# Solvency II Directive vs. US Solvency Regulation

Casualty Actuaries in Reinsurance Seminar 2012



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#### Solvency II – The Three Pillars

#### Goals:

- Policyholder protection
- Improvement of stability of financial markets

# Quantitative Requirements

- Valuation of technical provisions
- Own Funds
- Asset classification
- SCR (Solvency Capital Requirement) and MCR (Minimum Capital Requirement)

## Pillar 1 Quantitative

#### **Supervisory Review**

#### Improve supervision:

- Corporate governance
- Risk Management
- Internal Control (process)

Approaches:

Stress Tests, Scenarios, Simulations

**ORSA** 

## Disclosure Requirements

### Improve transparency and market discipline:

- Public disclosure of solvency and financial condition report
- Reporting to supervisor
- Economic Balance Sheet

Pillar 2
Qualitative

Pillar 3
Communication

#### **ERM**



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#### **NAIC Solvency Regulation**

□ Statutory accounting + principles-based ERM at Group/Entity level + risk-focused examination

## **Quantitative Requirements**

- Statutory reserve valuation
- Statutory asset valuation
- Statutory Accounting
- Asset classification
- RBC

# Qualitative Requirements

- Risk-focused + examination
- Corporate governance
- Model Audit Rule
- ORSA process
  - ERM framework
  - Risk Assessment
  - Prospective capital assessment

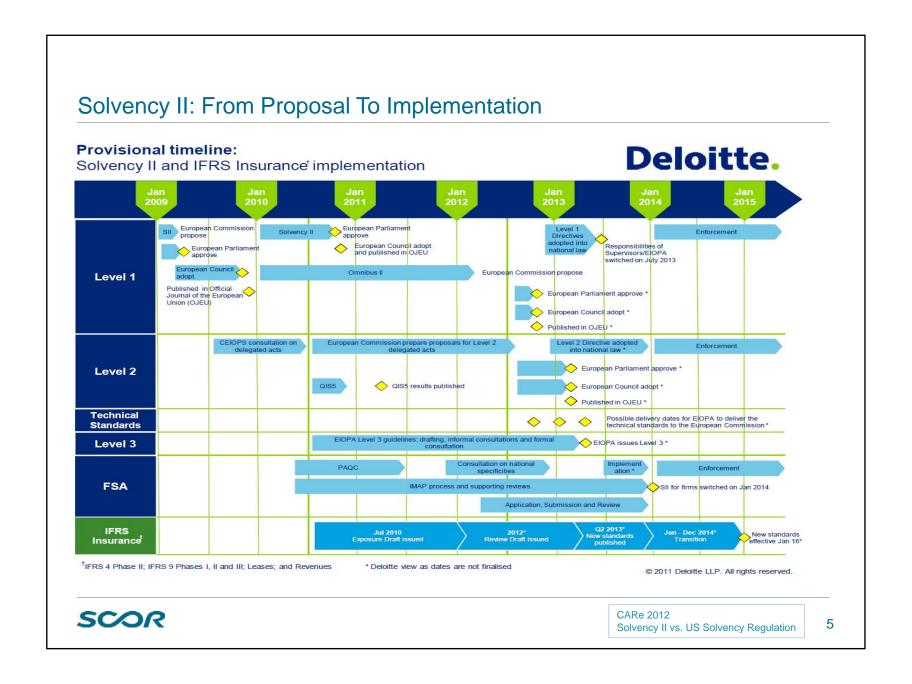
# Disclosure Requirements

- Statutory financial statements in public domain
- Standard disclosures in public domain
- ORSA reporting

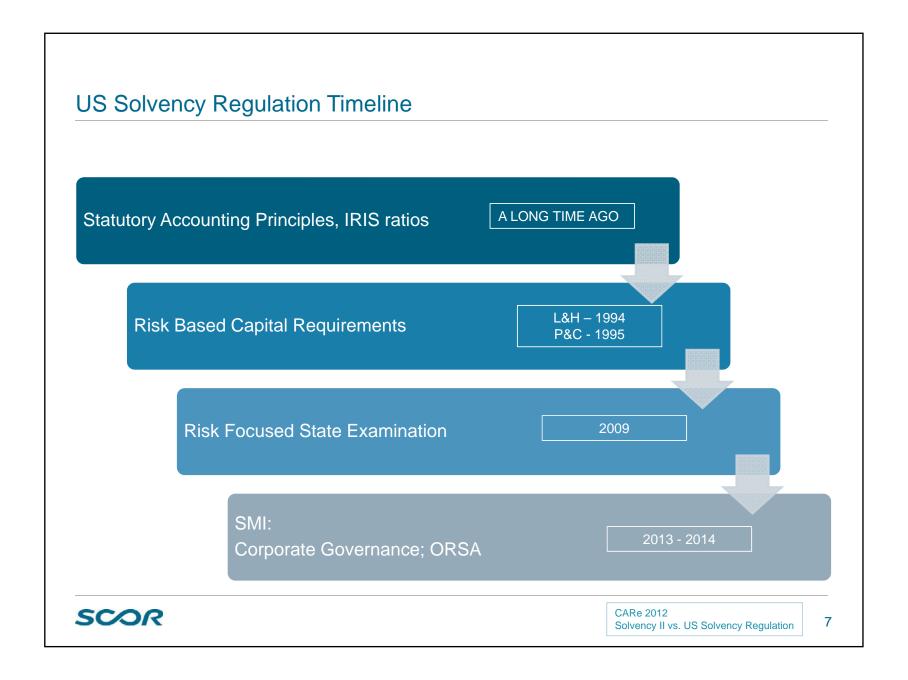


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#### Solvency II – More on Timeline From Regulation... 2012 late autumn 2012 Spring 2013 Adoption of Omnibus II Commission proposal EIOPA to launch public EIOPA submits final proposals for standards to the European consultation on draft proposals for Standards and Guidelines. Directive by Parliament. for Delegated Act. Commission and finalises The standards and guidelines are expected to cover the following areas: Internal models, Solvency capital requirements, Own funds, Technical provisions, Valuation of assets and liabilities Group supervision Supervisory transparency and accountability, Reporting and disclosure Governance, ORSA Supervisory review process, Capital add-ons, Extension of recovery period ("Pillar 2 dampener"), Finite reinsurance, Special purpose vehicles, Repackaged loan investments ... to Supervision 2012 2013 2014 re-application process for internal models Phasing-in of Solvency II Implementation of Solvency II Directive Entry into force of Solvency II Supervisors ready to receive Undertakings can use approved applications for internal models internal models for the calculation of the SCR SCOR **CARe 2012** Source: EIOPA, Solvency II. Current as of 5/2012 6 Solvency II vs. US Solvency Regulation



#### Solvency II vs. NAIC

- ☐ A lot more in common than some may think.
- S2 Pillar 2 is virtually incorporated in the NAIC framework, although NAIC language is less prescriptive than the Directive.
- Main differences are
  - accounting conventions
  - use of <u>pre-approved</u> internal model as means to support capital requirements.



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