

Stephen W. Broadie
Vice President, Financial Policy

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David A. Vacca, CPA
Assistant Director
Insurance Analysis and Information Services Department
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

Re: Questionnaires from Group Solvency Issues (EX) Working Group

Dear Mr. Vacca:

The Property Casualty Insurers Association of America (PCI) thanks you and the Group Solvency Issues (EX) Working Group for the opportunity to reply to the Working Group's questionnaires concerning the regulation of insurer groups. PCI's more than 1,000 member property/casualty insurance companies represent the broadest cross-section of insurers of any national trade association. PCI members write over \$176 billion in annual premium in the U.S., 35.9 percent of the nation's property/casualty insurance.

We commend the NAIC for its Solvency Modernization Initiative (SMI) and for creation of this Working Group to study and make recommendations concerning the regulatory issues presented by insurance groups. Due to the short time frame for response, we have not had the time to develop full answers to the questionnaires, and they pose a number of issues that require detailed study. However, we do have some initial comments as the Working Group begins its work.

1. Develop a coherent regulatory framework first – We are pleased to note that the overall plan for conduct of the SMI project gives priority to review and articulation of the current U.S. regulatory framework in order to develop a set of “consolidated principles . . . to provide a foundation for the NAIC to develop clear goals, priorities and long-term modernization plans.” We believe this is the first task of the SMI, and that this Working Group must be an integral part of that discussion. These questions should include the purpose of solvency regulation, whether it has achieved that purpose, and as a result of that analysis whether there are any gaps in current regulation that must be addressed. In particular we urge the NAIC and the Working Group not to incorporate pieces of other solvency regulatory frameworks without considering whether they are coherent with the U.S. framework. Many times we have seen the NAIC develop new regulatory tools without taking a comprehensive look at how those tools fit into the regulatory framework, or whether older tools no longer make sense and can be discarded. This approach makes regulation both less efficient and more costly, and we urge the Working Group to keep this consideration in the front of its mind.

When analyzing the current framework and deciding upon the principles that should govern the SMI project, regulators should recognize that the current solvency regulatory system has in general performed well during the financial crisis. Insurer assets were safeguarded and insurers did not have the problems with excessive leverage that other sectors of the financial services industry suffered. The old line, “if it ‘ain’t broke, don’t fix it” still applies.

2. Examine the tools you have – We encourage the Working Group to begin with examination of all of the powers regulators currently have under the NAIC's Insurance Holding Company System Regulatory Act (commonly referred to as the Model Holding Company Act). The inquiry must be expanded, however, to include all of the existing solvency regulatory tools that apply to groups. The first questionnaire is a start, and PCI and its members will perform the same review. We suspect that regulators will discover that the Model Holding Company Act and the other tools currently at their disposal already provide significant oversight authority when used effectively.

3. Consider the infrastructure needed to execute the solvency framework – To the extent the U.S. framework for group supervision implements new regulatory tools, this may require more technical expertise from state regulatory staff, as well as increased resources in other areas. The Working Group should take this into account as it is formulating its plans to make sure that the appropriate resources will be available to execute the plan.
4. Suggestions regarding group-wide international activities and issues – PCI members are in the process of reviewing how we believe groups with international activities should be regulated, and we look forward to considering these issues together with the Working Group. We do, however, have the following initial comments:
 - The NAIC should continue to work toward the appropriate convergence of U.S. and international standards – We support the work of the NAIC with the International Association of Insurance Supervisors (IAIS) and other international regulatory bodies. We believe that U.S. regulation should take note of regulatory developments around the world, and vice-versa – this is a two-way street. We also agree in general that national insurance regulatory systems should converge more closely over time. This will increase the ability of insurers to operate internationally to provide products that benefit their policyholders, and of regulators to make sure that those companies are operating in a manner that does not jeopardize their financial health.
 - U.S. regulators should retain control over U.S. regulation – Some have suggested, however, that the IAIS might become an international standard-setter with binding authority over its members, including the United States. We do not believe this is appropriate, and we urge the NAIC to resist this concept wherever necessary. While convergence in general is appropriate, the U.S. regulatory framework is and will almost certainly remain somewhat different from any international framework. Standards and regulatory tools that arise out of different systems are developed because they fit within those systems. U.S. regulators need to examine them to determine whether they are coherent with the U.S. system – and they need to retain the authority to make that decision.
 - Establish how international solvency standards should fit into the U.S. framework – The Working Group should analyze how the IAIS group solvency standards currently under development, as well as other jurisdictions' concepts of group supervision, should be incorporated into the U.S. solvency framework. This should be done, however, after the Working Group and the Solvency Modernization Initiative (EX) Task Force as a whole have developed the revised U.S. framework.
 - U.S. and international regulators should continue to cooperate more closely – We support increasing cooperation between U.S. and international regulators in the supervision of insurance groups. We believe that the move toward more “supervisory colleges” is a good thing, if carried out in a manner that takes the needs of all participants, including the insurance group, into account. In this regard we want to comment that companies under review by a college should be allowed to participate in the college’s discussions as appropriate and should have appropriate notice of the college’s activities.

PCI looks forward to working with the Working Group as it carries out its important tasks. Please contact us if you have any questions.

Sincerely,



Stephen W. Brodie