090*<br>(0.047) | -0.107<br>(0.067) | -0.133‡<br>(0.050) |
| Both cedes and assumes | -0.070*<br>(0.039) | -0.090<br>(0.067) | -0.106‡<br>(0.040) |
| No affiliate reinsurance | 0.125*<br>(0.076) | 0.066<br>(0.11) | 0.025<br>(0.081) |
| N | 1,236 | 1,216 | 1,280 |

**Note:** Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. Standard errors are clustered by company code. The base case is insurers that only cede reinsurance to affiliates.
**Source:** Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC.

| Exhibit B.6<br>Loss Ratio Analysis<br>Regression Results Supporting Exhibit 11<br>Affiliated MST Independent Variables | | | |
|---|---|---|---|
| **Specification** | **Excluding DLR and NLR Outliers** | **Excluding Small Insurers** | **Excluding Own Outliers Only** |
| **Dependent variable: Direct Loss Ratio (DLR)** | | | |
| *Independent variables* | | | |
| MST Payer | -0.034 | 0.010 | -0.003 |
| | (0.022) | (0.041) | (0.015) |
| MST Payee | -0.016 | -0.012 | 0.022 |
| | (0.023) | (0.029) | (0.021) |
| N | 1,236 | 1,216 | 2,015 |
| **Dependent variable: Net Loss Ratio (NLR)** | | | |
| *Independent variables* | | | |
| MST Payer | 0.027 | 0.050 | 0.013 |
| | (0.031) | (0.040) | (0.032) |
| MST Payee | 0.013 | 0.022 | 0.003 |
| | (0.028) | (0.029) | (0.033) |
| N | 1,236 | 1,216 | 1,280 |

**Note:** Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. Standard errors are clustered by company code. The base case is insurers that did not report affiliated MST transactions.
**Source:** Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC.

**Exhibit B.7**
**Loss Ratio Analysis**
**Regression Results Supporting Exhibit 11**
**Affiliated Management Fee Independent Variables**

| Specification | Excluding DLR and NLR Outliers | Excluding Small Insurers | Excluding Own Outliers Only |
|---|---|---|---|
| **Dependent variable: Direct Loss Ratio (DLR)** | | | |
| *Independent variables* | | | |
| Paid management fees | -0.010 | 0.023 | 0.001 |
| | (0.017) | (0.039) | (0.014) |
| N | 1,236 | 1,216 | 2,015 |
| **Dependent variable: Net Loss Ratio (NLR)** | | | |
| *Independent variables* | | | |
| Paid management fees | -0.024 | -0.037 | -0.008 |
| | (0.026) | (0.031) | (0.028) |
| N | 1,236 | 1,216 | 1,280 |

**Note:** Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. Standard errors are clustered by company code. The base case is insurers that did not report affiliate management fee transactions.
**Source:** Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC.

**Exhibit B.8**
**Expense and Profit Ratio Analysis**
**Regression Results Supporting Exhibit 12**
**CY 2021-2025**

| Affiliate Transaction Use | Acquisition, Commission, & Brokerage Expense Ratio | General Expense Ratio | Taxes, Licenses, & Fees Ratio | Total Expense Ratio | Net Income | |
|---|---|---|---|---|---|---|
| | | | | | Ratio of Direct & Assumed Premiums Earned | Ratio of Surplus |
| **Reinsurance transactions with affiliates** | | | | | | |
| Assumes only | 0.157‡ | 0.046‡ | 0.014‡ | 0.217‡ | 0.013 | 0.026 |
| | (0.017) | (0.009) | (0.002) | (0.016) | (0.013) | (0.039) |
| Both | 0.060‡ | 0.016‡ | 0.006‡ | 0.082‡ | 0.013† | 0.033† |
| | (0.008) | (0.003) | (0.001) | (0.008) | (0.006) | (0.013) |
| None | 0.067‡ | 0.051‡ | 0.009‡ | 0.127‡ | -0.083† | -0.149‡ |
| | (0.019) | (0.010) | (0.002) | (0.021) | (0.037) | (0.056) |
| N | 1,996 | 1,996 | 1,996 | 1,996 | 1,991 | 1,996 |
| **MST transactions with affiliates** | | | | | | |
| MST payer | 0.029‡ | 0.017‡ | 0.005‡ | 0.051‡ | 0.001 | -0.019 |
| | (0.008) | (0.003) | (0.001) | (0.009) | (0.008) | (0.016) |
| MST payee | 0.050‡ | 0.012‡ | 0.005‡ | 0.067‡ | 0.006 | 0.004 |
| | (0.011) | (0.005) | (0.001) | (0.013) | (0.007) | (0.017) |
| N | 1,996 | 1,996 | 1,996 | 1,996 | 1,991 | 1,996 |
| **Paid management fees to affiliates** | | | | | | |
| Paid fees | -0.007 | 0.006* | -0.000 | -0.000 | -0.004 | 0.008 |
| | (0.008) | (0.003) | (0.001) | (0.009) | (0.006) | (0.014) |
| N | 1,996 | 1,996 | 1,996 | 1,996 | 1,991 | 1,996 |

