GOVERNMENT RELATIONS
ISSUE BRIEF

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NAIC
National Association of Insurance Commissioners
& The Center for Insurance Policy and Research

Insurer Solvency Regulation:
Protecting Companies and Consumers in Tough Economic Times

Message:

- *The importance of regulating solvency and sufficient capital levels was illustrated dramatically by the financial crisis; because of State insurance regulators' national system of solvency regulation, insurers and their consumers weathered the financial crisis far better than other financial sectors.*

- *Regulators have developed a conservative regulatory accounting system, and created three core solvency surveillance mechanisms – reporting, analysis, and examination – to ensure that obligations to policyholders, claimants, contract holders, and other parties will be met both today and in the future.*

- *To avoid regulatory lapses, the States have developed a system of peer review embedded in the NAIC Accreditation Program, which establishes and maintains robust solvency and financial regulatory standards – **all 50 states and the District of Columbia are currently accredited** under that program.*

Background:

State insurance solvency regulation helps limit risk taking and leverage with policyholders' premiums. Regulators require insurers to meet explicit financial requirements, monitor insurers' compliance and financial condition through various solvency surveillance and examination mechanisms and take corrective action on insurers when necessary through a laddered regulatory intervention process.

The NAIC's Financial Analysis Survey Tools are a collection of analytical solvency tools and databases designed to provide state insurance departments with an integrated approach to reviewing the financial condition of insurers operating in their respective states. The tools, which help state regulators to discover and address problems early, include a Financial Database Repository (FDR) – 10 years' worth of quarterly and annual financial statements from more than 5,000 U.S.-domiciled insurance companies. **Because of our State system, insurer financial disclosures are among the most detailed and transparent in the world, and the IMF recently described NAIC's data collection and analysis as "world leading."**

Over the past 20 years, the NAIC's Financial Standards and Accreditation Program has set a high bar for state compliance on solvency regulatory regimes, while also allowing for inter-state cooperation and reducing regulatory redundancies. Accredited states are subject to peer review through the NAIC's Financial Analysis Working Group surveillance system, which holds state regulators accountable in a multi-state review forum.

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Additional Points:

- Over 600 banks and financial institutions used federal TARP funds compared with 3 insurers.

- Insurers' financial report, investments, and accounting disclosures are subject to state regulation.

- To reduce reliance on credit rating agencies, state regulators created a new independent assessment process for insurers' investments in residential mortgage backed securities (RMBS) and will expand this to commercial mortgage backed securities (CMBS) in 2010.

- The NAIC is well underway with a massive Solvency Modernization Initiative (SMI) which assesses the entire scope of U.S. solvency regulation and reviews international developments regarding insurance supervision, banking supervision, and international accounting standards and their potential use in U.S. insurance regulation.

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