

U.S. Solvency Modernization Initiative

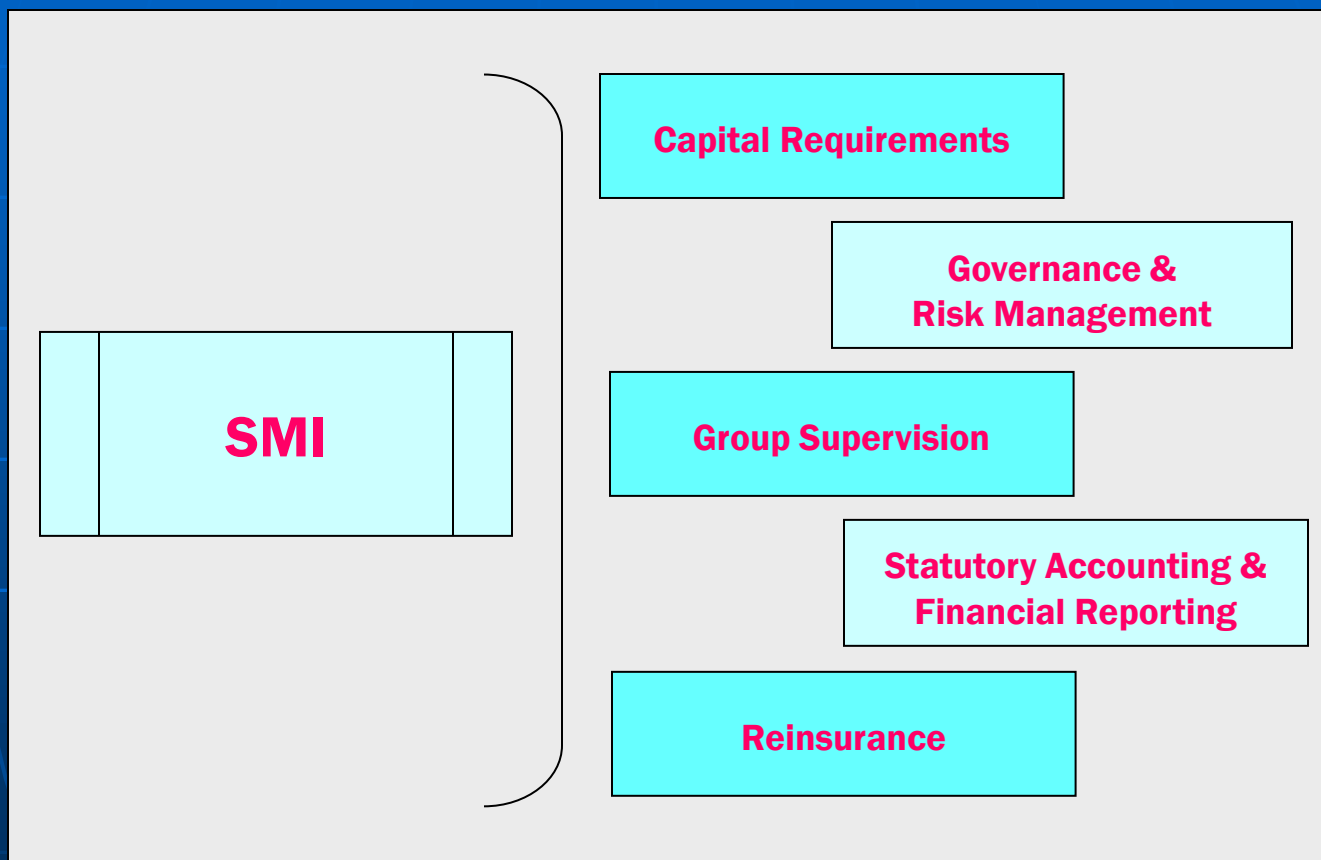


Kris DeFrain, FCAS, MAAA, CPCU
CAS Spring Meeting, May 2011

What is the SMI?

- Critically review the U.S. Regulatory Solvency Framework
 - Principles and “whys” of our system
 - International developments
 - IAIS insurance core principles, IMF FSAP
 - Financial crisis

SMI Focus Areas



Governance and Risk Management

- State governance statutes and case law.
- White Paper on U.S. Corporate Governance Principles
- Own Risk and Solvency Assessment "ORSA"
 - (1) The company's or group's risk management process and risk mitigation
 - (2) Stress Tests
 - (3) *Prospective* Solvency Assessment (3-5 years)
 - (4) Group Capital
- ERM Interim Meeting

Capital Requirements

- RBC Aim – weakly capitalized companies
- RBC Improvements
 - Add missing risk charges
 - Re-think the correlation (e.g. square root formula)
- Partial Internal models for RBC
 - The cost/benefit of full internal models to replace RBC entirely, especially when it comes to regulatory prior approval, does not currently pass U.S. regulatory scrutiny.
- Group capital; ORSA

Statutory Accounting & Financial Reporting

- Valuation (Life Insurance Principles-Based Reserving)
 - 2011 Impact Study
 - Standard Valuation Model Law
 - Valuation Manual
- Future of Statutory Accounting
 - International accounting standards development
 - SEC's expected decisions
 - IAIS valuation standards
 - At present this discussion is on hold, pending further developments.

Reinsurance

- Reinsurance Regulatory Modernization Framework
 - Conceptual framework – consider collateralization regarding unauthorized reinsurers & the design of the U.S. reinsurance regulatory framework
- State reinsurance collateral reforms
- Revisions to Reinsurance Model Laws

Group Solvency

- Lesson learned from the financial crisis:
 - Holding company Enterprise risk
 - “Windows and Walls”
- Holding Company Model Act and Regulation Dec. 2010
- IAIS ComFrame for the supervision of internationally active groups
- Current activity:
 - Accreditation changes for the new models
 - Holding company best practices & reporting requirements
 - Supervisory Colleges
 - IAIS Supervisory Forum

SMI Roadmap

- We continue to expect all major policy decisions to be adopted by December 2012.
- The RBC changes are going to take many years, but we need to get the “story” right.
- ERM Symposium is being held July 21.
- We’ve already made major changes
 - Adoption of Standard Valuation Law
 - Adoption of Group Holding Company Model Act and Regulation
- 2011 – Expect significant SMI activity.

SMI Information

NAIC Website www.naic.org

- Solvency Modernization Initiative button



- Consultation papers
- Links to Task Forces & Working Groups
- Updates