GNAIE Solvency Committee
INSURER SOLVENCY PRINCIPLES

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GNAIE Solvency Principles
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Introduction

This document sets forth principles of the Group of North American Insurance Enterprises for solvency supervision taking into account global initiatives on international solvency. We believe the principles should serve as the underpinnings of a solvency framework applicable to insurance and reinsurance companies globally that treats domestic and foreign insurers equally without discrimination in U.S. and international jurisdictions.

The objectives of the solvency framework should be to:

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.

Approach

Principle 1: A solvency assessment system should be focused upon the evaluation of the adequacy of an insurer's financial resources to meet its policy obligations at all times, with a reasonable level of assurance (total financial resources requirement).

a) The total financial resources of the insurer should allow it to meet its future obligations even under reasonably severe circumstances.

b) The focus 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.

c) The degree of assurance with which the adequacy of total financial resources is assessed should be defined and applied consistently.

d) The total financial resources requirement should not be dependent on the accounting valuation of the assets and liabilities.

e) The solvency assessment system should treat domestic and foreign insurers subject to the same legal and regulatory requirements equally without discrimination within a jurisdiction.

Methodology

Principle 2: A solvency assessment system 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 obligations to policyholders.

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

b) 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.

c) 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.

d) A solvency assessment system should allow, where appropriate, for the integration of an insurer's internal models into the process of calculating required supervisory levels if such internal models are subject to a rigorous and verifiable process and are supported by sound risk management practices (see Principle 4 below).

e) A solvency assessment system should require that the valuation of all reasonably expected future cash flows and associated risks should be based on a consistent measurement objective.

Standards

Principle 3: A solvency assessment system should define clear, objective and enduring standards on the implementation of supervisory capital requirements by insurers.

a) Standards should be set by the supervisors in an open and transparent way with appropriate consultation with the industry.

b) The solvency assessment should be based on the risk profile specific to each insurer.

c) Standards should be harmonized as closely as possible across jurisdictions in order to minimize potential for regulatory arbitrage and inequality.

d) Standards should be free of excessive conservatism and guard against double counting of risks.

Enterprise Risk Management

Principle 4: 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.

a) A solvency assessment system should require insurers to have a sound process for assessing their capital adequacy in relation to their risk profile that includes policies and procedures to identify and assess all reasonably foreseeable material sources of risk and incorporate them into their risk management processes.

b) The internal risk and target capital assessment should be integrated into the management process and decision-making culture of the business.

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

Supervision of Insurance Groups

Principle 5: International solvency standards should work to streamline supervision of insurance groups.

a) Solvency may be calculated and reviewed for any insurance group on a group- wide basis by a "group supervisor".

b) Insurance group supervision should recognize existing risk diversification benefits and capital mobility within the group.

Disclosure

Principle 6: A solvency assessment system should encourage insurers to disclose to the public relevant and reasonable information on their risk and capital management practices.

a) Any requirements for public disclosure on the way insurers manage risk should take into account the need to protect proprietary or confidential information.

b) An insurer should be allowed to publish any information about itself should it wish to do so.