

# **Comments on NAIC Consultation Paper on Regulatory Capital Requirements and Overarching Accounting/Valuation Issues for the Solvency Modernization Initiative**

**Submitted by the Group of North American Insurance Enterprises  
March 1, 2010**

## **General Comment**

GNAIE encourages the NAIC to look at the strengths and weaknesses of the current RBC system, improving it where necessary; but encourage preserving the strengths of the current system as well.

Generally, we believe the NAIC should look at the overall solvency regime, rather than just the regulatory capital requirements. Regulators should review an entire enterprise for overall solvency, but regulatory capital requirements should not be based on economic or target capital.

GNAIE believes that a solvency regime should define clear, objective and enduring standards on the establishment and implementation of supervisory capital requirements by insurers.

## **Question 1**

Regulatory capital requirements should focus on assuring the adequacy of an insurer's resources to meet its policyholder obligations, with a reasonable level of assurance

## **Questions 4, 9**

GNAIE believes that the focus of capital requirements should be on regulatory minimum solvency levels, not the establishment of market based solvency levels that an insurer may hold to meet its business objectives. It is helpful for regulators, in their overall risk assessment of insurers, to understand and consider the capital management techniques and methodologies used by insurers, however, economic or target levels of capital for individual insurers should not be considered in the determination of capital requirements.

## **Question 5**

GNAIE recommends that a solvency assessment utilize a total balance sheet approach in the assessment of solvency to consider the interdependence between assets, liabilities, regulatory capital requirements and capital resources to ensure risks are appropriately recognized. Caution should be used to avoid layering on of conservatism.

### **Question 13-15**

GNAIE believes that a solvency assessment should reflect the company's assets, liabilities and off-balance sheet items and consider all known material risks having a potential impact on its ability to meet its obligation to policyholders.

A solvency assessment system should reflect all material factors that could influence the possible cash flows during the period that the obligations are fulfilled.

A solvency assessment system should account for the interaction and correlation between risks, and the use of reinsurance, diversification, hedging and other risk mitigation programs of the insurer.

A solvency assessment system should reflect the regulatory environment and the insurer's ability to manage its response to events, as they occur, that could impact the insurer's capital position including the impact of rate and market regulation. Solvency supervision works most effectively within free market conditions where insurers have flexibility to operate and freely manage their response to risks and capital requirements.

The solvency assessment should be operational with the risk profile specific to each insurer.

The insurer's risk management framework should reflect the interaction between solvency and liquidity.

### **Question 16**

GNAIE believes a solvency assessment should reflect off-balance sheet items.

### **Question 17 - 19**

The use of modeling in determining capital requirements should be approached with caution.

A solvency assessment system could allow, where appropriate, for the integration of an insurer's internal models (partial modeling) into the process of calculating required supervisory levels (other than MCR) if such internal models are subject to a rigorous and verifiable process and are supported by sound risk management practices. The use of partial standardized models (e.g. catastrophe loss models) may be appropriate where consistent standards can be applied across the industry by sound risk management practices.

### **Question 39**

A solvency assessment system should encourage insurers to disclose to the public relevant and reasonable information on their risk and capital management practices. Any requirements for public disclosure on the way insurers manage risk should take into account the need to protect proprietary or confidential information.

**Question 40**

Market consistent valuations for insurance liabilities are not appropriate as there generally is no market for such liabilities and therefore no means to validate models developed to measure them.

**Question 46**

Solvency standards should work to streamline supervision of insurance groups. Solvency may be reviewed for an insurance group on a group-wide basis by a "group supervisor." This structure could increase the efficiency of regulation for insurance group but it must be considered in relation to legal entity regulation and should not impose additional regulation.

**Question 49**

We have not taken a final position on group capital requirements. Several GNAIE members believe that the approach used in assessing capital adequacy should be based on how an insurer chooses to operate (legal entity vs. consolidated group.) GNAIE is currently reviewing this proposal. Under this approach, groups who choose to operate on a legal entity basis would not be subject to group wide capital requirements. Groups who choose to operate on a consolidated basis and are evaluated on a group capital basis would still be subject to separate legal entity capital requirements where capital mobility within the group is restricted and/or not fungible.

**Question 51**

Consideration of the scope and effectiveness of the insurer's risk management framework should be an integral part of the supervisor's assessment of the insurer's solvency

Insurance group supervision should recognize existing risk diversification benefits and capital mobility, if any, within the group.

**Question 53**

Any solvency framework should encourage harmonization of global supervisory solvency requirements, where appropriate. Harmonized standards minimize potential regulatory arbitrage and inequality.

GNAIE therefore supports the NAIC's review of RBC and other parts of the NAIC solvency regime in light of developments at the International Association of Insurance Supervisors and in other jurisdictions.

**Question 60**

Any change in the regulatory system should take into account the time to implement and understand the new procedures for both companies and regulatory regimes.