

# Recent developments in the IAIS Solvency and Actuarial Issues Subcommittee



**20 April 2009**

**Rob Curtis - Chair, Solvency & Actuarial Issues Subcommittee**



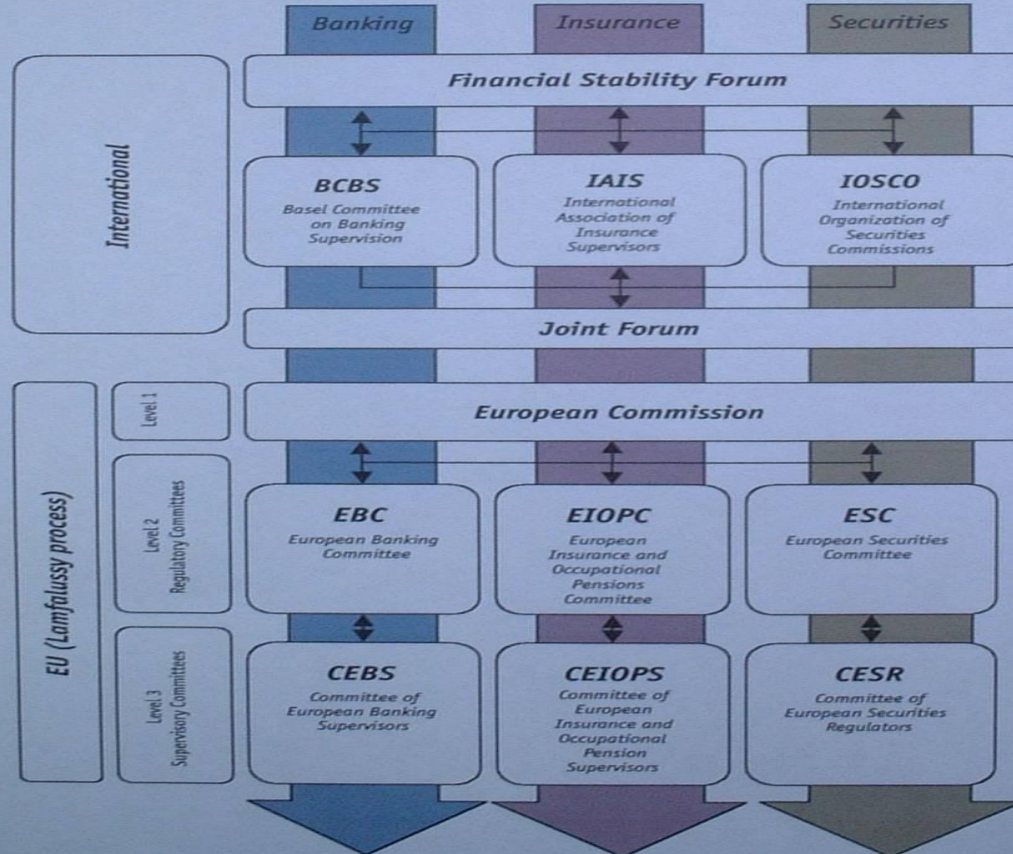
# Presentation Overview

- Objectives and Structure of IAIS
- International Solvency Requirements within the IAIS Framework for Supervision
- Recently adopted standards and guidance
  - Structure of regulatory capital requirements
  - Use of internal models for regulatory capital purposes
  - Enterprise risk management for capital adequacy and solvency purposes
- Current work in progress
  - Structure of capital resources for solvency purposes
  - Valuation of assets and liabilities for solvency purposes
  - Investments
- Future work
  - Extension of solo level standards and guidance to groups
  - Opt-in for Internationally Active Insurance Groups (IAIGs)



