

U.S. Solvency Modernization Initiative



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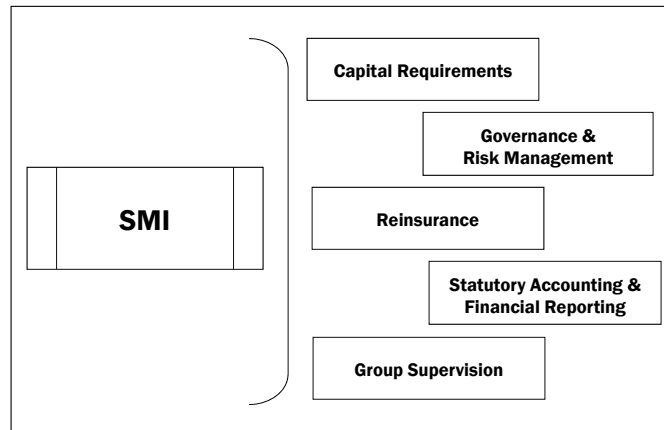
What is the SMI?

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



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SMI Focus Areas



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Capital Requirements - RBC

- What is RBC meant to do?
 - weakly capitalized companies
 - require regulatory action (vs. inaction)
- Going concern or winding up?
 - ability to handle stresses
- The key: RBC ties into financial regulation



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Capital – RBC & Group Capital

- RBC Improvements
 - Add missing risk charges
 - Improve credit risk calculation
 - 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 assessment



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Governance

- Insurer corporate governance requirements includes insurance regulation – but also state governance statutes, case law, SEC requirements, etc.
 - *Existing U.S. Corporate Governance Requirements*
- Potential gaps
- The future plan: compile “best practices”



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Risk Management

- CRO Input – including from the North American CRO Council
- Own Risk and Solvency Assessment “ORSA”
 - (1) Description of risk management framework
 - (2) Assessment of Risk Exposures (Stress Tests)
 - (3) *Prospective* Solvency Assessment & Group Capital
- ORSA Exemptions



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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



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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.



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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



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SMI Roadmap


- We continue to expect all major policy decisions to be adopted by December 2012.
- Implementation will take longer.
- We've already made major changes
 - Adoption of Standard Valuation Law
 - Adoption of Group Holding Company Model Act and Regulation
 - ORSA Guidance Manual
 - Reinsurance Models
- SMI Communications



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SMI Information

NAIC Website www.naic.org

- Solvency Modernization Initiative button
A rectangular button with a light grey background and a dark grey border. The text "Solvency Modernization Initiative" is written in a bold, sans-serif font. Below the text is a small graphic of a building with an upward-pointing arrow.
- Exposure Drafts/Consultation papers
- Links to Task Forces & Working Groups
- Updates



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