

2011 Fall National Meeting
Washington, DC

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE
Thursday, November 3, 2011
3:00 – 4:30 pm
Gaylord Convention Center—Maryland Ballroom A-B—Level 2

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ROLL CALL

Kevin M. McCarty, Chair	Florida	James J. Donelon	Louisiana
James J. Wrynn, Vice Chair	New York	Joseph G. Murphy	Massachusetts
Christina Urias	Arizona	John M. Huff	Missouri
Dave Jones	California	Michael F. Consedine	Pennsylvania
Thomas B. Leonardi	Connecticut	Ramón Cruz-Colón	Puerto Rico
Gordon I. Ito	Hawaii	Michael D. Riley	West Virginia
Sandy Praeger	Kansas		

AGENDA

1. Consider Adoption of 2012 Proposed Charges—*Commissioner Kevin M. McCarty (FL)*
2. IAIS Insurance Core Principles—*Deputy Superintendent James J. Wrynn (NY)*
3. IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame)—*Commissioner Kevin M. McCarty (FL)*
4. IAIS Supervisory Forum—*Steve Ferguson (AZ)*
5. Update on IAIS Financial Stability Committee and Financial Stability Board—*Yoshihiro Kawai, IAIS Secretary General*
6. Update on Insurance Reforms in Mexico—*Gabriela Basurto, Director General / Research and Development Department of the Insurance and Surety National Commission (CNSF-Mexico)*
7. Report from the Federal Insurance Office—*Michael McRaith, Director of the Federal Insurance Office*
8. Report on U.S.-EU Dialogue—*Commissioner Kevin M. McCarty (FL)*
9. Report on Joint Forum—*Robert M. Esson (NAIC)*
10. Report on OECD—*Ekrem Sarper (NAIC)*
11. Report from Solvency Modernization Initiative (EX) Task Force—*Director Christina Urias (AZ)*
12. Report on International Accounting Issues—*Robert M. Esson (NAIC)*
13. Report from International Regulatory Cooperation (G) Working Group—*Martha Lees (NY)*
14. Report on International Trade Issues—*Ekrem Sarper (NAIC)*
15. Any Other Matters Brought Before the Committee—*Commissioner Kevin M. McCarty (FL)*
16. Adjournment

PROPOSED 2012 CHARGES

The mission of the International Insurance Relations (G) Committee is to strengthen the international insurance regulatory system and provide a forum for cooperative efforts between the NAIC, international regulators, and multinational associations of regulators on issues of mutual interest. The Committee also provides support to the federal government, including the Federal Insurance Office (FIO), in insurance related international trade issues.

Ongoing Support of NAIC Programs, Products, or Services:

1. Develop NAIC policy and participate in the work of the **International Association of Insurance Supervisors (IAIS)** by attending relevant committee, subcommittee and task force meetings. Enhance transparency at the IAIS and facilitate the drafting and commenting on papers that hold a common topical interest including solvency, accounting, reinsurance, group supervision, market conduct, corporate governance and other aspects of regulation of the business of insurance. Also, attend the IAIS Annual Conference and interim meetings and present relevant topics at regional training programs—*Essential*
2. Participate in the **Joint Forum** and monitor and contribute, where appropriate, to the **Financial Stability Board (FSB)** and G20 by coordinating with U.S. financial regulators and by attending meetings to represent the views of U.S. insurance regulators in discussions of issues of significance to insurance commissioners, and by developing NAIC policy and commenting on guidance and principles papers of common interest—*Essential*
3. Appoint the **International Regulatory Cooperation Working Group** to strengthen international regulatory systems by interacting with international regulators; reviewing proposed laws and regulations for insurance supervisors in countries changing their regulatory structure and those with emerging economies; conducting an International Fellows Program and educational (technical assistance) seminars to provide an understanding of the U.S. system of regulation; and establishing fellowship opportunities between U.S. and foreign insurance regulatory bodies. In furtherance of this objective, regularly consult with insurance supervisors from other jurisdictions. Communicate regularly and establish working relationships with the U.S. government, the private sector, and international organizations to coordinate efforts whenever possible to provide more efficient and effective technical assistance—*Essential*
4. ~~Appoint the NAFTA Working Group to continue~~ Continue to monitor the insurance aspects associated with the North American Free Trade Agreement (NAFTA) and the Security and Prosperity Partnership (SPP). Work to enhance the availability and affordability of cross-border motor carrier insurance, including trucking, personal auto and bus, and the associated topics of health and workers' compensation insurance, and related legal developments. Coordinate state efforts to meeting U.S. trade objectives through coordination between the Trilateral Insurance Working Group and the NAFTA Financial Services Committee; and through insurance training programs and ongoing research of the laws and regulations of Canada, Mexico, and the U.S., work toward increased harmonization and uniformity and the creation of a seamless market—*Essential*
5. ~~Appoint the Trade Task Force to monitor~~ Monitor discussions with trading partners by the Office of the United States Trade Representative (USTR) officials regarding multi-lateral trade agreements through the World Trade Organization (WTO), including the General Agreement on Trade in Services (GATS), and regional and bilateral trade negotiations by participating in the dialogues and information exchange and attending meetings with appropriate federal representatives and reviewing and commenting on documents generated through trade discussions. Timetable is dependent on federal government, but the Task Force will report an update will be provided status at each national meeting. Also assist USTR, Department of Commerce, Treasury Department (including the FIO) and other U.S. officials, as requested, by responding to requests for information, and engage in implementation efforts under existing trade agreements. Review the remaining GATS reservations in light of regulatory modernization efforts to assist USTR with fruitful negotiations—*Essential*
6. Participate in the Organization for Economic Cooperation and Development (OECD) Insurance and Private Pensions Committee and subcommittee meetings, held in summer and winter at the invitation of the U.S. government, by attending meetings, drafting and commenting on insurance-related papers, acting as a coordinating body in the completion of statistical questionnaires, and presenting the U.S. system of insurance regulation—*Essential*

~~New Objectives and Goals (representing new NAIC programs, services, or initiatives):~~

7. Maintain regular prudential dialogues with non-U.S. insurance supervisors to address issues of mutual concern and to educate each other about our regulatory systems; discuss domestic regulatory issues; coordinate involvement in international fora, such as IAIS, OECD, Joint Forum, and FSB; explore ways of achieving convergence of insurance supervision; and facilitate exchange of information among regulators to enhance domestic regulation—*Essential*
8. Continue to develop a comprehensive response to and coordinate appropriate follow-up on the recommendations in the Financial Sector Assessment Program (FSAP) Detailed Assessment Report, including referral of specific issues for consideration by other NAIC working parties—*Essential*

ACLI Country Specific Objectives
October 2011

Country	
<i>Argentina</i>	<p>Published regulation to go into effect September 2011 that would prohibit virtually all cross border reinsurance and require placement through an established reinsurance provider, of which there are currently zero.</p> <p>This is in direct violation with their WTO commitments and is believed to be a precursor to the establishment of a state owned reinsurer</p>
<i>Brazil</i>	<p>New proposed regulations will affect all reinsurers, both private and public, but puts foreign reinsurers at a disadvantage. There is a need to modify the proposed regulation as it is inconsistent with Complementary Law 126/07.</p> <p>Would roll back the 2007 de-monopolization of Brazil's reinsurance sector, severely circumscribe development of the country's insurance industry, and undermine the reinsurance of important infrastructure projects such as the 2014 World Cup & 2016 Olympics. These proposed changes have generated great concern not only for the insurance sector but for all companies operating in Brazil that require large insurance coverages.</p> <p>Request the revocation of these proposed regulations; and to further suspend implementation so allow industry to work with the Ministry of Finance and Brazilian regulators to develop alternative language that will more constructively address Brazil's reinsurance requirements.</p>
<i>China</i>	<p>Remove the FDI cap in the life insurance sector.</p> <p>Ensure that the rules and processes for applying for branch licenses are the same for both domestic and foreign-invested insurers, including, but not limited to, the ability to apply for, and receive, multiple, concurrent branch license approvals.</p> <p>Grant licenses to enter the enterprise annuity market.</p> <p>Credit global capital, experience and for staffing expertise for seasoning requirements to be licensed to establish an insurance asset manager and or be able to access all asset classes on a national treatment basis.</p> <p>Allow small insurance companies to set up their own insurance fund asset management companies.</p> <p>Require CBRC and CIRC jointly to adopt and publicize clear, consistent rules and policies for bancassurance sales and not place a limit on the number of insurance partners banks can have.</p> <p>Require CBRC and CIRC jointly to adopt and publicize clear, consistent rules and policies for bancassurance sales and not place a limit on the number of insurance partners that bank outlets can have. In fall 2010, CBRC distributed a notice to banks which imposed restrictions on bancassurance sales including, in Article 13, a limit "in principle" of three on the number of life insurers with which a bank outlet can partner to offer insurance products. This limit could disadvantage insurers with smaller market shares, including foreign-invested insurers, because Chinese bank outlets may be reluctant to choose them to be one of only three partners they are allowed to have. On March 13, 2011, CIRC issued guidelines that provide less stringent prudential measures to regulate bancassurance and do not include a specific numerical limit on the number of insurers. Although these guidelines were reported as having been jointly issued by CIRC and CBRC, CBRC has yet to publish them on its website. In addition, CBRC allowed its fall 2010 notice to be published dated March 11,</p>

