



AMERICAN ACADEMY *of* ACTUARIES

Testimony of Jeffrey Schlinsog, MAAA, FSA
Chairperson, Financial Regulatory Reform Task Force
Risk Management and Financial Reporting Council
American Academy of Actuaries

Submitted for the Record

U.S. House Financial Services Subcommittee on Housing and Insurance
Hearing Entitled, “The Federal Insurance Office’s Report on Modernizing Insurance Regulation”

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Chairman Neugebauer, Ranking Member Capuano, and distinguished Members of the Subcommittee:

On behalf of the Financial Regulatory Reform Task Force of the American Academy of Actuaries¹ I appreciate the opportunity to provide this written testimony for your subcommittee’s February 4 hearing, “The Federal Insurance Office’s Report on Modernizing Insurance Regulation”.

Effective regulation of insurance relies on sound risk management practices operating in concert with effective functional regulation and should emphasize the preservation of insurers’ financial strength needed to fund insurance guarantees through reserve and capital requirements.

Effective and coordinated regulatory systems need to efficiently:

- Implement a process to identify emerging risks and how they might be measured.
- Assess the effectiveness of the regulatory process in mitigating systemic risk, including its need for increased resources, information, capabilities or new laws and regulations to respond to emerging trends.
- Coordinate monitoring of insurance companies who are members of systemically important financial groups.

With the relatively recent assumption by the Federal Reserve of an oversight role for insurance companies that have been designated as non-bank systemically important financial institutions

¹ The American Academy of Actuaries is 17,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policy-makers 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.

(SIFIs) there are new regulatory factors to be considered. This oversight should be tailored to the unique facts and circumstances specific to the insurance industry. The basis for additional prudential regulation related to SIFIs with insurance affiliates should be an understanding of the specific underlying risks and business model, rather than based on a standard formula broadly applied to companies across segments of the financial services industry.

Among the significant recommendations in the Federal Insurance Office (FIO) Report is that states move forward with implementing principle-based reserving within the framework of accounting and solvency requirements. The FIO report also recommends that state-based solvency oversight and capital adequacy regimes should converge toward best practices and uniform standards. Another significant area covered by the report suggests that states should identify, adopt, and implement best practices to mitigate losses from natural catastrophes.

Actuaries work in the aforementioned areas in federal, state and international policy. The actuarial profession today regularly provides input to insurance regulators and policymakers concerning the design and implementation of regulations dealing with insurer solvency. Actuaries are uniquely qualified to identify, evaluate, categorize and quantify insurance risks. This capability is essential to insurance modernization and its attendant needs to specify financial reporting requirements for insurance contracts and insurer's solvency capital requirements.

Expertise within these regulatory functions is needed to effectively oversee, track, and remain proficient with the complexities of evolving financial services risk. It is for all of these reasons that we strongly urge the subcommittee's examination of insurance modernization include the actuarial profession, and the reason for our submission of these remarks. As we have previously provided the FIO², we would welcome the opportunity to provide you with the objective, non-partisan perspective of the actuarial profession in navigating the complexities of current and future insurance regulation and oversight.

I thank you for the opportunity to submit this testimony and would welcome the opportunity to discuss with the subcommittee ways in which to provide the actuarial expertise needed to accomplish these regulatory reform modernization goals.

² http://www.actuary.org/pdf/finreport/Academy_FIO_response_111219.pdf