**Note**: Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. Acquisition, commission, and brokerage expense ratio can be negative as a result of ceding commissions.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC.

**Exhibit B.9**
**Rate Filing Analysis**
**Regression Results Supporting Exhibit 13**
**CY 2021-2025**

| Category of Insurer | Auto Premium | | Homeowners Premium | |
|---|---|---|---|---|
| | Levels | Log | Levels | Log |
| **Reinsurance ceded to affiliates** | | | | |
| Reinsurance ceder | n.a.[a] | n.a.[a] | -528.5 | -0.153 |
| | | | (627.8) | (0.194) |
| N | 3,962 | 3,962 | 14,268 | 14,268 |
| **Reinsurance assumed from affiliates** | | | | |
| Reinsurance assumer | -119.7 | -0.064 | -373.6 | -0.061 |
| | (302.8) | (0.118) | (328.0) | (0.086) |
| N | 3,962 | 3,962 | 14,268 | 14,268 |
| **MST transaction with affiliates** | | | | |
| MST payer | -87.8 | -0.059 | -1,138.8‡ | -0.261‡ |
| | (337.8) | (0.139) | (368.2) | (0.088) |
| MST payee | -116.8 | -0.001 | -821.1† | -0.104 |
| | (232.9) | (0.091) | (322.1) | (0.065) |
| N | 3,962 | 3,962 | 14,268 | 14,268 |
| **Paid management fees to affiliates** | | | | |
| Paid fees | 241.1 | 0.018 | 490.4 | 0.117 |
| | (331.1) | (0.135) | (503.8) | (0.125) |
| N | 3,962 | 3,962 | 14,268 | 14,268 |

[a] All of the auto insurance rate filings that we reviewed were for companies that ceded reinsurance to affiliates; 89% of insurers statewide cede reinsurance to affiliates.
**Note**: Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown in inflation-adjusted dollars based on August 2026 prices.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC and rate filings.

**Exhibit B.10**
**Risk-Based Capital Analysis**
**Regression Results Supporting Exhibit 14**
**CY 2021-2025**

| Variables | ln(RBC Ratio) | RBC Ratio >= 300% | RBC Ratio >= 600% |
|---|---|---|---|
| **Affiliate Reinsurance Transactions** | | | |
| Assumes only | -0.562‡ | -0.106 | -0.273 |
| | (0.209) | (0.365) | (0.293) |
| Both cedes and assumes | -1.075‡ | -0.443* | -0.866‡ |
| | (0.119) | (0.229) | (0.135) |
| No affiliate reinsurance | -0.959‡ | -0.943‡ | -0.708‡ |
| | (0.183) | (0.256) | (0.250) |
| N | 1,996 | 1,991 | 1,996 |
| **Affiliate MST Transactions** | | | |
| MST payer | -0.674‡ | -0.343† | -0.436‡ |
| | (0.104) | (0.162) | (0.122) |
| MST payee | -0.713‡ | -0.317 | -0.552‡ |
| | (0.131) | (0.223) | (0.195) |
| N | 1,996 | 1,991 | 1,996 |
| **Affiliate Management Fees** | | | |
| Paid affiliate | -0.156* | 0.097 | -0.032 |
| | (0.094) | (0.130) | (0.117) |
| N | 1,996 | 1,991 | 1,996 |

**Note:** Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. Standard errors are clustered by company code. The base case is insurers that only cede reinsurance to affiliates. The column "ln(RBC Ratio)" was estimated using a least-squares regression, while columns "RBC Ratio >= 300%" and "RBC Ratio >= 600%" were estimated using probit regressions.
**Source:** Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC.

