

International Solvency Issues – some US positions

Rob Esson, NAIC, Chair of the
IAIS Insurance Contracts
Subcommittee, and participant in
the IAIS Solvency Subcommittee

Overview of presentation

- Outline of some of the key Solvency issues from the US standpoint
- Some of the US views on the new directions and how they will fit with US initiatives such as Principles Based Reserving

The coming changes in Solvency & Accounting

- They will change the way business is regulated and managed...
- Major international financial regulatory & standard setting organizations (FSF, Joint Forum, IASB, IAIS) are involved in either or both Solvency & International Accounting issues for insurers

NAIC International Involvement

- Leadership has identified these international issues as a priority
- International (G) Committee – interface with IAIS: Chair Commissioner Al Gross (VA), Vice Chair Commissioner Juarbe (PR)
- International Solvency and Accounting working group – Chair: Commissioner Al Gross (VA)

NAIC involvement at IAIS

- President Walter Bell – Vice Chair of Executive Committee
- Commissioner Al Gross – Chair of Technical Committee
- US chairs Reinsurance and Insurance Contracts Subcommittees under Technical
- US attends every Solvency Subcommittee meeting (I've been at 10 of 12 in 4 years!)

IAIS Solvency

- The IAIS is evolving into an international standard setter
- The Solvency work is both the most ambitious project that the Association has undertaken, and the most important
- A global solvency system should help open markets and free capital flows

Solvency Cornerstones

- There are eight “Cornerstones”, which are principles for solvency evaluation
- Deliberate differentiation from the 3 Pillar structure adopted by the Basel II Accord, and indeed EU Solvency II

The linkage between Solvency & Accounting

- “The IAIS believes that it is most desirable that the methodologies for calculating items in general purpose financial reports can be used for, or are substantially consistent with, the methodologies used for regulatory reporting purposes, with as few changes as possible to satisfy regulatory reporting requirements.”

EU Solvency II

- Seemingly confused with IAIS work
- EU had to update its solvency systems
- Largely consistent with the IAIS directions in the IAIS Solvency Subcommittee
- Would expect that for convergence, the EU will ultimately need to move to Solvency 2.1 to converge with IAIS process (good) or Solvency 3.0 (bad)

US views

- US already has an extensive **risk-based** capital system: >50,000 Company-Years of experience!
- Unlike EU which has had to modernize and begin moving from the Solvency I (non-risk based) system, US is able to consider better ideas in a step wise manner, enhancing the current risk based system: we're not starting from scratch

US views continued

- Hence unlikely that US will find it necessary to undertake such massive changes in order to converge with the enhanced ideas coming out of IAIS
- This is sometimes misunderstood by those that have further to go and assume incorrectly that such convergence requires a quantum leap!

US convergence with IAIS

- Principles Based Reserving work on life business underway: an explicit, written, charge to the working group is to utilize and converge with IAIS principles – or explain why not!

Big problem ...

- Cornerstones refer to risk margin and silent on service margin (cf. MOCE) ...
- Some in EU think service margin is outside the market value of insurance liabilities
- US and many others disagree
- If not resolved ... liabilities for solvency might be LOWER than accounting!

Future standards ...

- Two are particularly vital: capital resources, and valuation of technical provisions
- These will be the key for a convergence between US and the IAIS, and Solvency II and the IAIS
- Tomorrow I'll talk about the valuation which ought to be defined by the IASB ,,,

Questions?

Rob Esson

resson@naic.org

+1 (816) 783 8131