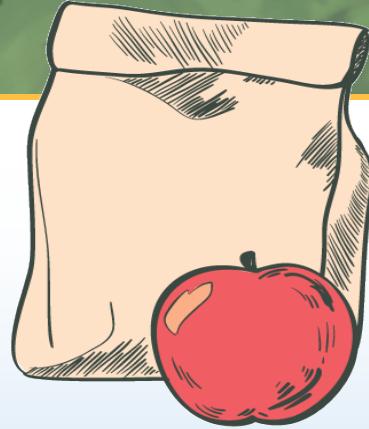


The Academy Capitol Forum: Meet the Experts



NAIC and Academy Update: Navigating the International and U.S. Regulatory Environment

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NAIC and Academy Update: Navigating the International and U.S. Regulatory Environment

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Navigating the Regulatory Environment

Overview of the Regulatory Environment

- International Activities
- U.S. Federal Activities
- U.S. State/NAIC Activities

Navigating the Regulatory Environment

International Activities

- G-20 Finance Ministers and Central Bank Governors
- Financial Stability Board (FSB)
- International Association of Insurance Supervisors (IAIS)

Navigating the Regulatory Environment

G-20 Finance Ministers and Central Bank Governors

- Policy coordination between its members to achieve global economic stability and sustainable growth
- Promote financial regulations that reduce risks and prevent future financial crises
- Modernize international financial architecture

Navigating the Regulatory Environment

G-20 Members

1. Argentina
2. Australia
3. Brazil
4. Canada
5. China
6. France
7. Germany
8. India
9. Indonesia
10. Italy
11. Japan
12. Mexico
13. Russia (2013 Chair)
14. Saudi Arabia
15. South Africa
16. Republic of Korea
17. Turkey
18. United Kingdom
19. United States
20. European Union

G-20 represents:

1. 90% of Global GDP
2. 80% of international global trade
3. 2/3 of world population

Navigating the Regulatory Environment

Financial Stability Board

- Assess vulnerabilities affecting global financial system and review regulatory, supervisory and related actions needed to address vulnerabilities
- Promote coordination and information exchange among authorities responsible for financial stability
- Monitor and advise on market developments and their implications for regulatory policy
- Advise on and monitor best practice in meeting regulatory standards
- Set guidelines for and support the establishment of supervisory colleges
- Support contingency planning for cross-border crisis management especially with respect to systemically important firms
- Collaborate with the IMF to conduct early warning exercises
- Undertake strategic reviews of the policy development work of the international standard setting bodies to ensure work is focused on gaps and priorities

Navigating the Regulatory Environment

Financial Stability Board Members

1. Argentina
 2. Australia
 3. Brazil
 4. Canada
 5. China
 6. France
 7. Germany
 8. India
 9. Indonesia
 10. Italy
 11. Japan
 12. Mexico
 13. Russia
 14. Saudi Arabia
 15. South Africa
 16. Republic of Korea
 17. Turkey
 18. United Kingdom (2013 Chair)
 19. United States
- Plus: 20. Hong Kong SAR
21. Netherlands
22. Singapore
23. Spain
24. Switzerland
- Plus 6 International Organizations:
1. Bank for International Settlements (BIS)
 2. European Central Bank (ECB)
 3. European Commission (EC)
 4. International Monetary Fund (IMF)
 5. World Bank
 6. Organization for Economic Cooperation and Development (OECD)
- Plus 4 International Standard-setting bodies and 2 Committees
1. Basel Committee on Banking Supervision (BCBS)
 2. International Association of Insurance Supervisors (IAIS)
 3. International Accounting Standards Board (IASB)
 4. International Organization of Securities Commissions (IOSCO)
 5. Committee on the Global Financial System (CGFS)
 6. Committee on Payment and Settlement Systems (CPSS)

US Reps: Board of Governors of the Federal Reserve System
SEC
Department of Treasury

Navigating the Regulatory Environment

International Association of Insurance Supervisors (IAIS)