**Exhibit B.11**
**Direct Loss Ratio Analysis**
**Inclusion of All Transaction Types**
**CY 2021-2025**

| Affiliate Transaction Use | Reinsurance Transactions with Affiliates | MST Transactions | Management Fees | All Transaction Types |
|---|---|---|---|---|
| **Reinsurance transactions with affiliates** | | | | |
| Assumes only | -0.026<br>(0.037) | | | -0.018<br>(0.038) |
| Both | -0.027<br>(0.025) | | | -0.026<br>(0.024) |
| None | 0.080<br>(0.053) | | | 0.083<br>(0.053) |
| **MST transactions with affiliates** | | | | |
| MST payer | | -0.035<br>(0.022) | | 0.038*<br>(0.022) |
| MST payee | | -0.016<br>(0.023) | | -0.015<br>(0.023) |
| **Paid management fees to affiliates** | | | | |
| Paid fees | | | -0.009<br>(0.017) | 0.004<br>(0.016) |
| N | 1,236 | 1,236 | 1,236 | 1,236 |

**Note**: Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. Dependent variable is direct loss ratio.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC.

**Exhibit B.12**
**Net Loss Ratio Analysis**
**Inclusion of All Transaction Types**
**CY 2021-2025**

| Affiliate Transaction Use | Reinsurance Transactions with Affiliates | MST Transactions | Management Fees | All Transaction Types |
|---|---|---|---|---|
| **Reinsurance transactions with affiliates** | | | | |
| Assumes only | -0.090*<br>(0.047) | | | -0.107†<br>(0.049) |
| Both | -0.070*<br>(0.039) | | | -0.070*<br>(0.039) |
| None | 0.125*<br>(0.076) | | | 0.121<br>(0.077) |
| **MST transactions with affiliates** | | | | |
| MST payer | | 0.027<br>(0.031) | | 0.038<br>(0.030) |
| MST payee | | 0.013<br>(0.028) | | 0.026<br>(0.029) |
| **Paid management fees to affiliates** | | | | |
| Paid fees | | | -0.024<br>(0.026) | -0.030<br>(0.024) |
| N | 1,236 | 1,236 | 1,236 | 1,236 |

**Note**: Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. Dependent variable is net loss ratio.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC.

**Exhibit B.13**
**Expense Ratio Analysis**
**Inclusion of All Transaction Types**
**CY 2021-2025**

| Affiliate Transaction Use | Reinsurance Transactions with Affiliates | MST Transactions | Management Fees | All Transaction Types |
|---|---|---|---|---|
| **Reinsurance transactions with affiliates** | | | | |
| Assumes only | 0.217‡<br>(0.016) | | | 0.203‡<br>(0.016) |
| Both | 0.082‡<br>(0.008) | | | 0.075‡<br>(0.008) |
| None | 0.127‡<br>(0.021) | | | 0.120‡<br>(0.021) |
| **MST transactions with affiliates** | | | | |
| MST payer | | 0.051‡<br>(0.009) | | 0.024‡<br>(0.008) |
| MST payee | | 0.067‡<br>(0.013) | | 0.030‡<br>(0.011) |
| **Paid management fees to affiliates** | | | | |
| Paid fees | | | -0.000<br>(0.009) | -0.003<br>(0.008) |
| N | 1,996 | 1,996 | 1,996 | 1,996 |

**Note**: Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. Dependent variable is expense ratio relative to direct and assumed premium written.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC.

