

U.S. Insurance Solvency and the Solvency Modernization Initiative

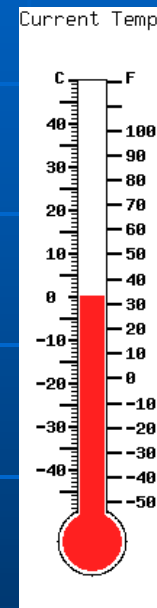


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Casualty Actuarial Society – Casualty Actuaries of Europe (CAE)
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US / UK / EU

We're the Same...But Different



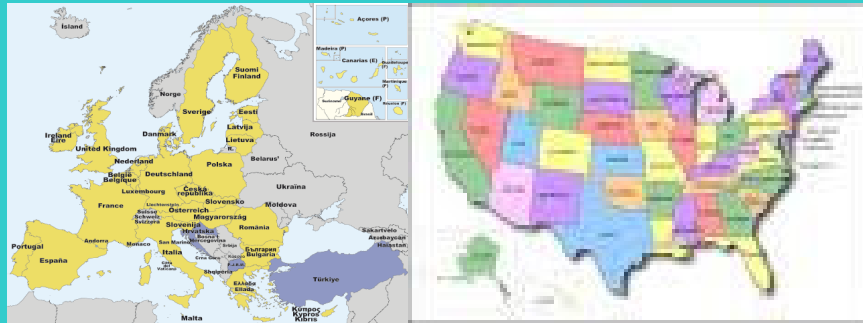
English is the Same...But Different



WORDS	US MEANS...	UK MEANS...
Bill	Paper Money	Demand of Payment
Chips	Crisp pieces of potato served cold	Fried potato served hot
Gas	Fuel for vehicle, cooking, & heating	Fuel for cooking & heating
Pants	Trousers	Clothing worn under trousers
Subway	A railway under city	A passage under a road for pedestrians

And When It Comes to Solvency Regulation: EU and US Are the Same...But Different

Member States



Focus on Risk

→ Capital Requirements

→ Company Activities

End Result

→ We Want Insurance
Claims to Get Paid

Difference?

How We Achieve
our End Aim

Our Markets Are Different

Worldwide Insurance Premiums

(Millions of U.S. Dollars -- 2008)

1	United States	\$1,641,104	35.1%
2	Japan	\$473,107	10.1%
3	United Kingdom	\$450,152	9.6%
4	France	\$273,007	5.9%
5	Germany	\$243,085	5.2%
6	PR China	\$140,818	3.0%
	The Rest	\$1,448,835	31.1%
Total		\$4,670,198	100.0%

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1	Japan	\$473,197	10.1%
2	United Kingdom	\$450,152	9.6%
3	France	\$273,007	5.9%
4	Germany	\$243,085	5.2%
5	California	\$212,811	4.6%
6	PR China	\$140,818	3.0%
7	Italy	\$140,689	3.0%
8	New York	\$127,393	2.7%
9	The Netherlands	\$112,611	2.4%
10	Florida	\$108,470	2.3%
	The Rest	\$2,282,233	51.2%
Total		\$4,670,198	100.0%

Our Markets Are Different

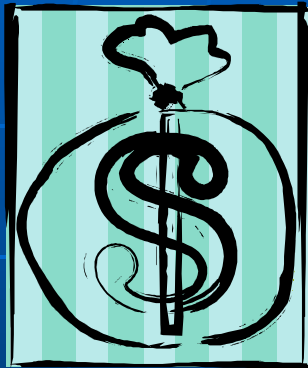
- Companies Have Different Focus
 - U.S. market has many small companies
 - U.S. insurance market is U.S.-focused
- Culture is Different
 - U.S. Focus on Consumer
vs. Buyer Beware
- Laws are Different
 - U.S. is Lawsuit-Happy

Our International Supervisory Aims Are Similar

- FSAP, IAIS Standards & Guidance
- Supervisory Colleges
- Communication, Communication, Communication
- Our Hope for International Coordination – Understand & Accept

We Are All Improving Solvency Regulation

Solvency Modernization Initiative (SMI)



- Critical examination and review of U.S Solvency Framework
- Modernize, Modify, Expand, Eliminate, Enhance U.S. regulatory system as appropriate
- Examine international developments for potential use in U.S. insurance regulation

We Are All Asking Similar Questions: *Should a Solvency System Use Principles or Rules?*

- Which came first – the chicken or the egg?
- Top-Down vs. Bottom-Up:
Emphasis on Theory or Practice
- Both end up with rules, whatever you call them – “allowable/approved practices”, “approved model”

When Does Solvency Supervision Become Micro-Management?

- A lot of what we do influences company behavior
 - Risk-based capital
 - Rules and requirements
- When do we pass the line with requiring changes to internal models and then requiring the company to meet a Use Test?

What is the Optimal Level of Solvency Supervision?

- Protect policyholders
- A perfect system is perfectly expensive.
- More than Pillar I
 - Avoid over-confidence in confidence levels.
 - Especially for P&C where the tail is often so important.
 - Recognize a capital requirement as a minimum but focus on risk concentrations, the next emerging risks, what's hidden, the quality of the management/board.
 - It's not all about numbers.

U.S. Solvency – Regulatory “Arsenal”

It's more than RBC.

- Risk-Based Capital – RBC
 - Legal authority without a lengthy court battle
- Financial Surveillance
 - Reporting – Extensive Database
 - Analysis, “FAWG”
 - Prioritization
 - Examination
- Regulatory Approval for Significant, Risk-related Transactions/Activities
- Hazardous Financial Condition Regulation
 - Most often used for enforcement

Expected Changes to the U.S. Solvency Framework

- Improved Group financial solvency regulation
- RBC recalibrated with some modeling
- Financial Surveillance: ORSA & other tools
- Valuation – Principles-Based
- Accounting & Reporting
 - Decide future of Statutory Accounting & influence of International Accounting (IFRS)

How Do I Learn More?

- SMI Webpage

Naic.org Click on the “Solvency Modernization Initiative” Button

- Our current framework:

http://www.naic.org/documents/committees_e_us_solvency_framework.pdf

- Contact Me: kdefrain@naic.org