Topic: **BUSINESS PLANS**

Situations that require the filing of a business plan:

- A Form A filing
- Companies wishing to enter the Texas insurance market through incorporation or admission
- Companies wishing to re-enter the Texas insurance market subsequent to filing a withdrawal plan

<u>Note: Business plans in the above situations may follow the abbreviated format utilized in the UCAA licensing application.</u>

- A request by a Financial Analyst as result of statement review
- To demonstrate compliance with an abatement item for release from regulatory proceedings

<u>Note: Business plans in the above situations and for other types of filings should follow the business outline formats found in Attachment 1, and include projections for two years with a balance sheet, an income statement, and cash flow in statutory format on a quarterly basis.</u>

Examples of criteria that will cause closer scrutiny regarding a filed business plan and may extend the time to complete the application review include but are not limited to:

- The plan lacks sufficient detail to provide the reader with adequate information about the viability of the company's current and/or future operations.
- Lack of clear and detailed explanation of assumptions for the financial projections including, but not limited to: commissions and expenses, investment and interest rates, loss and LAE ratios, etc.;
  - ➢ The assumptions are inconsistent with assumptions included in the Asset Adequacy Analysis for reserves, e.g., projected earnings rate for assets backing various lines of business
  - ➢ Lacks details of all/any projected increase in sales
  - ➢ Lacks details, calculated by line of business, of changes in commission structure
  - ➢ Reserve projections are not reasonable given projected growth
- Budget projections, as required by TAC § 7.209 (m)(3) for the domestic insurer and the Applicant that are less than 3 years or the length of time necessary to service any debt arising from the acquisition.
  - ➢ Missing RBC numbers on the projections
  - ➢ Did not provide the resume of the preparer of the projections.
  - ➢ Cash flow statements that do not demonstrate the company will have sufficient cash flow to operate at its projected levels.
  - ➢ Incomplete explanation of any rapid increases/decreases in certain accounts (such as investment income, expenses, etc.)
- Lack of sufficient detail of a marketing plan and distribution network(s);
- Insufficient explanations of proposed use of the services of a TPA or other out-sourced functions;

- Incomplete explanations of any new or existing service agreements with affiliates;
- Insufficient evidence of adequate funds, either cash or capital and surplus, to support the projections. Part of the evidence could be the capital provider's most recent audited financial statements or compilation by an independent CPA and the timing for any proposed or subsequent funding should be reflected on the projections;
- An incomplete description of how any debt incurred for the acquisition will be serviced, including payment schedule, rate schedule, and other terms of payment and any performance covenants attached to the loan;
- Incomplete explanation of how any reinsurance treaties function and the financial effects of the treaty;
- Lack of disclosure of any dividends, interest payments, etc requirements or expectations of the capital provider reflected on the projections.
- Does not demonstrate adequate expense controls including identification of areas for expense reductions, if any, and an explanation of how reductions will be accomplished.

Statutory and Regulatory References:

- TIC Chapters 822, 841, 861, 882, and 883.
- TIC § 823.204
- TIC 21.28-A
- TAC § 7.209(f)(1-4)