	<p>2011. CBRC's actions have created a situation that is confusing and in which Chinese bank outlets may feel strongly pressured not to market the products of more than three insurers.</p>
Egypt	<p>Build appropriate relationships to create an infrastructure conducive to dialogue and understanding of policy making process and decisions such that members can better address business issues in Egypt.</p> <p>Seek issuance of bancassurance regulations to allow new partnerships with banks and development of this line of business in Egypt</p> <p>Seek dialogue on implementation of revised social security (pension) scheme that permits private participation in the retirement solutions business</p> <p>Seek dialogue on drafting of revised medical insurance law to include opportunities for private insurers to participate in the provision of health care insurance.</p>
India	<p>To have the parliament approve the pending Insurance Act amendments, increasing the FDI cap to 49%, as a step towards its ultimate elimination.</p> <p>To grandfather the tax exempt status of ULIP distributions, increase the exemption limit for life insurance premiums, reduction of the mandatory face value-to-annual premium percentage for tax exemption & rationalization of the corporate tax rate.</p> <p>To devise an appropriate method for insurance companies to recover additional capital contributed to a participating life insurance fund once the fund is self-sustaining.</p> <p>That TRAI's phone solicitation guidelines are clarified & tightly defined so as to allow insurers to contact existing customers with important information related to their existing accounts.</p> <p>That IRDA retains the current commission structure for the sale of traditional life insurance products & be more flexible on the overall compensation structure presented in 2010.</p> <p>That Parliament approves the Pension Fund Regulatory Development Authority Bill (PFRDA) and allows foreign investment into the pension fund management industry.</p>
Iraq	<p>Build appropriate relationships to create an infrastructure conducive to dialogue and understanding of policy making process and decisions such that members can better address business issues in Iraq.</p>
Japan	<p>Postal Privatization (KAMPO): Prohibit Japan Postal Insurance (JPI) from offering new or modified products until a level playing field is achieved, including increased and equal access for private insurers to offer their products through the Japan Post distribution network and regulatory parity with other FSA-regulated insurance providers. Postal reform legislation now before the Diet would be a big step in the wrong direction.</p>

	<p>The FSA concluded a three-year review of the market conduct rules for the bank sales channel of insurance products; however, the FSA's decision is inconsistent with its monitoring results and raises questions about the overall transparency of the review process. Promptly conduct a transparent and fact-based review of bank sales market conduct rules, including the limits on sales of first and third sector products and treatment of customer data, to ensure they do not limit the channel's effectiveness or impede consumer convenience.</p> <p>Policy Holder Protection Corporation: FSA should move ahead through a transparent process with plans to reform the current pre-failure system to a post failure system consistent with <i>global best practices</i>.</p> <p>FSA should support the further development of Japan's Defined Contribution retirement market.</p> <p>Create a level regulatory playing field between FSA-regulated insurance companies and all mutual aid cooperatives that provide insurance products (kyosai). Until that is accomplished (including FSA supervision under the Insurance Business Law), business expansion by kyosai should be prohibited.</p>
<p>Malaysia</p>	<p>Market Access/National Treatment</p> <ul style="list-style-type: none"> • Remove Investment Barriers (including in the Bumiputra ownership content), permit 100% ownership by foreign companies; • Allow Freedom of Juridical Form and National Treatment for all forms of establishment; • Protect Acquired Rights and the right to continue to expand business on a national treatment basis; • National Treatment generally, and specifically in the establishment of new branch operations, new product approvals, bancassurance, and the sale of takaful products; • Cross- border Rights in Reinsurance, MAT, goods in transit and in services related to insurance; • Elimination of Mandatory Reinsurance Cessions; • Elimination of Restrictions on Overseas Investment Vehicles. <p>Build a Positive Regulatory Environment</p> <ul style="list-style-type: none"> • Pricing deregulation • Solvency and Prudential Focus • Liberalize rules on Temporary Entry of Natural Persons • No Discriminatory Tax Systems and Incentives • Implement administrative procedures consistent with IMF code of financial services transparency

<i>Mexico</i>	<p>The 2009 tax package approved by Mexico's Congress included a change related to taxation of the interest derived from the savings component of life insurance premiums. The reforms altered the tax liability on insured persons, which currently is not generated until the time of claims payments or surrenders. The new law will require withholdings and payments on a monthly basis for all individual life insurance products. Accelerating taxation by moving withholding to a monthly, definitive basis weakens the incentive to save. Industry had reason to believe the measure was going to be reversed legislatively during 2011. Instead, Hacienda sent Congress 2012 tax legislation that included the postponement of the effective date of the insurance tax provision from January 2012 until January 2013. This legislation was approved and industry thus has an additional twelve months to work with Hacienda and Congress to secure the necessary change in legislation.</p> <p>Industry awaits the introduction of a revised Insurance and Bonding Law, which will include wide-ranging changes to Mexico's insurer solvency regime, including requirements related to capital, risk management and corporate governance, among other areas. Once the law is passed, CNSF will issue implementing regulations. Industry wants to continue to work in a coordinated and constructive fashion with legislators and regulators. Transparency, including meaningful opportunities for input, will be critical to the successful development and implementation of such significant reforms.</p> <p>In August 2011, CNSF issued revised rules governing the annuities market. Unfortunately, these rules still include price controls and mandatory quotes once there is an agreement to participate. On a positive note, the revised rules provide for underwriting for individuals, not "blocks," which is an improvement. Industry would like to work with authorities to help create a regulatory environment that will support a meaningful opening of the annuities market.</p> <p>CNSF should give due consideration to the economic impact of rapid changes to the regulatory system and increase the time horizon for regulatory changes to allow for economically efficient compliance by the industry.</p> <p>Build appropriate relationships to create an infrastructure conducive to dialogue and understanding of policy making process and decisions such that members can better address business issues in Saudi Arabia.</p> <p>Understand how industry can best support the KSA initiative in creation of an insurance dispute resolution forum and provide access to capacity building.</p>
<i>Saudi Arabia</i>	<p>Understand how industry can best support the KSA initiative in creation of an insurance dispute resolution forum and provide access to capacity building.</p>
<i>South Korea</i>	<p>Continue with financial sector reform efforts and work to implement changes to uphold commitments on insurance and insurance-related issues under the Korea-U.S. Free Trade Agreement (KORUS FTA) as quickly and smoothly as possible after this agreement is ratified by both Governments. Frequent, ongoing, and meaningful opportunities should be created for private industry – both foreign and domestic – to provide input on this process and otherwise be involved to the greatest extent possible in efforts to ensure that KORUS FTA obligations are faithfully upheld and its benefits maximized.</p> <p>Add a clause to the Insurance Business Act that specifically assigns penalties for insurance fraud. At present, insurance fraud is prosecuted under codes for general fraud. A new clause specifically addressing insurance fraud would greatly improve protection against fraudulent insurance claims, which are a growing problem in Korea.</p>
<i>Taiwan</i>	<p>The Financial Supervisory Commission must modify IFRS accounting principles when applying to the insurance industry, as a strict application will render insurers insolvent.</p> <p>The Government of Taiwan should ease restrictions that continue to keep insurers out of the pension fund management business. These restrictions include mandatory consent of at least 50% of employees at a company selecting a PFM, and setting minimum levels of return.</p>

	<p>The Ministry of Finance should ease the new taxation practices on unit-linked insurance products. With the changes introduced in July 2009, policyholders will be taxed for income tax of the earned portion in the separate account of the investment-linked products, and the policy will also be taxed for gift tax when the policyholder is different from the beneficiary.</p>
Turkey	<p>Build appropriate relationships to create an infrastructure conducive to dialogue and understanding of policy making process and decisions such that members can better address business issues in Turkey.</p> <p>Support Turkey's goals of encouraging foreign direct investment through development of a regulatory regime that reflects international best practices, (eg insurance agent registration / qualification regulations), and transparent rule-making procedures (eg: regulations permitting issuance of investment related (unit-linked) life insurance products).</p>
Thailand	<p>Seek guidance as to how foreign investors can increase their stakes from 25% to 49%, and why most previous applicants have been denied.</p>
United Arab Emirates (UAE)	<p>Build appropriate relationships to create an infrastructure conducive to dialogue and understanding of policy making process and decisions such that members can better address business issues in UAE.</p> <p>Support UAE's development of regulations implementing 2007 Insurance Law appropriate to size and sophistication of the market.</p>

2011 Fall National Meeting
Washington, DC

International Solvency and Accounting Standards (EX) Working Group

November 4, 2011

8:00 – 9:00 a.m.

