AMERICAN ACADEMY of ACTUARIES

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Group Solvency Issues (EX) Working Group
Via email: David Vacca (dvacca@naic.org)

Re: Comments on Group Capital Assessment Options paper

The American Academy of Actuaries[1] Risk Management and Solvency Committee and its Enterprise Risk Management Subcommittee are pleased to present comments on the Group Capital Assessment Options Paper. These comments also include input from other interested Academy groups. Our comments are brief in recognition that this project is just beginning.

We agree with the IAIS core principles that there are numerous valid approaches to group capital assessment. It will be a challenge to identify and measure insurance risks from non-insurance members of a group unless those risks originate under an insurance holding company. However risk professionals must be able to assess the risk exposure if that risk can affect the insurance entity. If they are part, for instance, of a parent holding company then capital assessment would most likely treat those risks separately from any calculation of capital for the subsidiary insurance company. This is especially true when the differences between the general purposes accounting statements of the holding company are not necessarily consistent with the statutory statements of the US insurer affiliates/subsidiaries. The concept of an ORSA or some similar report could be adopted to address these issues.

Due to the uniqueness of groups of entities that include insurers, we believe that the ORSA-approach is the most logical of the options being considered for group capital assessment. Groups and holding companies will have different characteristics regarding centralization, management controls, board expertise, non-insurance entities, and non-US enterprises. None of the other options offer the flexibility to address each of these differences.

We feel strongly that any proposed option must require that each insurance subsidiary have enough capital to meet the minimum requirements of its regulatory domicile. Permitting lower capital in one subsidiary in recognition of higher capital in another or at the parent level would seem unwise to us. Customers need to be treated equally in the case of wind up; a firm, legally enforceable agreement among the companies in the group must exist so that regulators can, without interference, have access to capital in another company. However, when dealing with individual scenarios, the needs of capital in one insurer may create additional (or reduced) capital or increased (or decreased) margins in other insurers or affiliates. This issue of diversification is complex, but should not just be ignored.

[1] The American Academy of Actuaries ("Academy") is a 17,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

An adjustment to RBC would not be sufficient in our view to address the individual and complex nature of the access to capital and diversification issues. For these issues and such risks as reputational risk, contagion risk, and enterprise risk, evaluations are better handled outside of formulaic RBC using tools similar to ORSA. A regulator could consider aggregating all insurance entities whether they are in the same holding company or not, but we don't think this would provide significant useful insight.

With regard to expanding the use of other countries' capital requirements beyond Canada, that is a question that could be researched. For now, however, we don't recommend a move in this direction.

While the "phantom" Parent Holding Company is feasible, it is unclear what benefits would exist without the regulator having solvency authority over an additional legal entity and the ability to mandate how the capital is determined. In using this option, evaluations should be based on direct interaction between a company and its regulator rather than incorporated into the RBC calculation.

A significant concern will be exactly how groups are supervised. Which regulator will have jurisdiction? Does the NAIC have jurisdiction to address group solvency? Will all regulators follow the direction of the lead regulator?

If you have any questions, or would like to discuss this further, please contact Tina Getachew, Senior Policy Analyst, Risk Management and Financial Reporting Council, by phone (+1 202/332-5958) or email (getachew@actuary.org). Thank you again for this opportunity to provide input.

Sincerely,

R. Thomas Herget

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