



NAIIC

National Association *of*
Insurance Commissioners

US Solvency Modernization and Regulatory Process

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Agenda



The NAIC

U.S. Regulatory
Process

U.S. Solvency
Modernization Initiative

New York





What Does the NAIC Do? What's the U.S. Regulatory Process?



NAIC



- Created in 1871 by state insurance regulators to address the need to coordinate regulation of multi-state insurers.
- NAIC members are the state insurance commissioners.
- NAIC members have regulatory authority, but the NAIC organization does not. NAIC staff provide immense support to the U.S. insurance regulators who execute state-based insurance regulation.
- The NAIC provides a forum for the development of uniform policy, including model laws and regulations, financial reporting and RBC requirements.

Membership: Strength in Numbers



- **56 Members Strong**
- **50 States, the District of Columbia**
- **5 U.S. territories**
 - **American Samoa, Guam, Northern Mariana Islands, Puerto Rico, the Virgin Islands**



Leadership



Roger Sevigny, NAIC President & New Hampshire Insurance Commissioner



Jane Cline, NAIC President-Elect & West Virginia Insurance Commissioner



Susan Voss, NAIC Vice President & Iowa Insurance Commissioner



Kevin McCarty, NAIC Secretary-Treasurer & Florida Insurance Commissioner



**Therese M. (Terri) Vaughan
NAIC Chief Executive Officer**



**Andrew Beal
NAIC Chief Operating Officer
and Chief Legal Officer**

NAIC Offices



KANSAS CITY – Executive Headquarters

NAIC's service and support offices assist state insurance regulators providing: financial, actuarial, legal, computer, research, market conduct and economic expertise.



NEW YORK CITY – Securities Valuation Office

The Securities Valuation Office (SVO) examines the credit quality and value of insurer's investment portfolios for the benefit of the regulatory community.



WASHINGTON, D.C. – Government Affairs Office

This office advises state regulators on policy implications of federal legislation and other federal and international actions affecting their authority over the business of insurance.

The NAIC at Work



- **Committee Structure**
- **Financial Solvency Initiatives**
- **Model Laws and Regulation Development**
- **Regulator and Consumer Education**
- **State Accreditation Program**
- **Regulatory Insurance Databases & Computer Systems**
- **IT Systems (data filing, licensing, rate/form filings, & more)**

The NAIC at Work



- Provide state insurance departments services and support in the areas of:
 - financial, actuarial, legal, technology, research, market conduct and economic expertise.
- NAIC maintains a Technology Center that houses ten years of history for over 5,200 insurance companies, and 4,000,000 insurance agents accessible by over 13,000 state insurance regulators via the internet or a high speed, dedicated frame relay network.
- Also provide information via the internet to consumers, insurance industry and federal regulators.

Outside of the NAIC



- **State legislatures and state insurance departments create and implement state laws and regulations.**
- **State insurance departments are charged with the insurance regulatory functions.**
- **Deviations from NAIC**

Accreditation Program



Financial Regulation Standards & Accreditation Program

- Ensures baseline financial regulatory processes and practices in each accredited state
- Generates savings to the states and industry, through regulatory reliance placed on accredited states
- Reduces duplication of financial regulatory processes by setting baseline expectations
- Without the program, financial solvency regulatory processes and costs would increase exponentially
 - States might not rely on each other to regulate licensed companies domiciled in other states
 - Would result in millions of dollars in examination costs to the industry



U.S. Solvency Modernization

NAIC
National Association of
Insurance Commissioners

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 (SMI)!

Long-term work plan – continuous evolution

SMI Work Plan



- ✧ 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, Japan 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.

SMI Work Plan – 5 Focus Areas



- Capital Requirements
- International Accounting
- Insurance Valuation
- Reinsurance
- Group Regulation

US Group Wide Supervision



- **Role of the NAIC in US group wide supervision**
 - **Overview of US Supervision of Insurers**
 - **Coordinated Oversight Among State Insurance Regulators**
 - **Communication Among Insurance Regulators**
 - **Communication with Other Regulators**

US Supervision of Insurers



- **Supervision: Entity Level**
 - State regulators' legal authority and responsibility exist at the individual entity level
 - Direct responsibility for the state's consumers/citizens
 - Perform domiciliary entity (& holding company system as needed) analysis quarterly; conduct exams a minimum of once every 5 years
- **Supervision: Holding Company System**
 - Requires coordinated oversight with:
 - Other US state insurance regulators
 - Other US state and federal regulators
 - Banking, Thrift, SEC, USDA, FEMA, FBIIC
 - Non-US insurance regulators

Coordinated Oversight



- **Coordination among State Insurance Regulators**
 - **Financial statement disclosure of affiliated activities**
(NAIC uniform format and electronic data capture)
 - Holding Company Organization Chart; material affiliated transactions
 - Investments in holding company entities
 - **Coordinated Analysis and Monitoring**
 - Domiciliary states perform holding company analysis and coordinate with other states as needed
 - **Coordinated Examination Option**
 - Lead state(s) run the exam; other states rely upon this work and/or participate
 - NAIC Exam Tracking Tool posts coordinated exam schedule and staff and NAIC server hosts the online examination
 - **Independent Function of Financial Analysis Working Group (FAWG):**
 - Entity level analysis for “Nationally Significant Insurers”; advice to states
 - Group level analysis for large holding company systems
 - Analysis of events/situations that will materially impact the industry

Ins. Regulator Communication



- **State-to-State Communication:**
 - Sharing of exam/analysis reports & findings
 - Ad hoc discussions
- **NAIC Supported Avenues of Communication:**
 - FAWG presentation by domiciliary regulator
 - NAIC database displays state decisions on change of control requests (e.g., purchases of insurers)
 - NAIC hosts interim meetings and conference calls between states to discuss solvency or other concerns with individual entities or groups (FAWG recommends)

Other Communication



- **Communication with Other US Regulators:**
 - Miscellaneous calls and meetings
 - NAIC-hosted quarterly conference calls with federal banking & thrift regulators
- **Communication with Non-US Ins. Regulators:**
 - Individual state Memoranda of Understanding
 - NAIC Multilateral Memoranda of Understanding
 - Ad hoc discussions, e.g., FAWG chair discussion with EU regulator regarding mortgage guaranty ins.



QUESTIONS?