

Solvency Modernization Initiative

- **NAIC has began solvency modernization initiative**
- **Principles-Based System**
Five Key areas of Focus:
 - **Capital Requirements,**
 - **Reinsurance,**
 - **Group issues,**
 - **International Accounting,**
 - **Insurance Valuation**

Solvency Modernization Initiative (SMI)

Evolution of the U.S. Solvency System

- **We have developed a detailed and uniform financial regulatory system in the U.S.**
- **In the 1990s we created risk-based capital requirements and have continued to improve the formula over time, including adding stochastic modeling and trend tests.**
- **SAP was codified in 2001 into a comprehensive guide and has continued to be updated & improved since.**
- **We are placing greater emphasis on Governance through a Model Audit Rule.**
- **We are proposing to modernize Reinsurance & Principles-Based Reserving**

Solvency Modernization Initiative (SMI)

- **Evolution of the U.S. Solvency System**
- **What is clear is that we have been continuously improving U.S. insurance regulation for many years.**
- **What we have on our plates now is an investigation of new ideas and an opportunity to create the Gold Standard of Solvency Systems through the Solvency Modernization Initiative!**
- **As we move toward change in the U.S. to achieve the Gold Standard, we also will dialogue outward in our U.S. international activities.**

SMI Work Plan – Intl Solvency and Acct WG

- **Analyze other financial supervisory modernization initiatives, to the extent appropriate. Analysis should include**
 - **the Basel II international capital framework for banks and implementation in the U.S.;**
 - **solvency work by the International Association of Insurance Supervisors (IAIS);**
 - **solvency proposals under consideration in other jurisdictions, including Australia, Canada and EU;**
 - **accounting standards being developed by the International Accounting Standards Board (IASB) and IFRS**

SMI Work Plan

International Relations (G)

Committee

- **Present the US-EU/S2 comparison to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the European Commission for comment and verification.**
- **In coordination with the Financial Condition (E) Committee, identify issues to present for discussion with CEIOPS and the Commission in the US-EU Insurance Regulatory Dialogue.**

SMI Work Plan

Principles-Based Reserving (EX) WG and Reinsurance (E) Task Force

- **Continue with the Principles-Based Reserving Initiative to focus on the principles-based valuation of insurance reserves.**
- **Continue with the Reinsurance Regulatory Modernization Framework to focus on reinsurance modernization.**