

IAIS Solvency & Actuarial Issues Subcommittee: Summary of the Rio Meeting

Presented to the International Solvency Initiatives (E) Working Group

Commissioner Alfred Gross (VA) and Kris DeFrain (NAIC) attended the Solvency and Actuarial Issues Subcommittee meeting in Rio de Janeiro, Brazil, in early May 2006. The following are some of the key items that would be of interest to the International Solvency Initiatives Working Group:

Solvency Work Throughout the World

Commissioner Gross reported that the NAIC has created a new working group titled the International Solvency Initiatives Working Group in order to solicit input on the IAIS Solvency Subcommittee papers. He said the working group will report to the Financial Condition Committee and, in accordance with the NAIC open meeting policy, will be open to observers. He added that with the importance of the international and IAIS solvency work, the NAIC has assigned a second staff person, Kris DeFrain, to work on international solvency issues.

For other countries, there is significant work being done to create and improve risk-based supervisory models, based on standardized approaches and/or principles-based approaches. The European Commission's Solvency II project is starting their second quantitative impact study, covering capital requirements as well as technical provisions. There is significant work being done to study the relative merits of cost of capital and percentile approaches for the measurement of technical provisions. Canada's GAAP accounting is moving towards using fair value, so they are studying potential modifications to their capital requirements. Japan has introduced a new rule for mandatory provisions for IBNR for all non-life products and long-tail products, to be calculated by stochastic methods.

European Solvency II

The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) has finalized the responses to their third wave of Calls for Advice and the first quantitative impact study (QIS) and is drafting QIS II, an impact study on the design and calibration of the capital requirements and margin for technical provisions (reviewing both the percentile approach and the cost of capital approach).

International Actuarial Association: Risk Margins & Technical Provisions

The International Actuarial Association (IAA) has a risk margins working group that is currently working on identifying issues with risk margins and technical provisions. They anticipate having a paper on the best/current estimate that will elaborate on the principles for valuation of the best estimate reserves. They are also studying risk margins for several products. The group also discussed the issue at the IAA conference at the end of May.

IAIS Insurance Contracts Subcommittee

A draft of the Second Liabilities paper had been circulated and comments were due May 15. The comments were subsequently discussed in Ottawa at the end of May. The paper has now been approved by the Technical Committee and sent to the International Accounting Standards Board (IASB).

IAIS Solvency Subcommittee's Common Structure for the Assessment of Insurer Solvency

The *IAIS Common Structure for the Assessment of Insurer Solvency* (Structure paper) was discussed. Some of the main changes that were made were to shorten the paper by focusing on principles with anticipation to discuss the detailed issues within the financial standards to be developed later, maintain consistency with the IAIS's Second Liabilities paper, and add an acknowledgment that the paper may have to be revised once standards are developed. The governance section was shortened, however, the IAIS plans to have a group develop separate Corporate Governance standards. There was significant support for the revised paper. The Subcommittee provided the document shortly after the meeting (mid-May) to the Technical Committee. The Technical Committee subsequently agreed to circulate the paper for consultation with Members and Observers.

IAIS Asset/Liability Management Papers

There was significant support for both the *Supervisory Standard on Asset Liability Management* and the Issues Paper on *Asset Liability Management*. Both were considered well written and easy to understand, with an appropriate separation of standards and issues. These papers have since been circulated for consultation.

Solvency Glossary Project

The IAIS will continue developing a glossary of solvency terms. They will review the CEA-Groupe Consultatif Draft *Solvency II Glossary* and will work with the IAA and IAIS to develop a harmonized glossary.

Future Work

The next meeting is scheduled Aug. 30 – Sept. 1 in Quebec City. The work plan is anticipated to follow the work products outlined in the Roadmap paper.

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