- Promote effective and globally consistent supervision of the insurance industry
- Develop and maintain fair, safe, and stable insurance markets
- Protect and benefit policyholders
- Contribute to global financial stability
- International standard setting body
- Develop and assist in the implementation of principles and standards for the supervision of the insurance sector

Navigating the Regulatory Environment

IAIS Membership

- 200 jurisdictions within 140 countries
- 130 Observers representing international institutions, professional associations and insurance and reinsurance companies, consultants, and other professionals

International Activity Impact

- G-20 leaders ask FSB to develop a policy framework to address systemic and moral hazard risks associated with global systemically important financial institutions (G-SIFIs)
- November 2011 FSB publishes set of policy measures to address systemic and moral hazard risks associated with G-SIFIs
- November 2012 FSB announces global systemically important banks (G-SIBs) list of 28 banks
- July 18, 2013 IAIS published a methodology for identifying global systemically important insurers (G-SIIs) and announces G-SIIs list of 9 insurers

Navigating the Regulatory Environment

G-SIB list of 28 Banks

- | | | |
|-------------------------------|-----------------------------|------------------|
| • Citigroup (4) | • Bank of China (1) | |
| • Deutsche Bank (4) | • BBVA (1) | <u>HLA Class</u> |
| • HSBC (4) | • Groupe BPCE (1) | (5) = 3.5% |
| • JP Morgan Chase (4) | • Group Credit Agricole (1) | (4) = 2.5% |
| • Barclays (3) | • ING Bank (1) | (3) = 2.0% |
| • BNP Paribas (3) | • Mizuho FG (1) | (2) = 1.5% |
| • Bank of America (2) | • Nordea (1) | (1) = 1.0% |
| • Bank of New York Mellon (2) | • Santander (1) | |
| • Credit Suisse (2) | • Societe Generale (1) | |
| • Goldman Sachs (2) | • Standard Chartered (1) | |
| • Mitsubishi UFJFG (2) | • State Street (1) | |
| • Morgan Stanley (2) | • Sumitomo Mitsui FG (1) | |
| • Royal Bank of Scotland (2) | • Unicredit Group (1) | |
| • UBS (2) | • Wells Fargo (1) | |

Navigating the Regulatory Environment

G-SII list of 9 Insurers

- Allianz SE
- American International Group, Inc.
- Assicurazioni Generali S.P.A.
- Aviva PLC
- Axa S.A.
- MetLife, Inc.
- Ping An Insurance (Group) Company of China, Ltd.
- Prudential Financial, Inc.
- Prudential PLC

Navigating The Regulatory Environment

For Each G-SII

- Develop recovery and resolution planning requirements
 - Establishment of a Crisis Management Group (CMG)
 - Development of a recovery and resolution plan (RRP), including a liquidity risk management plan
 - Carrying out of resolvability assessments within the CMG
 - Development of institution-specific cross-border cooperation agreements among relevant resolution authorities
- Implement enhanced group-wide supervision, including
 - Group-wide supervisor to have direct powers over holding companies
 - Group-wide supervisor to oversee development and implementation of a Systemic Risk Management Plan
- Establish higher loss absorbency requirements (HLA)
 - In absence of global capital standard, build upon straightforward backstop capital requirements for all group activities including non-insurance subsidiaries

Navigating the Regulatory Environment

Insurance Core Principles

- ICP 1 Objectives, powers and responsibilities of the Supervisor
- ICP 2 Supervisor
- ICP 3 Information Exchange
- ICP 4 Licensing
Combating
- ICP 5 Suitability of Persons
- ICP 6 Changes in control and portfolio transfers
- ICP 7 Corporate Governance
- ICP 8 Risk Management and Internal Controls
Market
- ICP 9 Supervisory Review and Reporting
Measures
- ICP 11 Enforcement
- ICP 12 Winding-up and Exit from the Market
- ICP 13 Reinsurance and Other Forms of Risk Transfer
Management
- ICP 14 Valuation
- ICP 15 Investment
- ICP 16 Enterprise Risk Management for Solvency Purposes
- ICP 17 Capital Adequacy
- ICP 18 Intermediaries
- ICP 19 Conduct of Business
- ICP 20 Public Disclosure
- ICP 21 Countering Fraud in Insurance
- ICP 22 Anti-money Laundering and
the Financing of Terrorism
- ICP 23 Group-wide Supervision
- ICP 24 Macro-prudential Surveillance &
Analysis
- ICP 10 Preventive and Corrective
- ICP 25 Supervisory Cooperation and
Coordination
- ICP 26 Cross-border Cooperation and
Coordination on Crisis