Gaylord – room tba

ROLL CALL

Mel Anderson, Chair	Arkansas	Jim Nixon	Nebraska
Richard Ford	Alabama	Ray Conover	New Jersey
Christina Urias	Arizona	Alan Seeley	New Mexico
Kim Hudson/Louis Quan	California	Lou Felice/Joseph Fritsch	New York
Philip Barlow	District of Columbia	Dale Bruggeman/Bill Harrington	Ohio
Carolyn Morgan	Florida	John Doak	Oklahoma
Jim Armstrong	Iowa	Doug Stolte	Virginia
Jaki Gardner	Minnesota	Peter Medley	Wisconsin
		Staff Support: Rob Esson/Ramon Calderon	

AGENDA

1. Discussion of approach to ComFrame Module 3, Qualitative and Quantitative Requirements
2. Update and discussion on other international solvency issues
3. Update and discussion regarding IASB progress towards IFRS on insurance and financial instruments
4. Any other business

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2011 Fall National Meeting
Washington, DC

SOLVENCY MODERNIZATION INITIATIVE (EX) TASK FORCE

Saturday, November 5, 2011

3:00 – 4:30 p.m.

Gaylord Convention Center—Potomac Ballroom C-D—Level 2

ROLL CALL

Christina Urias, Chair	Arizona	Roger A. Sevigny	New Hampshire
James J. Wrynn, Vice Chair	New York	Thomas B. Considine	New Jersey
Jim L. Ridling	Alabama	Adam Hamm	North Dakota
Jay Bradford	Arkansas	Mary Taylor	Ohio
Dave Jones	California	John D. Doak	Oklahoma
William P. White	District of Columbia	Michael F. Considine	Pennsylvania
Kevin M. McCarty	Florida	Joseph Torti III	Rhode Island
Susan E. Voss	Iowa	Neal T. Gooch	Utah
John M. Huff	Missouri	Jacqueline K. Cunningham	Virginia
Bruce R. Ramage	Nebraska	Mike Kreidler	Washington
		Ted Nickel	Wisconsin

AGENDA

1. Consider Adoption of 2012 Proposed Charges—*Director Christina Urias (AZ)* *Attachment*
2. Consider Adoption of Interim Meeting Minutes—*Director Christina Urias (AZ)* *Attachments*
3. Discuss Communication about the U.S. Financial Regulatory System
—*Director Christina Urias (AZ)* *Attachment*
4. Consider Adoption of the NAIC *Own Risk and Solvency Assessment (ORSA) Guidance Manual* for Referral to Financial Condition (E) Committee
—*Director John M. Huff (MO) and Danny Saenz (TX)* *Attachment*
5. Presentation by the Capital Initiatives Working Group: “Using Stress Testing as a Supplement to RBC to Determine Minimum Capital Requirements”
—*Joel Steinberg (New York Life)* *Attachment*
6. Consider Adoption of Working Group Reports *Attachments*
 - Corporate Governance—*Acting Director Andrew R. Stolfi (IL)*
 - Group Solvency Issues—*Director John M. Huff (MO) and Danny Saenz (TX)*
 - International Solvency and Accounting—*Mel Anderson (AR)*
 - Principles-Based Reserving—*Commissioner Adam Hamm (ND)*
 - SMI/RBC Subgroup of the Capital Adequacy (E) Task Force—*Alan Seeley (NM)*
7. Any Other Matters Brought Before the Task Force—*Director Christina Urias (AZ)*
 - Request that NAIC Staff Update the SMI Roadmap
8. Adjournment

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Agenda Item 1. Consider Adoption of the 2012 Task Force
Charges —*Director Christina Urias (AZ)*

SOLVENCY MODERNIZATION INITIATIVE (EX) TASK FORCE

2014~~2~~ Charges

The mission of the Solvency Modernization Initiative (EX) Task Force is to coordinate all NAIC efforts to successfully accomplish the goals of the Solvency Modernization Initiative. The Task Force will coordinate, collaborate and utilize the technical expertise of other NAIC groups, particularly for the five focus areas of the Solvency Modernization Initiative, as follows:

- Capital Requirements: Capital Adequacy (E) Task Force;
- Governance and Risk Management: Corporate Governance (EX) Working Group and the Group Solvency Issues (EX) Working Group
- Group Supervision: Group Solvency Issues (EX) Working Group;
- Statutory Accounting and Financial Reporting (including international accounting & valuation issues): the International Solvency and Accounting Standards (EX) Working Group and the Principles-Based Reserving (EX) Working Group; and,
- Reinsurance: Reinsurance (E) Task Force.

Ongoing Maintenance of NAIC Programs, Products or Services:

1. Provide oversight to the International Solvency and Accounting Standards Working Group and its charges to do the following:

- Assist the Task Force with the Statutory Accounting and Financial Reporting focus area in the Solvency Modernization Initiative.
- Critically review and provide input and drafting to the International Association of Insurance Supervisors (IAIS) Insurance Contracts Subcommittee and IAIS Solvency and Actuarial Issues Subcommittee, and on IAIS papers as assigned by the parent Task Force. From this work, identify future initiatives to improve our regulatory solvency system.
- Analyze other financial supervisory modernization initiatives, to the extent appropriate. Analysis should include the International Accounting Standards Board (IASB) accounting standards development.
- Monitor and provide comments directly or to the IAIS on the IASB developments and on the IASB and Financial Accounting Standards Board (FASB) joint convergence projects related to insurance accounting issues. Coordinate with the Statutory Accounting Principles (E) Working Group to provide responses to the FASB on joint projects; and
- Report findings relative to these developing issues to the Accounting Practices and Procedures (E) Task Force.
- In consultation with the Statutory Accounting Principles (E) Working Group, monitor international and national accounting standards development and SEC policy decisions and develop a recommendation to the NAIC membership regarding the future of U.S. statutory accounting.

—Essential

2. Provide oversight to the Group Solvency Issues Working Group and its charges to do the following:

- Assist the Task Force with the group focus area in the Solvency Modernization Initiative.
- ✓ • Study the need to develop group-wide supervision, which may include group-wide capital requirements. The study should consider possible approaches to such capital requirements, including how capital for financial conglomerates and non-regulated entities is calculated.
- Monitor state insurance regulators supervisory college activity and recommend courses of action for other methods of communication and coordination among cross-border (including cross-state) and cross-sectoral supervisors, if needed.
- Critically review and provide input and drafting to the IAIS Insurance Groups and Cross-Sectoral Issues Subcommittee or on other IAIS papers as assigned by the parent Task Force. From this work, identify future initiatives to improve our regulatory solvency system.
- Consider the development of a regulatory resource such as the Own Risk and Solvency Assessment (ORSA) to assess and monitor insurers' and groups' risk management processes.

SOLVENCY MODERNIZATION INITIATIVE (EX) TASK FORCE

2014² Charges

—*Essential*

3. Provide oversight to the Principles-Based Reserving Working Group and its charges to do the following:

- Serve as a coordinating body with all NAIC technical groups involved with projects related to a principle-based approach to regulation and assist the Task Force with the “insurance valuation” focus area in the Solvency Modernization Initiative.
- Consider policy and practice issues related to principle-based regulation for life insurance, including but not limited to the impact on areas such as corporate governance, examination and analysis, as well as staff resources and other insurance department administrative concerns.
- Focus on balancing theoretical approaches with effective regulatory practices to achieve desired end-results in solvency monitoring efforts, and further coordinate with NAIC leadership to provide direction to NAIC technical groups, including setting timelines for such pursuit, and ensuring other issues are addressed concurrently with implementation of principle-based approaches by the technical groups.
- Evaluate necessary changes to existing state insurance laws, regulations or administrative policies to effectuate a principle-based regulatory framework
- Critically review and provide input and drafting on the IAIS papers, as assigned by the parent Task Force. From this work, identify future initiatives to improve our regulatory solvency system.

—*Essential*

4. Provide oversight to the Corporate Governance Working Group and its charges to do the following:

- Outline high-level corporate governance principles. Determine the appropriate methodology to evaluate adherence to such principles, giving due consideration to development of a model law.
 - Analyze the requirements, regulatory initiatives and best practices of the states, other countries and regulators, and the insurance industry, to assist in principle development.
 - Develop additional regulatory guidance including detailed best practices for the corporate governance of insurers.
- Review the current IAIS principles and standards related to corporate governance. Critically review and provide input and drafting to the IAIS Governance and Compliance Subcommittee, and on other IAIS papers as assigned by the parent Task Force. From this work, identify future initiatives to improve our regulatory solvency system.
- Consider the development of insurance regulatory education for members of insurers’ Boards of Directors.

