

# **Solvency Modernization Initiative**

**NAIC Financial Condition (E) Committee and  
International Solvency & Accounting (E) Working Group**

**November 7, 2008**

# Agenda

- ✧ **Principles-Based System**
- ✧ **Five Key Focus Areas:**
  - Capital Requirements, Reinsurance, Group, International Accounting, Insurance Valuation Issues**
- ✧ **Want Education & Discussion of Issues**
- ✧ **Next Steps – What do Interested Parties See as Priorities?**

# Evolution of the U.S. Solvency System

- ✧ We have developed a detailed and 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

What is clear is that we have been continuously improving U.S. insurance regulation for many years.

What we have on our plates now is an investigation of new ideas and an opportunity to create the **Gold Standard** of Solvency Systems through the Solvency Modernization Initiative!

As we move toward change in the U.S. to achieve the Gold Standard, we also will dialogue outward in our U.S. international activities.

# Solvency Modernization Initiative Work Plan

- ✧ June 2008, G Committee, E Committee, and Plenary -- The work plan for the initiative was **ADOPTED!!!!**
- ✧ The work plan is a long-term plan
- ✧ Much of the initial work rests with ISAWG and then E Committee

## **SMI Work Plan – E Committee**

- ✧ **Charge ISAWG to:**
  - Analyze other financial supervisory modernization initiatives
  - Identify areas for U.S. regulators to consider including in the current NAIC programs
  - Propose charges to committees, task forces, etc. for E Committee's consideration
- ✧ **At critical junctures throughout the initiative, E Committee should identify and prioritize related resource needs, both in terms of committee activity and necessary NAIC and state staff support and involvement.**
- ✧ **E Committee should report on progress to the International (G) Committee and seek advice, as needed.**

## **SMI Work Plan – Intl Solvency and Acct WG**

- ✧ **Analyze other financial supervisory modernization initiatives, to the extent appropriate. Analysis should include**
  - **the Basel II international capital framework for banks and implementation in the U.S.;**
  - **solvency work by the International Association of Insurance Supervisors (IAIS);**
  - **solvency proposals under consideration in other jurisdictions, including Australia, Canada and the EU;**
  - **accounting standards being developed by the International Accounting Standards Board (IASB).**
- ✧ **As an on-going process, and as details emerge from the EU, complete the analysis of EU/S2.**
- ✧ **Identify areas for U.S. regulators to consider including in the current NAIC programs. Recommend consideration of charges for committees, task forces, etc. to the Financial Condition (E) Committee.**

## **SMI Work Plan – International Relations (G) Comm.**

- ✧ **Present the US-EU/S2 comparison to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the European Commission for comment and verification.**
- ✧ **In coordination with the Financial Condition (E) Committee, identify issues to present for discussion with CEIOPS and the Commission in the US-EU Insurance Regulatory Dialogue.**
- ✧ **Follow discussions in Europe on the impact of EU/S2 on U.S. insurers and reinsurers doing business in Europe. Consider analysis of the possible international trade implications of the treatment of U.S. (re)insurers under EU/S2, and interact with the Office of the U.S. Trade Representative, where appropriate.**

# **SMI Work Plan – Principles-Based Reserving (EX) WG and Reinsurance (E) Task Force**

- ✧ **Continue with the Principles-Based Reserving Initiative to focus on the principles-based valuation of insurance reserves.**
- ✧ **Continue with the Reinsurance Regulatory Modernization Framework to focus on reinsurance modernization.**