Navigating the Regulatory Environment

International Activity Impact

- IAIS to develop and assist with the implementation of the *Common Framework for the Supervision of Internationally Active Insurance Groups* (ComFrame)
- ComFrame to follow and expand Insurance Core Principles (ICPs)
- ComFrame consists of 4 modules
 - Module 1 – Scope of Com-Frame
 - Module 2 – Requirements of the Internationally Active Insurance Groups (IAIG)
 - Module 3 – Requirements of the Supervisor
 - Module 4 – Implementation of Com-Frame
- IAIS to develop backstop capital requirements for GSIs by year end 2014
- IAIS to develop risk based global insurance capital standard by 2016

Navigating The Regulatory Environment



International Activity Impact

- Definition of IAIG

1. International Activity Criterion

Premiums written in 3 or more jurisdictions and

Premiums written outside home jurisdiction at least 10% of group's total premium

2. Size Criterion (based on rolling 3-year average)

Total assets of at least \$ 50 billion US or

Gross premiums written of at least \$ 10 billion US

Navigating the Regulatory Environment

U.S. Federal Activities

- Dodd-Frank Wall Street Reform and Consumer Protection Act
 - ❑ Signed into Law July 21, 2010
 - ❑ Creates Federal Insurance Office (FIO)
 - ❑ Creates Office of Financial Research (OFR)
 - ❑ Creates Consumer Financial Protection Bureau (CFPB)
 - ❑ Establishes Volcker Rule – Bars bank holding companies from engaging in proprietary trading and limits ability to sponsor and invest in hedge funds and private equity
 - ❑ Creates the Non-admitted and Reinsurance Reform Act (NRRA)

Navigating the Regulatory Environment

- Dodd-Frank Wall Street Reform and Consumer Protection Act
 - ❑ Creates inter-agency body Financial Stability Oversight Council(FSOC)
 - ❑ FSOC has authority to require nonbank financial companies to be supervised by the Board of Governors of the Federal Reserve System if Council determines that material financial distress at such a firm could pose a threat to the financial stability of the U.S.
 - ❑ Such supervision occurs if a nonbank financial company is designated as a SIFI

Navigating the Regulatory Environment

Identification of SIFIs by FSOC

- Designation process of non-bank financial company involves 3 stages:

- Stage 1 - If total consolidated assets of \$50 billion and meets or exceeds any one of the following, then moves to Stage 2:

Reference entity with respect to \$30 billion or more of credit default swaps

Has \$3.5 billion or more of derivative liabilities

Has \$20 billion or more of outstanding loans/bonds

Has a leverage ratio of 15 to 1 or greater

Has short term debt-to-assets ratio of 10% or more

Navigating the Regulatory Environment

Identification of SIFIs by FSOC

- Designation process of non-bank financial company involves 3 stages:
 - ❑ Stage 2 – More granular, institution-specific analysis of the individual company's risk profile involving quantitative analysis and qualitative judgment by the Council
 - ❑ Stage 2 framework divides statutory considerations for designation into 6 categories:
 - Size
 - Interconnectedness
 - Substitutability
 - Leverage
 - Liquidity risk and maturity mismatch
 - Existing regulatory scrutiny

Navigating the Regulatory Environment

Identification of SIFIs by FSOC

- Designation process of non-bank financial company involves 3 stages:

- Stage 3

Advance notice to company given if being considered as a Stage 3 determination

Company has opportunity to provide written materials as to why they should not be designated

