AMERICAN ACADEMY *of* ACTUARIES

MEMORANDUM

TO: Larry Bruning, Chair, Life and Health Actuarial Task Force

FROM: Donna Claire, Chair, American Academy of Actuaries'[1] Life Financial Soundness/Risk Management Committee

DATE: December 3, 2009

RE: Status of Review of Country Specific Regulatory Responses to the Financial Crisis

Per a request of the Life and Health Actuarial Task Force (LHATF), the Academy's Life Financial Soundness/Risk Management Committee informally surveyed through an open request, the International Actuarial Association's Insurance Regulation Committee members and interested parties the regulatory actions of countries around the world in response to last year's financial downturn. The following questions were asked of this list serve:

1. Were there any changes made in your country to the regulatory capital and/or reserve requirements at year-end?
2. Did any countries that use market value (MV) reporting alter the MV calculation requirements or make other adjustments to capital requirements related to MV, fair value (FV) or FV-related calculations? What changes or additional reporting (if any) was requested?

The attached table summarizes responses, along with our account of what has been done in the United States for comparative purposes. We note that this is not an authoritative representation of regulatory bodies, but is based on self-reporting by actuaries practicing outside the United States. Lastly, we note that many EU countries made no adjustments to 2008 reporting requirements. Due to the expectation of a near-term implementation of Solvency II there has often been more interest within the EU in understanding the potential impact of the 2008 results under the proposed Solvency II regime than in changing current reporting requirements.

[1] The American Academy of Actuaries is a 16,000-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.

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	Financial Reporting	Capital Requirements
Australia+	No change	No change
Canada+	Modified reserve standard on fund guarantees[1]	Modified capital requirement standard on fund guarantees[1]
Denmark	Allowed a broader application of a liquidity risk premium[2]	Solvency reporting to the Danish FSA was increased from twice annually to quarterly
India	Information still pending	
Japan*	No change	No change
New Zealand*	No change	No change
Russia	Information still pending	
South Africa	No change	No change
Spain	No change	No change
Taiwan	No change	Modified RBC charge for unrealized equity losses[3]
United Kingdom*	Allowed a broader application of a liquidity risk premium[4]	Indirectly impacted due by any changes in reported reserves
United States	Several states allowed permitted practices to accelerate the use of already approved reserve requirements due for later implementation and/or to give slightly higher credit for a portion of a previously non-admitted deferred tax asset	Indirectly impacted by any changes in reported reserves

*Countries that use market value for financial reporting

+Countries that use some kind of modeled or fair value type of reporting

[1] There used to be a flat CTE for required capital and reserves on fund guarantees. It was replaced by non-level CTE that varies by the duration of the cash flow.

[2] The discount rate curve was altered in October 2008 to include a liquidity premium. This liquidity premium varies (along with the entire interest rate curve) from day to day. Thus, this change only caused an increase in discount rate curve used for the annual accounts at the end of 2008 of 6-7 basis points.

[3] The equity calculation now allows companies to partially recognize unrealized capital loss. Therefore the impact due to changes in the stock market is limited in the RBC calculation: only 30% of the reduction in stock value is recognized in the RBC formula. The result is a higher RBC ratio.

[4] For the UK, no formal changes were made, although the FSA did allow changes to the liquidity premium in setting life assurance reserves. As a result companies used a much lower risk deduction than might otherwise have been expected in arriving at the valuation discount rate for liabilities from the yield on assets held. There was also limited use of the IFRS “concessions” on market value which were announced in Q4 2008, which were capable of being read through into regulatory valuations.