—*Essential*

5. Monitor solvency-related IAIS work products and assign papers to working groups to submit comments to the IAIS. Additionally, the Working Groups should review the papers and recommend whether and/or how the ideas in those papers should be implemented in the U.S. regulatory solvency system. —*Essential*

6. Communicate and coordinate with the International Insurance Relations (G) Committee and provide technical support to the Committee as needed. —*Essential*

7. Report the status of its work to the Executive Committee at each National Meeting. —*Essential*

8. Address the relevant Financial Sector Assessment Program (FSAP) recommendations in the NAIC Implementation Plan.

—*Essential*

New Objectives and Goals (representing new NAIC programs, services or initiatives):

None

Staff Support: Kris DeFrain/Todd Sells

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Agenda Item 2. Consider Adoption of Interim Meeting
Minutes —*Director Christina Urias (AZ)*

Draft: 10/26/11

Solvency Modernization Initiative (EX) Task Force
Conference Call
September 22, 2011

The Solvency Modernization Initiative (EX) Task Force met via conference call Sept. 22, 2011. The following Task Force members participated: Christina Urias, Chair (AZ); James J. Wrynn, Vice Chair, and Joe Fritsch (NY); Jim L. Ridling represented by Richard Ford (AL); Jay Bradford represented by Mel Anderson (AR); Dave Jones represented by Kim Hudson (CA); William P. White represented by Kevin Brown (DC); Kevin M. McCarty represented by Al Willis, Kerry Krantz, Nic Ancheta, Amy Groszos, Paul Johns, and Carolyn Morgan (FL); Susan E. Voss represented by Jim Mumford and Kim Cross (IA); John M. Huff represented by Fred Heese (MO); Adam Hamm represented by Carol Kessel (ND); Bruce R. Range and Jim Nixon (NE); Roger A. Sevigny represented by Tom Burke (NH); Mary Taylor represented by Mary Miller (OH); John D. Doak represented by Joel Sander (OK); Michael F. Consedine represented by Kim Rankin (PA); Neal T. Gooch represented by Allen Hart (UT); Jacqueline K. Cunningham represented by Doug Stolte (VA); and Mike Kreidler represented by Jim Odiorne and Patrick McNaughton (WA). Also participating was: Alan Seeley (NM) and Laura Cali (OR).

1. SMI Communications

The Task Force met in regulator-to-regulator session to consult with NAIC staff.

Having no further business, the Solvency Modernization Initiative (EX) Task Force adjourned.

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Draft: 10/26/11

Solvency Modernization Initiative (EX) Task Force
Conference Call
Oct. 24, 2011

The Solvency Modernization Initiative (EX) Task Force met via conference call October 24, 2011. The following Task Force members participated: Christina Urias, Chair (AZ); James J. Wrynn, Vice Chair, represented by Louis Felice, Rolf Kaumann and Anne Kelly (NY); Jim L. Ridling represented by Sean Duke and Steven Ostlund (AL); Dave Jones represented by Al Bottalico (CA); Kevin M. McCarty represented by Kerry Krantz, Nic Ancheta, Belinda Miller, Carolyn Morgan and Toma Wilkerson (FL); Susan E. Voss represented by Jim Armstrong (IA); John M. Huff and Fred Heese (MO); Bruce R. Range represented by Jim Nixon (NE); Roger A. Sevigny represented by Tom Burke (NH); Mary Taylor represented by Dale Bruggeman (OH); John D. Doak represented by Joel Sander (OK); Michael F. Consedine represented by Amy Daubert and Kim Rankin (PA); Neal T. Gooch and Jacob Garn (UT); and Jacqueline K. Cunningham represented by Ed Buyalos (VA). Also participating was: Matt Kruihoff (IN) and Alan Seeley (NM).

1. SMI Communications

The Task Force met in regulator-to-regulator session to consult with NAIC staff.

Having no further business, the Solvency Modernization Initiative (EX) Task Force adjourned.

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Agenda Item 3. Discuss Communication about the U.S.
Financial Regulatory System —*Director Christina Urias*
(AZ)

SMI Task Force: SMI Communication

Discussion Topics for the National Meeting

- 1. To whom do we need to communicate about the U.S. insurance financial regulatory system? (federal government; international regulators; new regulators; companies; other interested parties)**
- 2. What needs to be communicated about SMI and/or the financial regulatory system?**
 - a. Description of the financial regulatory system.**
 - b. Changes we are making in the SMI and why we are making those changes.**
 - c. Do we concentrate on our own system and changes we are making or include positions on international issues (e.g. ComFrame)?**
- 3. What is "Regulatory Success"? Can it be measured?**
- 4. When it comes to the current financial regulatory system, what works well and what needs improvement? Have we identified the changes that need to be made in SMI?**
- 5. Do we have different philosophies or differences in culture that underlie our system compared to international counterparts?**

Agenda Item 4. Consider Adoption of the Own Risk and Solvency Assessment Guidance Manual for Referral to E Committee —*Director John M. Huff (MO) and Danny Saenz (TX)*



National Association of Insurance Commissioners

NAIC OWN RISK AND SOLVENCY
ASSESSMENT (ORSA)
GUIDANCE MANUAL

Created by the
NAIC Group Solvency Issues Working Group
Of the Solvency Modernization Initiatives (EX) Task Force

TABLE OF CONTENTS

	PAGE
I. INTRODUCTION	3
A. EXEMPTION	3
B. APPLICATION FOR WAIVER	4
C. GENERAL GUIDANCE	4
D. EXTENSIONS	5
II. SECTION 1 - DESCRIPTION OF THE INSURER'S RISK MANAGEMENT FRAMEWORK	6
III. SECTION 2- INSURER'S ASSESSMENT OF RISK EXPOSURES	7
IV. SECTION 3 - GROUP RISK CAPITAL AND PROSPECTIVE SOLVENCY ASSESSMENT	8

I. INTRODUCTION

The purpose of this Manual is intended to provide guidance to an insurer and/or the insurance group (herein referred to as “insurer” or “insurers”) with regard to reporting on its own risk and solvency assessment (ORSA) as outlined within the Form B – Insurance Holding Company System Annual Registration Statement of the *NAIC’s Insurance Holding Company System Regulatory Regulation (#450)*. As described more fully below, an insurer who is subject to the ORSA requirement will be expected to regularly conduct an ORSA to assess the adequacy of its risk management and current, and likely future, solvency position, internally document the process and results, and provide a high-level summary report annually to the domiciliary regulator, if requested. Whether an applicable state insurance regulator chooses to request the confidential filing each year may depend on a myriad of factors, such as the nature and complexity, financial position, and/or prioritization of the insurer/group, as well as the economic environment considerations.

Overall, the ORSA is essentially an internal assessment of the risks associated with an insurer’s current business plan, and the sufficiency of capital resources to support those risks. The ORSA has two primary goals:

1. To foster an effective level of enterprise risk management at all insurers, through which each insurer identifies and quantifies its material and relevant risks, using techniques that are appropriate to the nature, scale and complexity of the insurer’s risks, in a manner that is adequate to support risk and capital decisions; and
2. To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

An insurer that is subject to the ORSA requirement should consider the guidance provided in this Manual when conducting its ORSA and compiling the summary report. As the process and results are likely to include proprietary information, any report received by the regulators shall be held confidential as provided by state statutes.

An insurer should keep the commissioner or his or her designee abreast of the timing of the insurer’s ERM-related strategic planning and ORSA reporting requirements for all U.S. and international regulators so that the completion of the ORSA process and finalization of an ORSA Summary Report may be coordinated with the insurer’s internal processes and completed no more than once annually.

A. Exemption

An insurer shall be exempt from the requirements of the ORSA, if

- a. The individual insurer’s annual direct written and unaffiliated assumed premium, including international direct and assumed premium but excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, is less than \$500,000,000; and,
- b. The insurance group’s (all insurance legal entities within the group) annual direct written and unaffiliated assumed premium including international direct and assumed premium,

but excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program is less than \$1,000,000,000.

If neither a. nor b. exemption elements are triggered, then an insurer or insurers may supply the ORSA Summary Report in any given combinations, as long as all insurance legal entities within the group are covered. For example, the property & casualty insurers within a group could be combined within one ORSA Summary Report, and the life insurers within the same group could be combined within another ORSA summary report, if such entities operate under different ERM Frameworks.

If exemption element a. is triggered and not b., then the insurer or insurers (within the group) may supply the ORSA Summary Report in any given combinations, as long as every insurance legal entity within the group are covered by the summations of the ORSA Summary Report..

If exemption element b. is triggered and not a., then only the legal entity ORSA Summary Report of the entity over the threshold is required, however, the insurer may include other smaller insurers within the holding company system, if desired.

An insurer that is otherwise exempt may be required to meet the ORSA requirement based on unique circumstances at the discretion of the commissioner including, but not limited to, the type of business written, federal agency requests, and international supervisor requests, etc.

A commissioner also has authority to require an ORSA if the insurer is in a RBC action level event, meets one or more of the standards of an insurer deemed to be in hazardous financial condition, or otherwise exhibits qualities of a troubled insurer.

B. Application for Waiver

An insurer may make application to the commissioner for a waiver from the requirements of the ORSA based upon unique circumstances. The commissioner may consider various factors including, but not limited to, the type of business entity, and volume of business written.

C. General Guidance

The ORSA process is one element of an insurer's broader Enterprise Risk Management (ERM) framework. It links the insurer's risk identification, measurement and prioritization processes with capital management and strategic planning.

Each insurer's ORSA process will be unique, reflecting its business, strategy and approach to ERM. The regulator recognizes this, and will use the ORSA Summary Report to gain a high-level understanding of the process. The report will be supported by the insurer's internal risk management materials. However, at a minimum the ORSA Summary Report should discuss three major areas, which will be referred to as the following sections:

- **Section 1** - Description of the Insurer's Risk Management Framework
- **Section 2** - Insurer's Assessment of Risk Exposure
- **Section 3** – Group Risk Capital and Prospective Solvency Assessment

Guidance for completing each section is noted below. However, the depth and detail is likely to be influenced by the nature and complexity of the insurer. Additionally, each section is expected to be updated annually for the insurer. However, for some insurers, Section 1 could represent a voluminous amount of information. The discretion for determining the extent to which the Section 1 information is summarized is left to the insurer, who must determine how best to communicate its processes designed to manage its risks. Additionally, in order to avoid excessive volumes of detail or supporting documents for complex insurers, an insurer may simply reference other explanatory documents within the ORSA Summary Report, as long as those documents are available to the regulator upon request.

