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February 6, 2009

Ramon Calderon  
Chairman  
International Solvency and Accounting Working Group  
National Association of Insurance Commissioners

Dear Chairman Calderon:

The Group of North American Insurance Enterprises (GNAIE) would like to thank you for the opportunity to comment on the International Solvency and Accounting (E) Working Group work plan: "Non- Accounting Issues for Consideration in the Solvency Modernization Initiatives."

GNAIE members support the NAIC's undertaking the Solvency Modernization Initiative and applaud your leadership in looking at potential enhancement to the solvency system including the use of enterprise risk management, internal models, group supervision, and changes to the regulatory capital requirements.

As we said in our November letter, we believe that as a first step the NAIC should develop a set of principles on solvency that will assist the NAIC in formulating a vision of a regulatory regime. We believe a regime for regulatory capital requirements should have the following key features: risk focused, broad understanding throughout the industry, easy to use, difficult to manipulate, flexible, consistent, transparent, and applied at the individual company level.

More specifically on the current draft of the SMI work plan, we offer the following comments:

### **Internal Models**

- It is timely for the NAIC to examine the role of internal models in the solvency regime, but we feel it is important to distinguish in this analysis the role of the regulator and the role of management in evaluating and utilizing these models. We believe that regulators should examine the effectiveness of the models in evaluating capital adequacy without dictating the specific model which should be used in the management of the company.

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- We are concerned that the Working Group may request the NAIC to consider the creation of a nationwide office, similar to the Securities Valuation Office, which would evaluate internal models for insurance departments upon request. We believe that the evaluation of internal models should be integrated into the regulatory risk-focused financial examination process rather than relegated to a separate structure. While there is value in shared knowledge to assist in evaluating internal models, we would encourage a broader review of the options before focusing too early on this option.
- We have some concerns about the use and over-reliance on internal models in evaluating capital adequacy. 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. We believe models are appropriate in examining catastrophe risk, stress testing, and liquidity. One lesson which seems to be emerging from the financial crisis is that models should be approached with some caution and extensive thought must be given to them before regulators can rely upon models for use in the establishment of capital requirements.

### **Regulatory Capital Requirements**

- We encourage field testing of any proposals; 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.

### **Group Issues**

- 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 NAIC to evaluate the merits of a standardized group supervisory regime. 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.



- 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.

We appreciate the opportunity to comment and we look forward to working with you on the next steps of the Solvency Modernization Initiative.

Sincerely,

Tonya Coletta, XL Capital  
Co-chair GNAIE Solvency Committee

Gideon Pell, New York Life  
Co-chair, GNAIE Solvency Committee

cc: Kris DeFrain, NAIC  
Rob Esson, NAIC