

The logo for GNAIE (Group of North American Insurance Enterprises) features the acronym 'GNAIE' in white, bold, sans-serif capital letters on a dark blue background. To the left of the text is a vertical stack of horizontal bars in shades of blue, orange, and white. The entire logo is set against a light blue background that transitions into a darker blue rounded rectangle on the right.

GNAIE

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Global Insurance Regulation and Systemic Risk: The North American Perspective

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- **Membership** -- An industry organization of US, Bermuda, and Canada based international insurance companies.

- **Mission Statement** -- Assist North American and global standard setters and regulators in cooperation with the global insurance industry and with insurance and other financial services industry trade associations:
 - To support high quality insurance accounting standards that are useful, understandable, comparable and reliable; that preserve the insurance industry's level-playing field access to global capital markets; and that provide good disclosure to the insurance industry's diverse constituencies;
 - To support high quality insurance solvency standards that provide useful and effective statutory solvency measures to protect the interests of policyholders and other stakeholders while encouraging competitive insurance markets; and
 - To enhance cooperation, education and communication regarding insurance accounting and solvency among the insurance industry's standards setters, regulators, and diverse constituencies.

- **GNAIE members are substantial writers in international markets.**
 - The new European Solvency framework will directly impact the current European operations of GNAIE members.
 - The IAIS Solvency Standards project will influence standards globally, and they have chosen European Solvency II as the baseline for the development of that global standard, despite its failure in 2008 and its untested and uncalibratable foundation.
- **US efforts to converge to international accounting and solvency standards creates a direct link between standards undertaken by European regulators and insurers reporting to US regulators.**
 - The NAIC Solvency Modernization Initiative is the beginning of that process of assessing current NAIC standards in terms of international developments.

- **Group Supervision**
 - Area of concern in the IMF Financial Sector Assessment
 - Improvements to the Model Holding Company Act
 - Legal Entity Approach to Group Capital Requirements
 - Walls and Windows View Point
- **Recalibration of Risk Based Capital**
 - RBC may be lower than 99.5 % VaR
- **Financial Surveillance: ORSA, Risk Focused Exams**
- **Limited Use of Models**
- **Examining the Future of Statutory Accounting and the Influence of IFRS**
 - Probably a Different Economic Valuation

- **IMF FSAP Results**
- **Increased Cooperation**
 - Colleges of Supervisors
 - Exchange of Data
- **International Recognition**
 - Framework Paper on National System
 - US System as a Model – Data, On-site Exams, Peer Review
 - Positive IMF Review
 - Equivalence under Solvency II
 - IAIS Common Framework
 - Creation of Office of National Insurance
 - Continuation of State-based Regulation

- **Bermuda**

- Establishing Risk Focused Process
- Implementing Group Supervision
- Developing Economic Valuation
- Increased Transparency and Reporting
- Using Solvency II as a Model for Changes
- Goal of Early Decision of Equivalence under Solvency II

- **Canada**

- Converting to IFRS in 2011
- Will use a Single Accounting Standard for both Financial and Prudential Reporting
- Concerned about Impact on Asset Liability Matching (CALM)
- Concerned with Volatility of Risk Free Rate
- Not Seeking Equivalence Under Solvency II

- **Critical Factors which May Prevent Use of a Single Model**
 - Models for Life and Non-Life
 - Selection of Discount Rate for Life
 - Asset-Liability Matching as Solvency Tool
 - Risk Margins – Separate Residual Margin
 - Contract Boundaries
 - Revenue Recognition
 - Treatment of Acquisition Costs

- Concept of global consistency in standards and regulation is desirable (G-20). Need for improvements in standards and regulation is undeniable. Insurance Industry's Cost of Capital premium.
- Concepts of New Generation of Risk-Based Solvency regulation and of consistency between insurance accounting and solvency is laudable, where possible.
- Insurance Contracts project seems to ignore the long-proven economic principles of the global insurance business such as DAC, ALM (measuring long-tail liabilities using portfolios underlying them),
- Global insurance industry is facing cross-roads in next 18 months and needs to adopt bank industry-like global tactics. What we do in next 18 months will govern our industry's regulation and standards for the next generation.