In analyzing an ORSA Summary Report, the supervisor will expect that the Report represents a work product of the enterprise risk management processes that include all of the material risks to which an insurer or insurers (if applicable) is exposed.

The ORSA Summary Report may help determine the scope, depth and minimum timing of risk-focused analysis and examination procedures. For example, insurers have varying levels of ERM frameworks, ranging from a business plan, to a combination of investment plans and underwriting policies, to more complex risk management processes and sophisticated modeling. Insurers with ERM frameworks deemed to be robust for their relative risk may not require the same scope or depth of review, or minimum timing for a risk-focused surveillance as those with less robust ERM functions. Therefore insurers should consider developing an ORSA Summary Report that helps to demonstrate the strengths of their framework, including how it meets the expectations of this Manual document for the relative risk of the insurer.

In addition to the ORSA Summary Report, the insurer should internally document the ORSA results to facilitate a more in-depth review by the regulator through analysis and examination processes. Such a review may depend on a myriad of factors, such as the nature and complexity, financial position, and/or prioritization of the insurer, as well as external considerations such as the economic environment. For example, major changes to an insurer's risk management policies, or specific concerns from a regulator regarding the insurer may result in the state requesting additional information about the policies through the state's analysis or examination processes.

An internationally active insurer that is required to provide a group ORSA for a group-wide supervisor in a non-U.S. jurisdiction may be able to satisfy the NAIC's filing requirement by providing that ORSA report. This ORSA report will be reviewed in relation to the principles expected of regimes as outlined in the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICP) 16 Enterprise Risk Management (ERM), as well as the U.S. NAIC ORSA Guidance Manual to determine if additional information is needed. The U.S. state regulator might also review and consider the applicable jurisdiction's FSAP and IAIS Self-Assessment in relation to ICP 16. One of the NAIC's goals is to avoid creating duplicative regulatory requirements for internationally active insurers.

D. Extensions

An extension for the due date of submission of the ORSA Summary Report may be granted at the discretion of the Commissioner.

II. SECTION 1 – DESCRIPTION OF THE INSURER’S RISK MANAGEMENT FRAMEWORK

An effective Enterprise Risk Management (ERM) Framework should at a minimum include the following key principles:

- **Risk Culture and Governance** – Governance structure that clearly defines and articulates roles, responsibilities and accountabilities; and a risk culture that supports accountability in risk-based decision making.
- **Risk Identification and Prioritization** – Risk identification and prioritization process that is key to the organization; ownership of this activity is clear; the risk management function is responsible for ensuring that the process is appropriate and functioning properly at all organizational levels.
- **Risk Appetite, Tolerances and Limits** – A formal risk appetite statement, and associated risk tolerances and limits are foundational elements of risk management for an insurer; Board understanding of the risk appetite statement ensures alignment with risk strategy.
- **Risk Management and Controls** – Managing risk is an ongoing enterprise risk management activity, operating at many levels within the organization.
- **Risk Reporting and Communication** – Provides key constituents with transparency into the risk management processes and facilitate active, informal decisions on risk taking and management.

Section 1 of the ORSA Summary Report should provide a high-level summary of the aforementioned ERM Framework principles, if present. The Summary Report should describe how the insurer identifies and categorizes relevant and material risks and manages these as it executes its business strategy. It should also describe risk monitoring processes and methods, provide risk appetite statements, and explain the relationship between risk tolerances and the amount and quality of group risk capital. The ORSA Summary Report should identify assessment tools (feedback loops) used to monitor and respond to any changes in its risk profile due to economic changes, operational changes, or changes in its business strategy. Finally, it should describe how the insurer incorporates new risk information to monitor and respond to changes in its risk profile due to economic and/or operational shifts and changes in strategy.

Additionally, as part of the risk-focused analysis and/or examination process, the regulator may review supporting materials to supplement his or her understanding of information contained in the ORSA Summary Report. These materials may include risk management policies or programs, such as the insurer’s underwriting, investment, claims, asset-liability management (ALM), reinsurance counterparty and operational risk policies.

The manner and depth in which the insurer addresses these principles is dependent upon their own risk management processes, and any strengths or weaknesses noted by the regulator in evaluating this will have a bearing on the regulators’ ongoing supervisory plan of the insurer, as the regulator will consider the entirety of the risk management program and its appropriateness for the unique risks of the insurer.

III. SECTION 2 - INSURER ASSESSMENT OF RISK EXPOSURES

Section 2 of the ORSA Summary Report should document the quantitative and/or qualitative assessments of risk exposure in both normal and stressed environments for each material risk category identified in Section 1. This assessment process should consider a range of outcomes using risk assessment techniques that are appropriate to the nature, scale and complexity of the risks. Examples of relevant material risk categories might include, but not be limited to, credit, market, liquidity, underwriting, and operational risks.

Section 2 may include detailed descriptions and explanations of the risks identified, the assessment methods used, key assumptions made and outcomes of any plausible adverse scenarios that are run. The assessment of each risk will depend on its specific characteristics. For some risks, quantitative methods are not well established, and in these cases, a qualitative assessment is appropriate. Examples of these risks may include certain operational and reputation risks. Additionally, it is recognized that each insurer's quantitative methods for assessing risk will vary; however, insurers generally consider the likelihood and impact that each material and relevant risk will have on the firm's balance sheet, income statement and future cash flows. Methods for determining the impact on future financial position may include simple stress tests or more complex stochastic analyses. When quantifying a risk, the insurer should provide the results under both normal and stressed environments. Lastly, the insurer's risk assessment may consider the impact of stresses on capital. This may include consideration of risk capital requirements, as well as available capital, and may include regulatory, economic, rating agency or other views of capital.

The analysis should be conducted in a manner that is consistent with the way in which the business is managed, be it on a group, legal entity, or some other orientation. It is recognized that some stress tests for certain risks may be performed at the insurance group level. Where useful and relevant to the management of the business, some of the group-level stresses may be mapped into legal entities. The regulator may request additional information to map the results to an individual insurance legal entity.

Any risk tolerance statements should include material quantitative and qualitative risk tolerance limits, how the tolerance statements and limits are determined, taking into account relevant and material categories of risk and risk relationships that are identified.

Because the risk profile of each insurer is unique, U.S. insurance regulators do not believe there is a standard set of stress conditions that each insurer should run, however the regulator may have input regarding the level of stress that company management should consider for each risk category. The Summary Report should demonstrate the insurer's process for model validation, including factors considered and model calibration. Unless a particular assumption is stochastically modeled, the group's management will be setting their assumptions regarding the expected values based on their current anticipated experience studies and what they expect to unfold over the next year. The regulator may provide input to an insurer's management on a stress factor that should be applied for a particular assumption that is not stochastically modeled. For assumptions that are stochastically modeled, the regulator may provide input on the level of the measurement metric to use in the stressed condition or specify particular parameters used in

the economic scenario generator. The aforementioned input provided by regulators will likely occur during either the financial analysis process and/or the financial examination process.

By identifying each material risk category independently and reporting results in both normal and stressed conditions, insurer management and the regulator are in a much better position to evaluate certain risk combinations that could cause an insurer to fail. One of the most difficult exercises in modeling insurer results is determining the relationships, if any, between risk categories. History may provide some empirical evidence of relationships, but the future is not always best estimated by historical data.

IV. SECTION 3 – GROUP RISK CAPITAL AND PROSPECTIVE SOLVENCY ASSESSMENT

Section 3 of the ORSA Summary Report should document how the company combines the qualitative elements of its risk management policy and the quantitative measures of risk exposure in determining the level of financial resources it needs to manage its current business and over a longer term business cycle, such as the next 2-5 years. The information provided in Section 3 is intended to assist regulators in forming subjective assessments of the quality of insurer's risk and capital management.

Group Risk Capital Assessment

Capital adequacy assessment can be broadly defined as the testing of aggregate available capital against the various risks which may adversely affect the enterprise. The goal of such an exercise is to determine that a given level of capital is sufficient to withstand the various risks, individually and collectively, up to some defined security standard or risk appetite. The level of capital that just satisfies the security standard can be defined as "risk capital," and can be compared to "available capital" to ascertain the degree of capital adequacy, including "excess" or "deficit" capital.

Insurers should have sound processes for assessing capital adequacy in relation to their risk profile and the process should be integrated into its management and decision making culture. These processes may assess risk capital through multiple lenses, reflecting varying time horizons and valuation approaches. While a single internal risk capital measure may play a primary role in internal capital adequacy assessment, insurers may evaluate how risk and capital interrelate over various time horizons, or through the lens of alternative risk capital or accounting frameworks (i.e., economic, rating agency, and/or regulatory frameworks). This section is intended to help regulators understand the insurer's capital adequacy in relation to its aggregate risk profiles.

