New insurance solvency and capital standards intended to help prevent insurers from becoming too leveraged and risking insolvency are being developed by U.S. regulators and international standard setters. These proposed standards could have a profound effect on domestic and international insurers, which in turn could affect the price and availability of insurance products for businesses and consumers.

The National Association of Insurance Commissioners (NAIC) and the Federal Reserve Board (Fed) are developing new capital standards proposals for U.S. insurers. The International Association of Insurance Supervisors (IAIS) is developing solvency and capital standards for large multinational insurers, although its decisions would not be legally binding on U.S. companies.

For all domestic and international policymakers developing capital standards, the American Academy of Actuaries’ Solvency Committee has developed a comprehensive set of principles to guide them. These include:

- Creating a group-solvency regime with clear regulatory purposes and goals.
- Establishing metrics for standards that are useful to all relevant parties.
- Promoting responsible risk management and encouraging risk-based regulation.
- Taking into consideration local jurisdictional environments.
- Making solvency standards compatible across accounting regimes.
- Minimizing pro-cyclical volatility.
- Presenting a realistic view of an insurance group’s financial position and exposures to risk.
- Using internally consistent assumptions in capital or solvency models.
- Focusing on a total asset requirement to ensure insurers can meet obligations and capital is accessible in times of stress.
- Demonstrating that capital is accessible during times of stress.

**Regulatory Tracks**

Because there are several organizations and government entities individually developing new insurance capital standards, various proposals may not be reconcilable, which could create challenges for insurers to comply with multiple standards.
Developed a basic capital requirement (BCR) framework for
global systemically important insurers (G-SIIs) that measures their
assets, and life and non-life insurance activities. The BCR that was
finalized in 2014 will be privately reported by G-SIIs to groupwide
supervisors in 2015.

Creating an insurance capital standard (ICS) for G-SIIs and
internationally active insurance groups (IAIGs). The ICS framework
is expected to be completed in 2016, used for confidential reporting
in 2017, and implemented in 2019. It is not intended to supplant
the laws, regulations, or capital standards of local jurisdictions. The
ICS is expected to replace the BCR and be further refined after its
completion.

- The draft ICS focuses on the overall solvency of a group and is
  not intended as an accounting standard or as a tool to measure or
  forecast earnings, unlike generally accepted accounting principles
  (GAAP) or the International Financial Reporting Standards
  (IFRS). As a result, it approaches valuation differently than the
  proposals being considered by the International Accounting
  Standards Board (IASB) for IFRS.
  - The IAIS is examining possible approaches for determining
    a comparable margin over current estimate (MOCE) to be
    included in the liability under ICS, such as the transfer value
    or prudence approaches.
  - The MOCE transfer value approach represents the additional
    compensation that a market participant requires to assume
    obligations.
  - The MOCE prudence concept is an adjustment to the liability
    value such that an entity can continue operating at a particular
    confidence interval or a margin that does not allow profits to
    be recognized at issue.
  - The IASB divides its risk margin into two pieces: the risk
    adjustment and the customer service margin, which is applica-
    ble only for long-duration business and designed to eliminate
    any gain at issue.

Developing the higher loss absorbency (HLA) rule, which could
require G-SIIs to hold up to 60 percent more capital than the BCR
because of their systemic importance in the international financial
system.

U.S. Federal Reserve Board

Developing a new capital standard for domestic systemically
important financial institutions (SIFIs). The Fed was given this
authority by the Dodd-Frank Act.\(^1\) The Insurance Capital Standards
Clarification Act,\(^2\) signed into law in December 2014, clarifies
the Fed is not required to apply bank-based capital standards to
insurers. Once finalized, the Fed intends to request public comments
on its proposal.

NAIC

Developing a proposal for group solvency and capital standards
for U.S.-based insurance groups. The NAIC is examining risk-
based capital plus, cash-flow, and hybrid approaches for its capital
standards proposal.

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1 Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law No: 111-203; 07/21/2010).
2 Public Law No: 113-279 (12/18/2014).

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‘ALPHABET SOUP’

Experts in the area of insurance capital standards use
numerous acronyms to refer to groups, designations,
and requirements. The most-used acronyms include:

- **BCR** – basic capital requirement
  Framework created by the IAIS that measures a G-SIIs
  assets, and life and non-life insurance activities.

- **FSB** – Financial Stability Board
  Organization established by the G-20 after the 2008
  financial crisis to address vulnerabilities in global financial
  system.

- **G-SII** – global systemically important insurer
  Designation by the FSB of a multinational insurance group
  that could harm the global financial system if it were
to become insolvent and fail. U.S. G-SIIs are American
  International Group Inc., MetLife Inc., and Prudential
  Financial Inc.

- **HLA** – higher loss absorbency
  Additional capital requirement being developed by the
  IAIS for G-SIIs to reflect “their systemic importance in the
  international financial system.”

- **IAIG** – internationally active insurance group
  Large international group with over $50 billion in assets,
  writing premiums in at least three jurisdictions, a
  10 percent international premium threshold, and includes
  at least one sizeable insurance entity.

- **IAIS** – International Association of Insurance Supervisors
  International standards-setting organization tasked by
  the FSB to promote effective and globally consistent
  supervision of the insurance industry to maintain global
  financial stability.

- **ICS** – insurance capital standard
  A solvency framework under development at the IAIS that
  would apply minimum capital standards to all IAIGs.

- **MOCE** – margin over current estimate
  The difference between the valuation of technical
  provisions (as identified by the ICS) and the current
  estimate. The MOCE “reflects the inherent uncertainty
  related to all relevant future cash flows that arise in
  fulfilling insurance obligations over the full time horizon
  thereof.” The IAIS is determining if this specific risk margin
  should be incorporated into the ICS valuation.

- **NAIC** – National Association of Insurance
  Commissioners
  U.S. standard-setting and regulatory support group
  composed of all 56 state and territorial insurance
  regulators.

- **SIFI** – systemically important financial institution
  Designation by the Financial Stability Oversight Council
  (FSOC) for U.S. firms whose collapse would pose a serious
  risk to the economy.