

## U.S. Solvency Modernization Initiative



Kris DeFrain, FCAS, MAAA, CPCU  
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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

SMI

- Capital Requirements
- Governance & Risk Management
- Group Supervision
- Statutory Accounting & Financial Reporting
- Reinsurance

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### 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

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### Capital Requirements

- RBC "Story" – 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

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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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### 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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### 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

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### 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.

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## SMI Information

NAIC Website [www.naic.org](http://www.naic.org)

- Solvency Modernization Initiative button
- Consultation papers
- Links to Task Forces & Working Groups
- Updates



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