If council proceeds to designate they must provide a second notice explaining the basis

Company can request an informal evidentiary hearing to contest the designation

Final determination requires 2/3 majority vote of council

Chairman of council must have voted in the affirmative

Navigating The Regulatory Environment

FSOC Members

- Voting (10)
 - Secretary of the Treasury (chairs the council)
 - Chairman of the Federal Reserve
 - Comptroller of the Currency
 - Director of the Consumer Financial Protection Bureau
 - Chairperson of the U.S. Securities and Exchange Commission
 - Chairperson of the Federal Deposit Insurance Corporation
 - Chairperson of the Commodity Futures Trading Commission
 - Director of the Federal Housing Finance Agency
 - Chairman of the National Credit Union Administration Board
 - Independent member appointed by the President

Navigating the Regulatory Environment

FSOC Members

- Non-voting (5)
 - Director of the Office of Financial Research
 - Director of the Federal Insurance Office
 - State insurance commissioner
 - State banking supervisor
 - State securities commissioner

U.S. Federal Activity Impact

- Final Designation of SIFIs:
 - American International Group, Inc. (AIG)
 - General Electric Capital Corporation, Inc. (GECC)
 - Prudential Financial, Inc. (Prudential)

Navigating the Regulatory Environment

	G-SII	SIFI	IAIG	IG/IC
Standard Setter	FSB	FSOC	IAIS	States/Country
Supervisor	Group Supervisor	Federal Reserve	Group Supervisor	State or Country of Domicile
Standards	R&R Plan EGWS SRMP HLA	Resolution Plan EGWS HLA if fail Stress Tests	Com-Frame Group Capital Group Supervision	State/Country Laws & Regs
Legal Authority	?	Dodd-Frank	?	States/Country
Examples				
Prudential Fin, Inc.	✓	✓	✓	✓
AIG, Inc.	✓	✓	✓	✓

R&R Plan = Recovery and Resolution Plan
 EGWS = Enhanced Group Wide Supervision
 SRMP = Systemic Risk Management Plan
 HLA = Higher Loss Absorbency