On an annual basis, the insurer subject to this reporting requirement should provide a group risk capital assessment within its ORSA Summary Report for the previous period. This information may also be requested by a Commissioner throughout the year, if needed, for example if material changes in the macroeconomic environment and/or microeconomic facts and circumstances suggest it's needed for the ongoing supervisory plan.

The analysis of an insurer's group risk capital requirements and associated capital adequacy should be accompanied by a description of the approach used in conducting the analysis. This should include key methodologies and assumptions used in quantifying both available and risk capital. Examples might include:

Considerations	Description of Consideration	Examples (not exhaustive)
Definition of Solvency	Describe how the insurer defines solvency for the purpose of determining risk capital and liquidity requirements	Cash flow basis, balance sheet basis, etc.
Accounting or Valuation Regime	Describe the accounting or valuation basis for the measurement of risk capital requirements and/or available capital	GAAP, Statutory, Economic or Market Consistent, IFRS, Rating Agency model
Business Included	Describe the subset of business included in the analysis of capital	Positions as of a given valuation date, New business assumptions, etc.
Time Horizon	Describe the time horizon over which risks were modeled and measured	One-year, multi-year, lifetime, run-off, etc.
Risks Modeled	Describe the risks included in the measurement of risk capital including a comment about whether all relevant and material risks have been considered	Credit, market, liquidity, insurance, operational, etc.
Quantification Method	Describe the method used to quantify the risk exposure	Deterministic stress tests, stochastic modeling, factor-based analysis, etc.
Risk Capital Metric	Describe the measurement metric utilized in the determination of aggregate risk capital	Value-at-risk or VAR (quantifies the capital needed to withstand a loss at a certain probability), Tail-value-at-risk or TVAR (quantifies the capital needed to withstand average losses above a certain probability), Probability of Ruin (quantifies the probability of ruin given the capital held), etc.
Defined Security Standard	Describe the defined security standard utilized in the determination of risk capital requirements, including linkage to business strategy and objectives.	AA solvency, 99.X% 1-year VAR, Y% TVAR or CTE, X% of RBC, etc.
Aggregation and Diversification	Describe the method of aggregation of risks and any diversification benefits considered or calculated in the group risk capital determination	Correlation matrix, dependency structure, sum, full/partial/no diversification

The approach and assessment of group-wide capital adequacy should also consider the following:

- Elimination of intra-group transactions and double-gearing where the same capital is used simultaneously as a buffer against risk in two or more entities.
- The level of leverage, if any, resulting from holding company debt.
- Diversification credits and restrictions on the fungibility of capital within the holding company system, including the availability and transferability of surplus resources created by holding company system level diversification benefits.
- The effects of contagion risk, concentration risk and complexity risk in the group risk capital assessment.
- The effect of liquidity risk, or calls on the insurer's cash position, due to micro- (i.e. internal operational) and/or macro (i.e. economic shifts) factors.

The goal of the assessment is to provide an overall determination of group risk capital needs for the insurer, based upon the nature, scale and complexity of risk within the group and its risk appetite, and to compare that risk capital to available capital to assess capital adequacy. Group risk capital should not be perceived as the minimum amount of capital before regulatory action will result (e.g. the triggers in US Risk-Based Capital (RBC) for insurance legal entities); rather, it should be recognized that this is the capital needed within a holding company system to achieve the group's business objectives.

Prospective Solvency Assessment

The insurer's capital assessment process should be closely tied to business planning. To this end, the insurer should have a robust capital forecasting capability that supports its management of risk over the planning time horizon in line with its stated risk appetite. The forecasting process should consider relevant and foreseeable changes to the insurer's internal operations and the external business environment. It should also consider the prospect of operating in both normal and stressed environments.

The company's prospective solvency assessment should demonstrate it has the financial resources necessary to execute its multi-year business plan in accordance with its stated risk appetite. If the insurer does not have the necessary available capital (in terms of quantity and/or quality) to meet its current and projected risk capital requirements then it should describe the management actions it has taken or will take to remediate any capital adequacy concerns. These management actions may include or describe any modifications to the business plan or identification of additional capital resources.

The prospective solvency assessment is in effect a feedback loop. The insurer should project its future financial position including its projected economic and regulatory capital to assess its ability to meet the regulatory capital requirements given its current risk profile, its current risk management policy, its current quality and level of capital and reflecting any changes to its current risk profile caused by executing the multi-year business plan. The prospective solvency assessment should also consider both normal and stressed environments.

If the prospective solvency assessment is performed for each individual insurance company legal entity, the assessment should take into account any risks associated with group membership. Such an assessment may involve a review of any group solvency assessment and the methodology used to allocate group capital across insurance legal entities, as well as consideration of capital fungibility, i.e. any constraints on group risk capital or the movement of group risk capital to legal entities.

Agenda Item 5. Presentation by the Capital Initiatives
Working Group: “Using Stress Testing as a Supplement to
RBC to Determine Minimum Capital Requirements” —
Joel Steinberg (New York Life)

**Capital Initiatives Working Group
Presentation to SMI
November 5, 2011**

Capital Initiatives Working Group (CIWG)

- Charge is to monitor activity and make recommendations concerning the modernization of minimum regulatory standards in the U.S. life insurance industry
 - MassMutual
 - MetLife
 - New York Life
 - Northwestern Mutual
 - Prudential
 - Reinsurance Group of America
 - State Farm
- CIWG Concern – Solvency II not appropriate in U.S.
- We want to work with / support the SMI in its efforts

CIWG Principles for a Minimum Capital Standard

- Ensure safety and soundness, while avoiding unnecessary redundancy
- Each legal entity must meet the standard on its own
 - Capital fungibility should not be presumed to exist
- Appropriately capture all meaningful risks
 - Reflect diversification
 - Reflect substantiated risk mitigation practices
- Avoid inappropriate and unnecessary volatility in capital, especially during periods of financial stress
- When modeling approaches are used, they should be “standardized” as much as possible
 - Modeling of asset and liabilities together
 - All companies should evaluate the same core scenarios
- Balance effectiveness of measuring all risks with simplicity, practicality and transparency

CIWG Sees Need to Modernize RBC

- To date, RBC has worked well
 - RBC has been updated to deal with weaknesses as they emerge
- New products and investments suggest further adaptation is needed
 - Products developed with material tail risk, where formulaic approaches are difficult to use
 - Important that capital requirements are integrated with the margins in reserves

CIWG Concerns with Solvency II

- Market consistent framework is not useful for the life insurance business
 - Inappropriate, non-constructive volatility
 - Resulting in incorrect conclusions about the health of a company during periods of financial stress
 - Exacerbated if discounting went to fair value model
- Modeling and technology state-of-the-art are (far) behind Solvency II concepts
 - Robust EU process for reviewing/approving company specific models is laudable but non-productive for the foreseeable future
 - Very difficult to compare, understand, and critique company-specific model results
 - Achieving usable consistency in approaches/scenarios is a long way off
- Potential for Group Level Solvency
 - Each legal entity should be required to stand on its own
 - Potential competitive issue for U.S. owned insurers

Current Situation

- NAIC appears to have reaffirmed that purpose of RBC is to identify out troubled companies – CIWG agrees
 - Not to determine economic capital nor to distinguish between well capitalized companies
- NAIC appears to have decided that a Solvency II-type approach is not necessary or appropriate in the U.S. – CIWG agrees
- NAIC appears to be focusing primarily on “refinements” to RBC to deal with areas that need improvement
 - Will a resulting purely formulaic approach be sufficient going forward? – CIWG is unsure

Supplementing RBC with Stress Testing – Initial Thoughts

Advantages

- Basic idea: Extend existing CFT process to capture important risk capital needs not currently handled well in RBC
 - C3P1 prototype (although significant room for improvement in current CFT extension to C3P1)
- Would be useful for capturing the impact of new products and investment designs that pose material tail risk
 - May not be adequately captured by RBC formula
- Stress tests can be reevaluated in light of economic and product design environment
 - Limiting number of scenarios allows meaningful analysis of results
 - Scenarios will be prescribed for stress testing
- Can capture impact from hedging strategies and other risk mitigation techniques

Supplementing RBC with Stress Testing – Initial Thoughts

Disadvantages

- Work effort increased
 - For both companies and regulators
 - Needs to be value added
- Would result in some level of actuarial judgment
 - Must avoid excessive conservatism through inappropriate margin setting
- Some risk that natural overlap between developing ORSA requirements and stress testing element in RBC could become duplicative
 - Will be important to make sure they're complimentary, not redundant.