**Exhibit B.14**
**Net Income Analysis (Return on Surplus)**
**Inclusion of All Transaction Types**
**CY 2021-2025**

| Affiliate Transaction Use | Reinsurance Transactions with Affiliates | MST Transactions | Management Fees | All Transaction Types |
|---|---|---|---|---|
| **Reinsurance transactions with affiliates** | | | | |
| Assumes only | 0.026<br>(0.039) | | | 0.036<br>(0.040) |
| Both | 0.033†<br>(0.013) | | | 0.036†<br>(0.016) |
| None | -0.149‡<br>(0.056) | | | -0.143†<br>(0.055) |
| **MST transactions with affiliates** | | | | |
| MST payer | | -0.019<br>(0.016) | | -0.022<br>(0.016) |
| MST payee | | 0.004<br>(0.017) | | -0.005<br>(0.021) |
| **Paid management fees to affiliates** | | | | |
| Paid fees | | | 0.008<br>(0.014) | 0.008<br>(0.014) |
| N | 1,996 | 1,996 | 1,996 | 1,996 |

**Note**: Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. Dependent variable is net income divided by surplus.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC.

**Exhibit B.15**
**Auto Rates Analysis (Levels)**
**Inclusion of All Transaction Types**
**CY 2021-2025**

| Affiliate Transaction Use | Affiliate Reinsurance | | MST Transactions | Management Fees | All Transaction Types |
|---|---|---|---|---|---|
| | Cedes | Assumes | | | |
| **Cedes reinsurance to affiliates** | | | | | |
| Cedes | n.a. | | | | n.a. |
| **Assumes reinsurance from affiliates** | | | | | |
| Assumes | | -119.7<br>(302.8) | | | -143.2<br>(308.40 |
| **MST transactions with affiliates** | | | | | |
| MST payer | | | -87.8<br>(337.8) | | -93.08<br>(331.3) |
| MST payee | | | -116.8<br>(232.9) | | -240.2<br>(240.8) |
| **Paid management fees to affiliates** | | | | | |
| Paid fees | | | | 241.1<br>(331.1) | 318.4<br>(310.3) |
| N | 3,962 | 3,962 | 3,962 | 3,962 | 3,962 |

**Note**: Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. Dependent variable is combined automobile physical damage and liability rate, indexed for inflation to August 2026, in levels.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC and rate filings.

**Exhibit B.16**
**Auto Rates Analysis (Logs)**
**Inclusion of All Transaction Types**
**CY 2021-2025**

| Affiliate Transaction Use | Affiliate Reinsurance | | MST Transactions | Management Fees | All Transaction Types |
|---|---|---|---|---|---|
| | Cedes | Assumes | | | |
| **Cedes reinsurance to affiliates** | | | | | |
| Cedes | n.a. | | | | n.a. |
| **Assumes reinsurance from affiliates** | | | | | |
| Assumes | | -0.064<br>(0.118) | | | -0.056<br>(0.149) |
| **MST transactions with affiliates** | | | | | |
| MST payer | | | -0.059<br>(0.139) | | -0.039<br>(0.162) |
| MST payee | | | -0.001<br>(0.091) | | 0.007<br>(0.120) |
| **Paid management fees to affiliates** | | | | | |
| Paid fees | | | | 0.018<br>(0.135) | 0.042<br>(0.129) |
| N | 3,962 | 3,962 | 3,962 | 3,962 | 3,962 |

**Note**: Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. Dependent variable is combined automobile physical damage and liability rate, indexed for inflation to August 2026, in natural logarithms.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC and rate filings.

**Exhibit B.17**
**Homeowners Rates Analysis (Levels)**
**Inclusion of All Transaction Types**
**CY 2021-2025**

| Affiliate Transaction Use | Affiliate Reinsurance | | MST Transactions | Management Fees | All Transaction Types |
|---|---|---|---|---|---|
| | Cedes | Assumes | | | |
| **Cedes reinsurance to affiliates** | | | | | |
| Cedes | -528.5 | | | | -1,045.4 |
| | (627.8) | | | | (683.4) |
| **Assumes reinsurance from affiliates** | | | | | |
| Assumes | | -373.6 | | | -240.6 |
| | | (328.0) | | | (271.3) |
| **MST transactions with affiliates** | | | | | |
| MST payer | | | -1,138.8‡ | | -1,628.2‡ |
| | | | (368.2) | | (512.3) |
| MST payee | | | -821.1† | | -945.5† |
| | | | (322.1) | | (384.1) |
| **Paid management fees to affiliates** | | | | | |
| Paid fees | | | | 490.4 | 1,103.5† |
| | | | | (503.8) | (505.7) |
| N | 14,268 | 14,268 | 14,268 | 14,268 | 14,268 |

**Note**: Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. Dependent variable is the homeowners rate, indexed for inflation to August 2026, in levels.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC and rate filings.