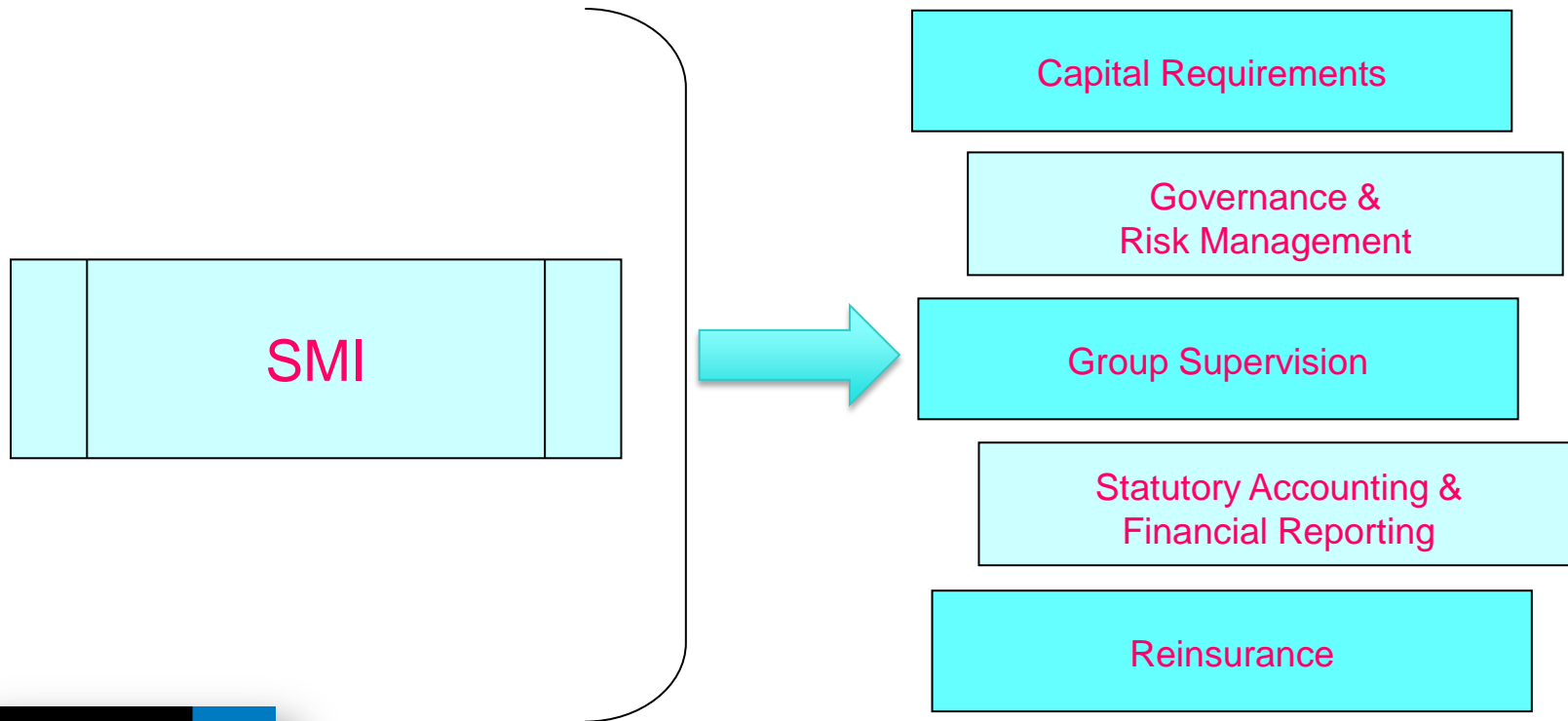
Issues Surrounding G-SIIs & IAIGs

- Lack of legal authority of FSB and IAIS
- Lack of fungible group capital
- Lack of common global financial reporting & accounting standard
 - IASB/FASB lack of convergence
 - IFRS not a global standard

Navigating the Regulatory Environment

U.S. State/NAIC Activities

- Solvency Modernization Initiative



Navigating the Regulatory Environment

U.S. State/NAIC Activity Impact

- Principle-Based Valuation Implementation
 - Amended Standard Valuation Law (Model Law 820)
 - Amended Non-forfeiture Law (Model Law 808)
 - Model Law 820 introduced in 10 states and adopted in 7 states as of 2013
 - Model Law 808 adopted in 8 states as of 2013
- Own Risk Solvency Assessment Model Law 505
 - Model Law 505 introduced in 12 states and adopted in 5 states as of 2013

Navigating the Regulatory Environment

U.S. State/NAIC Activity Impact

- Credit for Reinsurance Model Law and Regulation Amendments
 - Model Law 785 adopted in 18 states
 - Model Regulation 786 adopted in 8 states
 - Both Models introduced in 6 other states but failed adoption
- Insurance Holding Company System Model Law and Regulation Amendments
 - Model Law 440 adopted in 23 states and failed in 9 states
 - Model Regulation 450 adopted in 7 states and failed in 2 states
- Captive Reinsurance proposals under development

Academy Activities

Comment Letter Audiences

- IAIS
- IAA
- FSB
- NAIC
- FIO
- FSOC
- Department of Treasury
- Federal Reserve



General Comments

- Insurance companies navigated the financial crisis well
- Insurance liabilities are different from bank liabilities
- Regulatory standards established for banks may not be appropriate for insurance companies
- There is no bank role comparable to that of the appointed actuary of an insurance company
- Enhanced supervision standards should leverage existing reserving, capital, and resolution regimes
- All those involved in the regulatory process must coordinate their oversight and regulation of the financial sector to accomplish the stated goals



Recent Academy Comment Letters

- Comments to FSB on Application of the Key Attributes of Effective Resolution Regimes to Non-Bank Financial Institutions
- Comments to FSB on Principles for an Effective Risk Appetite Framework
- Comments to IAIS on Policy Measures for Global Systemically Important Insurers



Questions?