Potential Structure

- All companies subject to basic factor-based RBC with conservative factors.
 - Companies can elect to do stress testing. RBC is then the greater of:
 - (a) Stress testing result
 - (b) RBC based on a lower set of factors.
 - Companies with certain products or risks may be required to carry out stress tests
- Modest vs. robust stress testing requirement
 - Modest – look at certain products / risks that might result in an add-on to the formula RBC
 - If stress testing, this is the CIWG preferred approach
 - Probably only need a single RBC formula
 - CIWG view is that, to start with, we should aim toward the modest end of the spectrum
 - Robust – more scenarios
 - Lower RBC formulaic floor, but likely that the stress testing result would be more significant
 - Lots of extra work

Conclusion

- CIWG agrees with building upon the current RBC system
 - consideration should be given to adding stress testing to capture material tail risk.
 - Desirable to leverage current requirements as much as possible – e.g. cash flow testing models
- CIWG has put together a modeling tool for comparing / contrasting different approaches to reserves / solvency assessment
 - We are prepared to provide SMI with input regarding incremental improvements to RBC



Solvency Modernization Initiative (EX) Task Force

Agenda #6 Working Group Reports

*2011 Fall National Meeting
Washington, DC*

CORPORATE GOVERNANCE (EX) WORKING GROUP
November 4, 2011
4:00 – 5:00 p.m.

Meeting Summary Report

The Corporate Governance (EX) Working Group met Nov. 4, 2011. During this meeting, the Working Group:

1. Discussed and voted to expose a document created by the Working Group to summarize existing U.S. corporate governance requirements for a 30-day public comment period.
2. Discussed the Working Group's future project timeline, including steps to identify and correct gaps in the existing U.S. corporate governance requirements over the next year.
3. Received an update on the work of the International Association of Insurance Supervisors' Governance and Compliance Subcommittee.

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*2011 Fall National Meeting
Washington, DC*

GROUP SOLVENCY ISSUES (EX) WORKING GROUP
November 2, 2011
4:30 – 6:30 p.m.

Meeting Summary Report

The Group Solvency Issues (EX) Working Group met Nov. 2, 2011. During this meeting, the Working Group:

1. Received a report on state insurance regulators' discussions with the North American Chief Risk Officer Council regarding enterprise risk management and own risk solvency assessments.
2. Received and discussed comment letters on the NAIC *Own Risk Solvency Assessment (ORSA) Guidance Manual*. The Working Group made revisions and unanimously adopted the *ORSA Guidance Manual*.
3. Received and discussed comment letters on suggested ORSA Form B draft language for the *Insurance Holding Company Model Regulation with Reporting Forms and Instructions* (#440). The Working Group will continue discussions on a future conference call.
4. Adopted the NAIC *Holding Company and Supervisory Best Practices Document* for Referral to the Financial Analysis Handbook (E) Working Group.
5. Received an update on International Association of Insurance Supervisors (IAIS) activities.
6. Adopted its Oct. 21, Oct. 14, Oct. 7 and Sept. 23 conference call minutes.

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2011 Fall National Meeting
Washington, DC

INTERNATIONAL SOLVENCY AND ACCOUNTING STANDARDS (EX) WORKING GROUP
November 4, 2011
8:00 – 9:00 a.m.

Meeting Summary Report

The International Solvency and Accounting Standards (EX) Working Group met Nov. 4, 2011. During this meeting, the Working Group:

1. Adopted its Oct. 19, 2011, conference call minutes.
2. Discussed the summary of comments received on the International Association of Insurance Supervisors' (IAIS) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), including key themes from members, observers and the public. There was collective concern regarding an overreliance on capital measurements.
3. Received an update on international accounting matters being addressed by the IAIS Accounting and Auditing Issues Subcommittee (AAISC) and the International Accounting Standards Board's (IASB) Insurance Working Group. With regard to the insurance contracts project, the Insurance Working Group had broad support for the "current-current through other comprehensive income (OCI)" approach. The Insurance Working Group agreed that the unearned premium of short-term policies should not be discounted and an onerous contracts test should only be required if circumstances are warranted.
4. Received an update on the IASB's progress toward International Financial Reporting Standards (IFRS) on insurance and financial instruments. During the Oct. 20 joint meeting of the Financial Standards Accounting Board (FASB) and IASB, the boards continued work on the development of an impairment model for financial assets carried at amortized cost. The boards agreed to pursue a model in which the overall objective is to reflect the deterioration in the credit quality of financial assets.

The International Solvency and Accounting Standards (EX) Working Group also met Oct. 19, 2011, by conference call. During this conference call, the Working Group:

1. Discussed the use of OCI in an insurance contracts standard. The Working Group agreed to support the "current-current through OCI" approach.
2. Discussed and agreed to support IFRS Agenda Reference 5, *Consequences of Contract Boundary Decision* working paper.
3. Discussed the IFRS Agenda Reference 6, *Possible Changes to Premium Allocation Approach*, which recommended changes to three areas of the International Accounting Standards Board (IASB) exposure draft. The Working Group agreed that, for contracts that have not previously been onerous, a blend of the first and third approach should be supported. The first approach is to clarify that an onerous contract test is needed only when facts and circumstances indicate that contracts have become onerous in the coverage period. The third approach is to omit the requirement to include a risk adjustment in the measurement of onerous contract liabilities.
4. Discussed IFRS Agenda Reference 8, *Considering the Different Approaches for Accounting for Reinsurance Assets*, which provides three possible approaches to the recognition of profit on reinsurance contracts by the cedant. The Working Group agreed that more comprehensive life and property/casualty examples are needed to illustrate the accounting treatment of non-proportional reinsurance.

*2011 Fall National Meeting
Washington, DC*

PRINCIPLES-BASED RESERVING (EX) WORKING GROUP

Thursday, November 3, 2011

12:00 – 1:00 p.m.

Gaylord Convention Center—Maryland Ballroom C—Level 2

Meeting Summary Report

The Principles-Based Reserving (EX) Working Group met Nov. 3, 2011. During this meeting, the Working Group:

1. Adopted its 2012 Proposed Charges, which were unchanged from the prior year.
2. Received a report from Towers Watson regarding the Valuation Manual Impact Study.
3. Received a report from the Life Actuarial (A) Task Force, including an update that the timeline for targeted completion of the Valuation Manual is now March 2012.
4. Directed NAIC staff to distribute letters to the technical groups to re-engage in the implementation process and provide updates to the Working Group in March 2012.
5. Discussed a comment letter from the American Council of Life Insurers (ACLI) regarding a framework to verify reserves.

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October 26, 2011

Mr. Lou Felice, Chair
Capital Adequacy (E) Task Force

Re: SMI RBC Subgroup – Summary of Activities and Accomplishments

Dear Lou:

The SMI RBC SG herein submits for your consideration a summary of our accomplishments since our inception in 2010. We frame these in accordance with the seven tasks contained in the June 7, 2010 letter from Director Urias.

- 1. *Selection of the calibration (“safety”) level and time horizon for the RBC, recognizing that the RBC is designed to identify weakly capitalized companies rather than to mirror a company’s economic target capital calculations.*

Based largely on standardized factors and formulas, RBC is designed to provide a risk-based minimum level of capital for an insurer, below which the company or the regulator are required to take action to either improve the company’s financial position or facilitate its winding up. A safety level would specify the degree of certainty that an insurance company will remain solvent or otherwise able to fulfill its policyholder obligations.

The Subgroup spent considerable initial effort in an attempt to develop an overarching target safety level and time horizon for RBC. These efforts included convening a two-day actuarial brainstorming session in July 2010, meeting with our CEIOPS counterparts in November 2010, working with the NAIC’s Distinguished Scholar, and seeking the advice of the American Academy of Actuaries.

During an April 2011 call of Subgroup members and key NAIC personnel, the parties recognized that a top-down approach to calibration would be unfeasible for a variety of reasons. These include the differing safety levels and time horizons underlying various types of risk, the lack of credible loss distributions and risk profiles needed to produce statistically valid aggregate safety levels (particularly for P/C RBC), and our perception that other supervisory regimes have yet to produce rigorous safety level measurements.

For these reasons our task has shifted to documenting the calibrations that underlie specific RBC risk components, and soliciting the use of industry internal capital models to gauge safety levels underlying current RBC.

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2. *Identification of missing risks (e.g. P&C catastrophe risk, operational risk) in the RBC formula and creation of risk charges for those missing risks.*

In the fall of 2010 the Subgroup sought the Academy's advice in the identification and inclusion of missing risks (as well as advice on approaches to calibration and on enhancements to the current RBC methodology for deriving risk diversification credits). In January 2011 the Academy provided a response in which (among other matters) they identified a variety of missing risks or risk charges that could be improved. Prominent in their list are implementing catastrophe risk charges, increasing the granularity of asset and investment risk charges, and refining the credit risk charge for reinsurance recoverables. Many of these missing risks have now been discussed and added to CADTF's working agenda.

The treatment of operational risk remains under discussion, with an emerging opinion that operational risk should not be specifically included as a charge in RBC but rather be treated within the upcoming U.S. ORSA.

3. *Modification to the formula: asset categories, current factors, modeling where factor-based approaches are not sufficient to capture the identified risk, and covariance.*

Modifications to asset categories are being addressed jointly by the Valuation of Securities Task Force and CADTF, such as through the C1 Factor Review Subgroup. Modeling where factor-based approaches are inadequate continues to be developed and applied in Life RBC and will soon be applied to P/C RBC through catastrophe risk models.

Modifications to the current methodology for deriving credits for risk diversification (i.e. "covariance") are being studied by the Academy, utilizing the research arm of the Casualty Actuarial Society. The Academy anticipates providing the Subgroup with a recommended approach for P/C RBC sometime this winter.