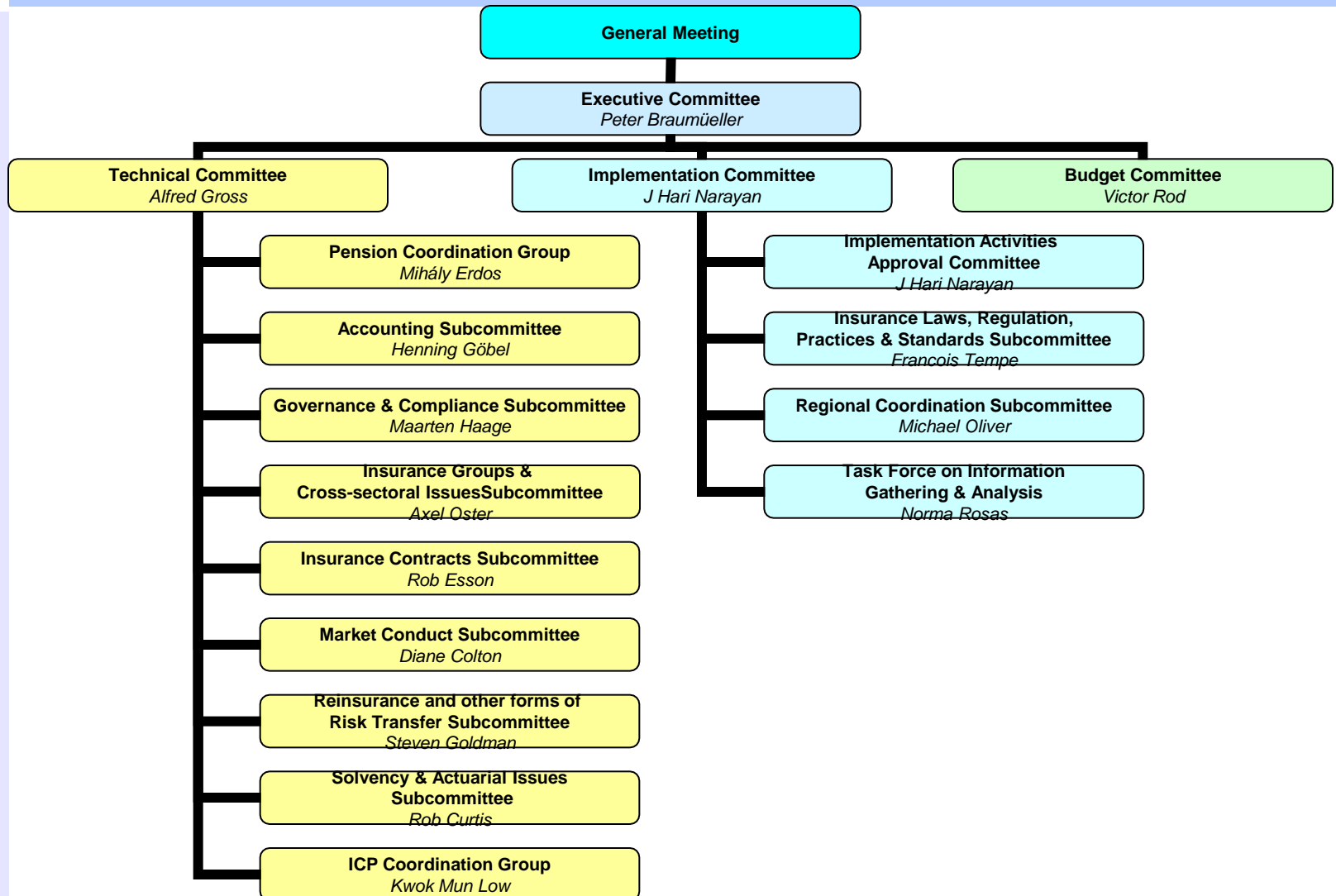
## EU & Global Committees

A simplified representation of the international regulatory architecture for financial services regulation is given in the diagram below; this does not aim to capture the full range of committees that exist globally or in the EU; nor does it show the legislative process within the EU. There are cross-cutting and sectoral (i.e. for banking, insurance and securities issues) arrangements at both an international and an EU level.