**Exhibit B.18**
**Homeowners Rates Analysis (Logs)**
**Inclusion of All Transaction Types**
**CY 2021-2025**

| Affiliate Transaction Use | Affiliate Reinsurance | | MST Transactions | Management Fees | All Transaction Types |
|---|---|---|---|---|---|
| | Cedes | Assumes | | | |
| **Cedes reinsurance to affiliates** | | | | | |
| Cedes | -0.153 | | | | -0.272 |
| | (0.194) | | | | (0.205) |
| **Assumes reinsurance from affiliates** | | | | | |
| Assumes | | -0.061 | | | -0.036 |
| | | (0.086) | | | (0.0820 |
| **MST transactions with affiliates** | | | | | |
| MST payer | | | -0.261‡ | | -0.384‡ |
| | | | (0.088) | | (0.124) |
| MST payee | | | -0.104 | | -0.147 |
| | | | (0.065) | | (0.100) |
| **Paid management fees to affiliates** | | | | | |
| Paid fees | | | | 0.117 | 0.264† |
| | | | | (0.125) | (0.127) |
| N | 14,268 | 14,268 | 14,268 | 14,268 | 14,268 |

**Note**: Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. Dependent variable is the homeowners rate, indexed for inflation to August 2026, in natural logarithms.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC and rate filings.

**Exhibit B.19**
**RBC Analysis (Probability of RBC Exceeding 600%)**
**Inclusion of All Transaction Types**
**CY 2021-2025**

| Affiliate Transaction Use | Reinsurance Transactions with Affiliates | MST Transactions | Management Fees | All Transaction Types |
|---|---|---|---|---|
| **Reinsurance transactions with affiliates** | | | | |
| Assumes only | -0.273<br>(0.293) | | | -0.123<br>(0.302) |
| Both | -0.866‡<br>(0.135) | | | -0.834‡<br>(0.135) |
| None | -0.708‡<br>(0.250) | | | -0.662‡<br>(0.246) |
| **MST transactions with affiliates** | | | | |
| MST payer | | -0.436‡<br>(0.122) | | -0.439‡<br>(0.122) |
| MST payee | | -0.552‡<br>(0.195) | | -0.484†<br>(0.202) |
| **Paid management fees to affiliates** | | | | |
| Paid fees | | | -0.032<br>(0.117) | 0.162<br>(0.123) |
| N | 1,996 | 1,996 | 1,996 | 1,996 |

**Note**: Standard errors in parentheses. Statistically significant coefficients are denoted by * for p≤0.1, † for p≤0.05, ‡ for p≤0.01. All amounts in table are shown as ratios, i.e., 1 denotes a ratio of 100%. Dependent variable is whether the RBC ratio exceeds 600%. Coefficient estimates were obtained from probit regression.
**Source**: Prepared by legislative auditor's staff based on analysis of annual statement data from NAIC.

# APPENDIX C: AFFILIATE TRANSACTION REPORTING IN ANNUAL STATEMENTS

**Exhibit C.1**
**Sources of Affiliate Transaction Data**

**Schedule Y, Holding Company and Affiliate Details**

- Lists all entities and ownership relationships in the holding company system.
- Includes net dollars received or paid for management fees, shareholder dividends, capital contributions, purchases or sales of other assets, income or disbursements from or for guarantees, income or disbursements from or for reinsurance, and other payments not in the ordinary course of business.

**Annual Statement Note Disclosures, Note 10(C)**

- Reports transactions with related parties who are not reported on Schedule Y.

**Premiums Detail, Underwriting and Investment Exhibit, Part 1B**

- Shows how much direct premium written was ceded to or assumed from affiliates and non-affiliates.
- No detail on whether reinsurance losses assumed or ceded was from affiliates versus non-affiliates.

