

**Written comments on issues on the agenda of the hearing
at the Technical Committee meeting**

Thursday 5 March 2009, Basel

Name of Observer	Topics	Comment
GNAIE	General	<p>GNAIE, the Group of North American Insurance Enterprises, is an association of North American insurers whose goal is to ensure that international accounting and solvency standards are robust and of high quality. GNAIE works to meet its goals through modelling, analysis, comment and coordination with regulators, standard setters and other associations.</p> <p>The objectives of the solvency framework should be to:</p> <ul style="list-style-type: none"> a) Implement a principles-based framework where supervisors rely upon company risk management practices subject to appropriate levels of oversight; b) Provide reasonable policyholder protection, without regard to size, geographic location, and legal form of the insurer; c) Encourage insurers to use best practice risk management techniques; d) Foster the transparency of solvency requirements to insurers; e) Foster the transparency of insurers' capital adequacy to consumers; f) Encourage harmonization of global supervisory solvency requirements, where appropriate, and cooperation among regulators; and g) Promote a sound and competitive insurance market through an efficient and effective supervisory environment
1.		
GNAIE	Supervision of Groups	<p><i>What are the specific identified gaps in the global supervision of insurance groups and what supervisory framework(s) and standards would best fill those gaps?</i></p> <p>Changes in solvency standards should lead to streamlined supervision of insurance groups. Improved collaboration among regulators in the surveillance and monitoring of insurer groups would increase efficiencies, yet preserve the authority of the domiciliary regulator. We encourage the IAIS to evaluate the merits of group supervisory regimes such as the NAIC supervisory framework; but such a regime should not unduly add to the regulatory burdens on insurers. Care should be taken so that any group supervision proposals do not unjustly create a new level of regulation on top of existing requirements.</p> <p><i>The financial crisis appears to have highlighted the limits of fungibility of capital in times of stress: what are the implications for the policy framework for group supervision being developed by the IAIS?</i></p> <p>Group support regimes are inter-linked with the concept of the fungibility of capital. The financial crisis has demonstrated that capital may not be as fungible as some have suggested.</p> <p>GNAIE has spoken to the IAIS at previous meetings in regard to some of the regulatory capital proposals being developed in certain</p>

		<p>jurisdictions which rely too heavily on internal models or standard approaches which we believe are based on unrealistic assumptions regarding the availability of capital or the costs of such capital. We believe that the current financial crisis has exposed the limits of approaches such as the specific cost of capital proposal being considered in Solvency II.</p> <p>We believe that the use of internal models may be appropriate in computing economic capital requirements, as well as for examining catastrophe risk, stress testing, and liquidity. However, one lesson which has been re-learned by some from the financial crisis is that models should be approached with some caution. Therefore, extensive thought must be given to their use before regulators can rely upon models for use in the establishment of capital requirements.</p> <p>Further, separate legal entities have been created and maintained by insurers for various, but specific and legitimate, reasons. These legal boundary constraints should be preserved for the reasons they were established and for the protection they provide to policyholders.</p>
	2.	
GNAIE	Accounting	<p><i>Do you have views on the most appropriate valuation measurement approach for prudential purposes?</i></p> <p>We are concerned that the issues around classification require further work at the IASB and FASB to converge the standards and permit a more rational and economic use of the HTM category. The credit crisis has raised issues with the use of “fair value” in impairment guidance. We are concerned that the current definitions of “fair value” rely on modelled, hypothetical transaction prices in circumstances where there are no active, orderly, liquid markets.</p>
	3.	
GNAIE	Solvency and Liquidity	<p><i>Have you experienced any practical implementation issues with IAIS solvency related standards? How could the IAIS and the industry collaborate to ensure consistent and effective implementation of these standards?</i></p> <p>We encourage field testing of any specific proposals by jurisdictions before they implement new standards; however, quantitative impact studies work well only if there is a specific, viable proposal for testing. While GNAIE supports such studies, we believe they cannot be conducted until a viable proposal has been developed.</p> <p><i>IAIS supervisory standards are or will be principles-based. Do you see the need for more concrete based standards?</i></p> <p>GNAIE supports the idea of principles-based standards set by the IAIS, which focus on high-level objectives and outcomes of supervisory regulation of insurer solvency. These may need to be accompanied by more specific rules and guidelines established in each jurisdiction which will be subject to appropriate levels of oversight of a company’s capital and risk management practices. However, we believe standards for regulatory capital requirements should be risk focused, understood broadly throughout the industry, easy to use, difficult to manipulate, flexible, consistent, transparent, and applied at the individual company level.</p>

		<p><i>Do you see the need for the development of liquidity management standards for insurers? In what ways should the stress testing guidance reflect lessons from the financial crisis?</i></p> <p>The insurer's risk management framework should reflect the interaction between solvency and liquidity. As a part of their solvency assessment, supervisors should review the liquidity risk management practices of an insurer and ensure that they provide adequate assurance that the company will be able to meet its obligations to policyholders as they fall due under both expected and unexpected conditions.</p>
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