

Impact of International Solvency Initiatives on U.S. Regulation

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International Association of Insurance Supervisors



- ✧ IAIS is a relatively new organization – 1994;
Secretariat set-up in Basel in 1998

- ✧ Membership: insurance supervisors from 150
jurisdictions (including each U.S. state) and 65
observers

- ✧ Objectives: Cooperation, Standard Setting,
Standard Implementation
 - ✧ Global Solvency Standards

International Association of Insurance Supervisors



- ✧ Standards run the gamut of regulatory topics.
- ✧ For Solvency:
 - Capital Adequacy (Regulatory Structure and Capital Resources)
 - Internal Models
 - Enterprise Risk Mgt and Asset/Liability Valuation
 - Investments
 - Supervisory Reporting/Review
- ✧ All countries provide input and consensus is built
- ✧ For solvency, there are strong voices coming from many places...Australia, Canada, EU Solvency II, Switzerland, U.S., etc. It's not all SII, but there is significant input there.

Evolution of the U.S. Solvency System

- ✧ We have developed a detailed and substantially uniform financial regulatory system in the U.S.
- ✧ In the 1990s we created risk-based capital requirements and have continued to improve the formula over time, including adding stochastic modeling and trend tests.
- ✧ SAP was codified in 2001 into a comprehensive guide and has continued to be updated & improved since.
- ✧ We are placing greater emphasis on Governance through a Model Audit Rule.
- ✧ We are proposing to modernize Reinsurance & Principles-Based Reserving

Evolution of the U.S. Solvency System Continues...

The Solvency Modernization Initiative (SMI)

- ✧ The SMI is a critical self-examination of the United States' insurance solvency regulation framework and includes a review of international developments regarding insurance supervision, banking supervision, and international accounting standards and their potential use in U.S. insurance regulation.
- ✧ While the U.S. insurance solvency regulation is updated on a continuous basis, the SMI will focus on five key solvency areas: capital requirements, international accounting, insurance valuation, reinsurance, and group regulatory issues.

SMI Work Plan

- ❖ Articulation of the U.S. solvency framework and principles,
- ❖ Study of other sectors' and other countries' solvency and accounting initiatives and the tools that are used and proposed,
- ❖ Improved tools for risk-focused examinations,
- ❖ Creation of a new reinsurance regulatory framework,
- ❖ Movement to principles-based reserving for life insurance products,
- ❖ Enhancement to group supervision, and
- ❖ Ultimately, implementation of new ideas to incorporate into the U.S. solvency system.