**Management Fees, Underwriting and Insurance Exhibit, Part 3**

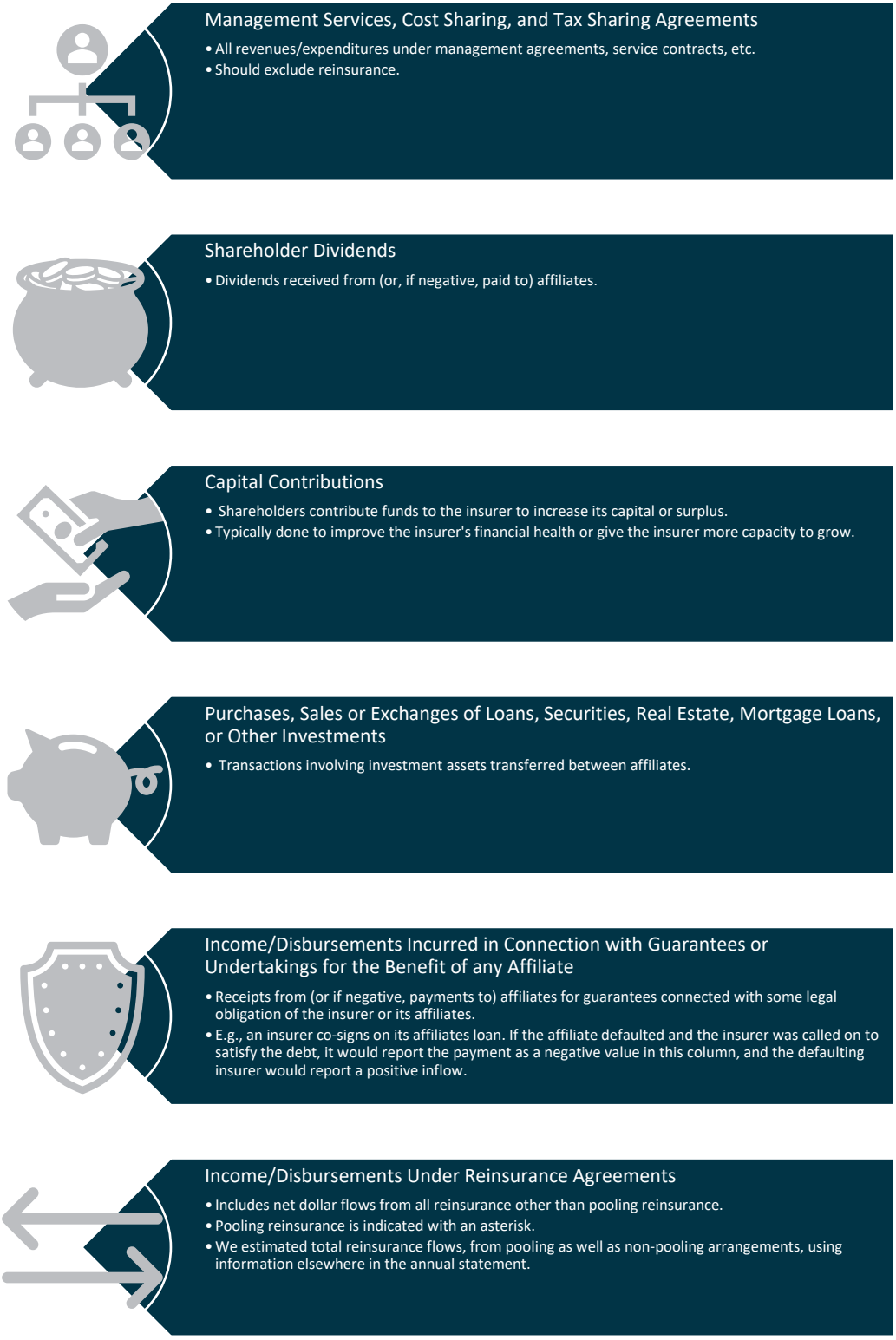
- Shows how much of the total underwriting expenses was for management fees paid to affiliates versus non-affiliates.

**Schedule F, Reinsurance**

- Shows amounts of reinsurance assumed and ceded from and to affiliates and non-affiliates.
- Does not show actual losses incurred with each counterparty. We estimated total affiliate reinsurance losses assumed and paid by taking the amounts recoverable or payable for each line item in Schedule F as a percentage of total reinsurance losses recoverable or payable, respectively.