4. *Development of modeling requirements and regulatory approval processes where the modeling requirements are principles-based.*

The Subgroup has ascertained that there is currently little desire among U.S. insurance regulators to allow minimum regulatory capital levels to be determined by internal company models in lieu of RBC. While it is recognized that internal models may more accurately gauge individual companies' solvency risk exposures, the need to adequately scrutinize such models would strain state insurance department resources and significantly increase the cost of regulation to both regulators and insurers. There is also concern that internal models may create regulatory capital arbitrage opportunities for those (large) insurers that have such models, thereby disadvantaging small insurers.

5. *Re-evaluation of the thresholds for the action and control levels.*

The Subgroup has not yet examined these thresholds, other than to observe a developing perspective that RBC action and control levels are primarily focused on winding down troubled companies with minimal adverse impact to policyholders, rather than on maintaining troubled companies as going concerns.

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6. *Recalibration of the RBC.*

Due to the abandonment of the effort to develop overarching calibration targets, and to a general perception among U.S. insurance regulators that the current solvency system is robust and effective, there appears to be no need or appetite to recalibrate RBC.

7. *Completion of impact studies.*

Since there is no longer an intention to recalibrate RBC, no overarching impact studies need to be performed. However, studies should probably be performed to assess the impact of introducing catastrophe risk charges into P/C RBC.

We wish to thank CADTF for giving us the opportunity to assist it and SMI in the modernization of capital requirements. Please let us know if you have any questions regarding this report.

Sincerely,

Alan Seeley
Chair, SMI RBC Subgroup

Cc: SMI RBC Subgroup

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FINAL
2011 Fall National Meeting
Washington, DC

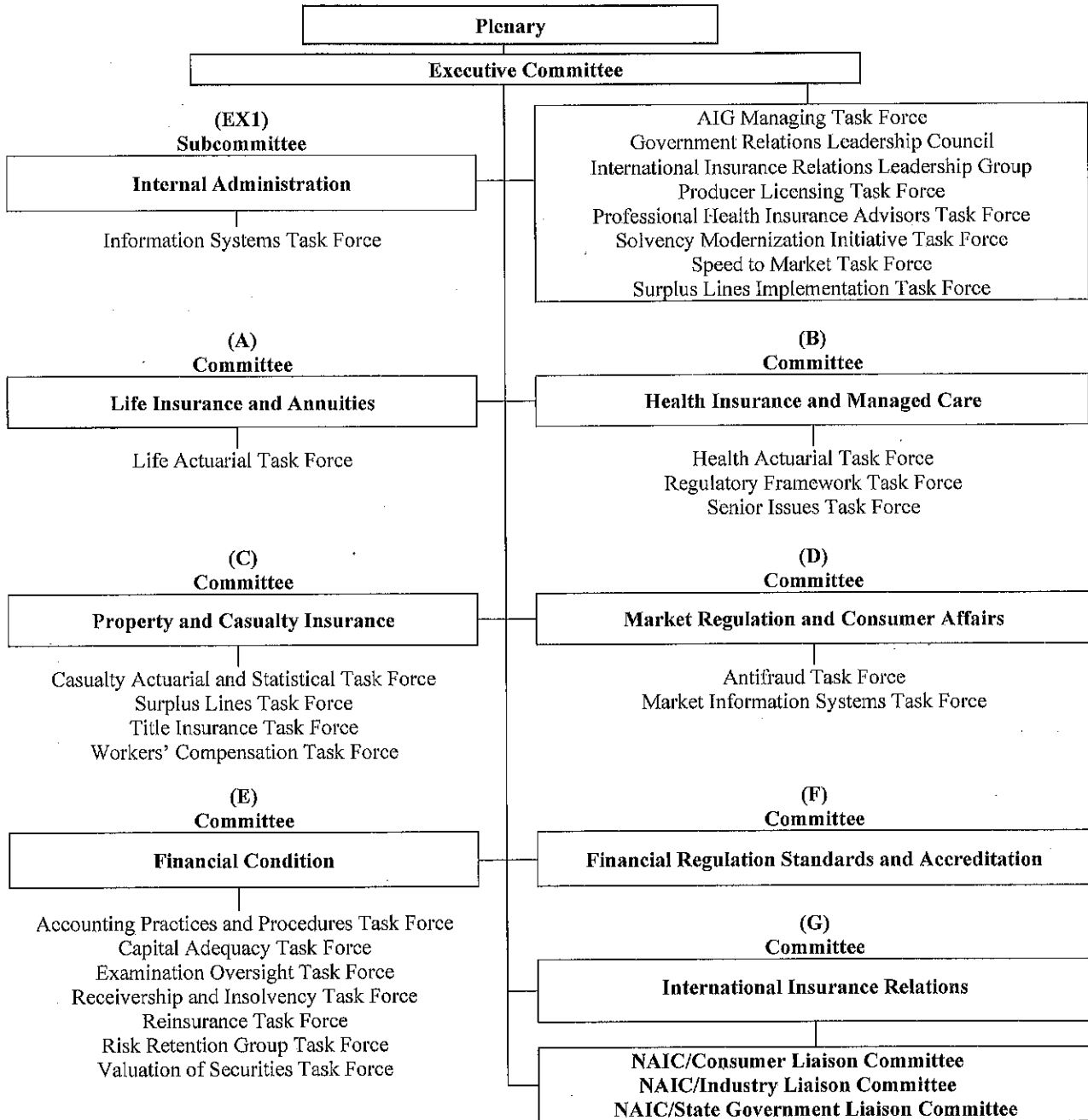
JOINT EXECUTIVE (EX) COMMITTEE/PLENARY
Sunday, November 6, 2011
11:00 a.m. – 1:00 p.m.
Gaylord Convention Center—Potomac Ballroom A/B—Level 2

AGENDA

1. Call to Order—*Commissioner Susan E. Voss (IA)*
2. Roll Call—*Commissioner Adam Hamm (ND)*
3. Consider Motion to Adopt the Report of the Nov. 4 Executive (EX) Committee Meeting
—*Commissioner Susan E. Voss (IA)* Attachment One
4. Consider Motion to Adopt the Report of NARAB (EX) Working Group: Recommendation of States
Continuing to Meet Reciprocity Requirements of the Gramm-Leach Bliley Act
—*Commissioner Roger A. Sevigny (NH)* Attachment Two
5. Consider Motion to Adopt by Consent the Committee, Subcommittee and Task Force 2011 Summer
National Meeting Business, Except for Items Noted Below with (*). *Please Note: Minutes were made available
Oct. 20 at www.naic.org and the Synopsis was distributed to members Oct. 20—Commissioner Susan E. Voss (IA)*
6. Consider Motion to Adopt the Report of the Life Insurance and Annuities (A) Committee
—*Commissioner Adam Hamm (ND)* Attachment Three
7. Consider Motion to Adopt the Report of the Health Insurance and Managed Care (B) Committee
—*Commissioner Monica J. Lindeen (MT)* Attachment Four
8. Consider Motion to Adopt the Report of the Property and Casualty Insurance (C) Committee
—*Commissioner Mike Chaney (MS)* Attachment Five
9. *Consider Motion to Adopt the *Background and Implications of Defective Drywall White Paper*
—*Commissioner Mike Chaney (MS)* Attachment Six
10. Consider Motion to Adopt the Report of the Market Regulation and Consumer Affairs (D) Committee
—*Commissioner Sharon P. Clark (KY)* Attachment Seven
11. Consider Motion to Adopt the Report of the Financial Condition (E) Committee
—*Superintendent Joseph Torti III (RI)* Attachment Eight
12. *Consider Motion to Adopt Amendments to the *Risk Based Capital for Insurers Model Act (#312)*
Regarding Life Trend Test and Fraternal Benefit Societies—*Superintendent Joseph Torti III (RI)* Attachment Nine
13. *Consider Motion to Adopt the Statement of Statutory Accounting Principles No. 101
—*Superintendent Joseph Torti III (RI)* Attachment Ten
14. *Consider Motion to Adopt the Model Guideline for Implementation of State Orderly Liquidation
Authority—*Superintendent Joseph Torti III (RI)* Attachment Eleven
15. *Consider Motion to Adopt Amendments to the *Credit for Reinsurance Model Law (#785)* and
Regulation (#786)—*Superintendent Joseph Torti III (RI)* Attachment Twelve

16. Consider Motion to Adopt the Report of the Financial Regulation Standards and Accreditation (F) Committee—*Commissioner Julie Mix McPeak (TN)* Attachment Thirteen
17. Consider Motion to Adopt the Report of the International Insurance Relations (G) Committee—*Commissioner Kevin M. McCarty (FL)* Attachment Fourteen
18. State Implementation Report of NAIC-Adopted Model Laws and Regulations—*Commissioner Susan E. Voss (IA)* Attachment Fifteen
19. Announce Results of 2012 Zone Elections—*Commissioner Susan E. Voss (IA)*
20. Any Other Matters Brought Before the Committee—*Commissioner Susan E. Voss (IA)*
21. Adjournment—*Commissioner Susan E. Voss (IA)*

2011 Committee Structure



As of October 2011