**Source:** Prepared by legislative auditor's staff.

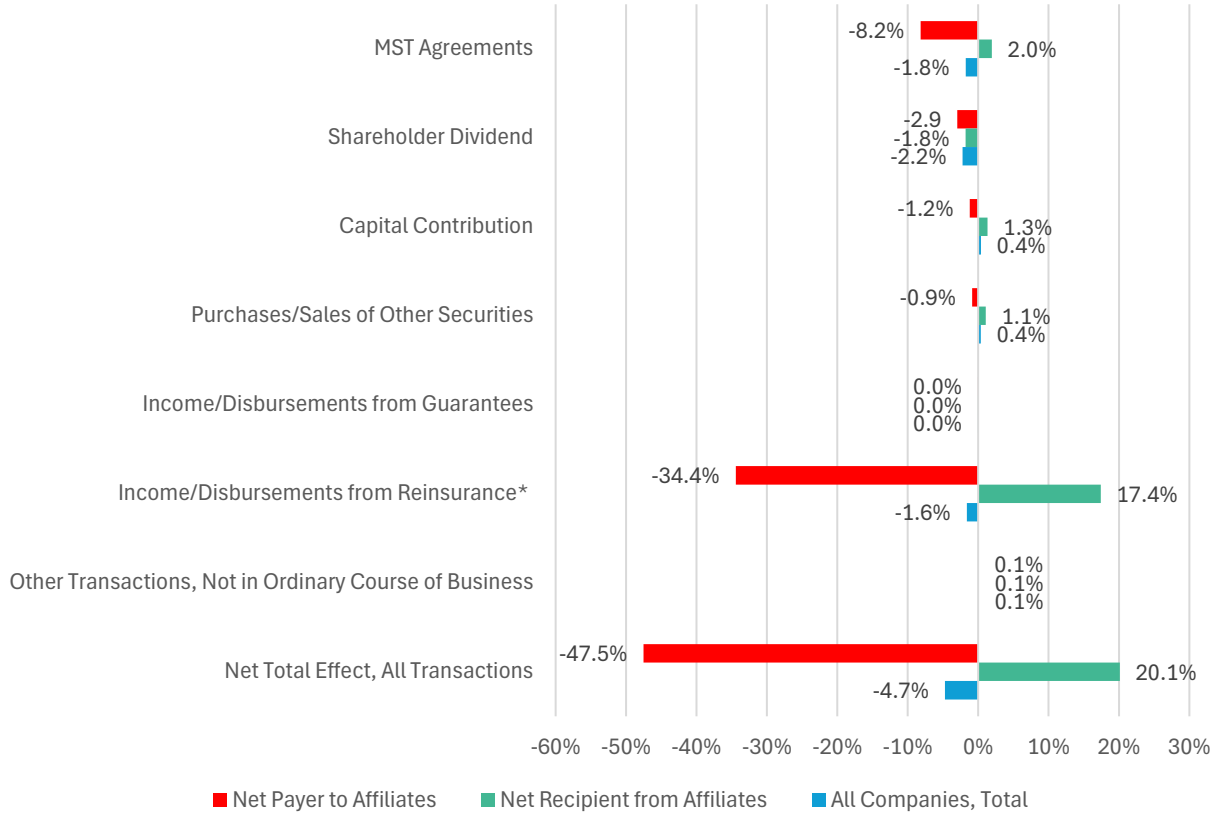
## Exhibit C.2
## Types of Affiliate Transactions Reported in Schedule Y




**Source:** Prepared by legislative auditor's staff .

# APPENDIX D: AFFILIATE TRANSACTION FLOWS AS A PERCENTAGE OF SURPLUS

**Exhibit D.1**
**Net Payments from or to Affiliates, by Transaction Type**
**CY 2021-2025 Average, as a Percentage of Surplus**




***** We estimated reinsurance flows using Schedule F reinsurance data instead of using Schedule Y data because many companies do not report the net payment amounts for affiliate insurance on Schedule Y Part 2 when they use inter-company pooling.
**Note:** "Net payer to affiliates" and "net recipient from affiliates" categories are based on the direction of the total net flow for all transaction types. Percentages for "Net Payer to Affiliates" and "Net Recipient from Affiliates" will not total to the "All Companies, Total" percentage because the denominators are the policyholder surplus for each of those three categories.
**Source:** Prepared by legislative auditor's staff based on analysis of insurer annual statements.