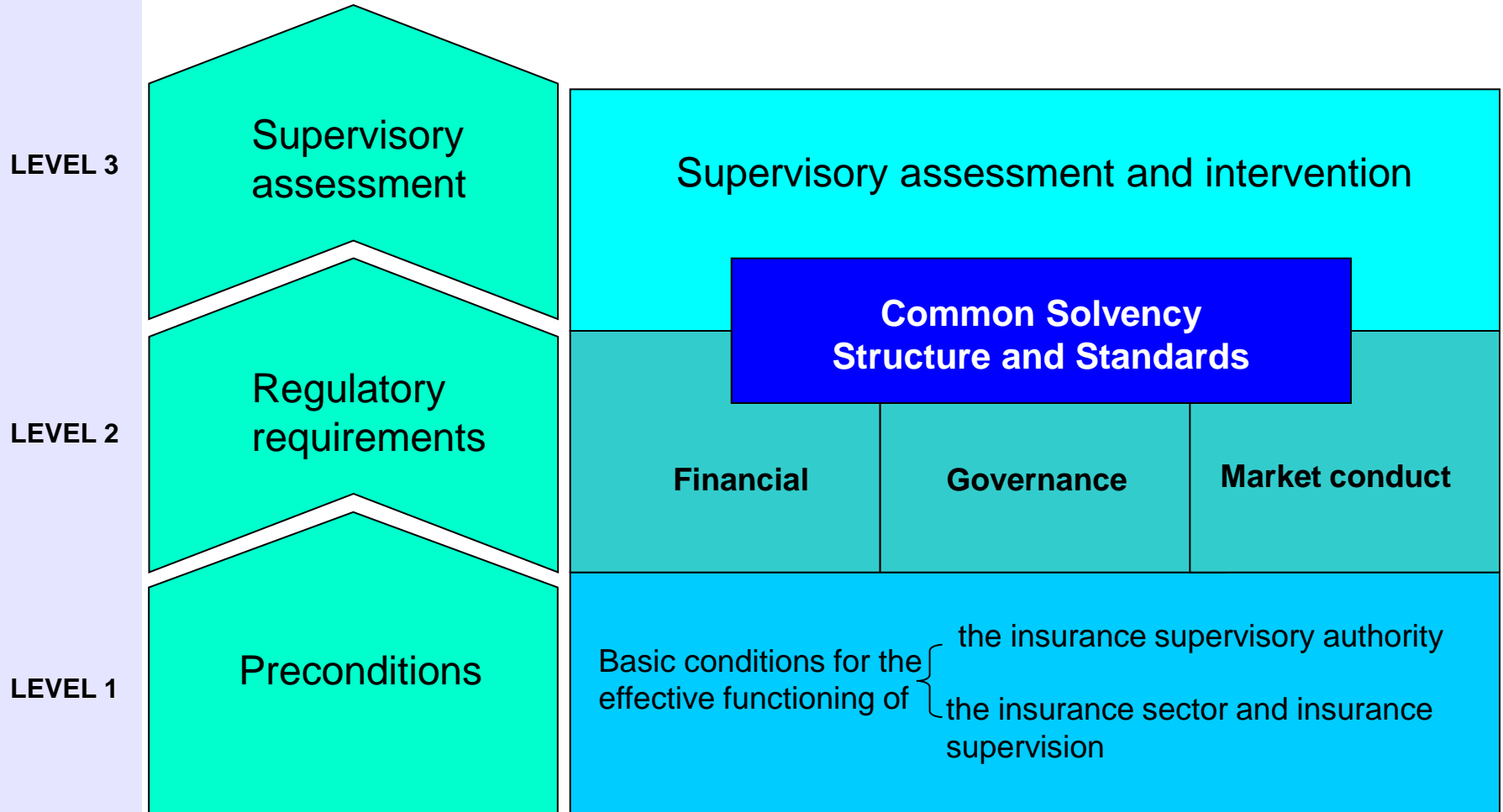
# Organisation structure of the IAIS



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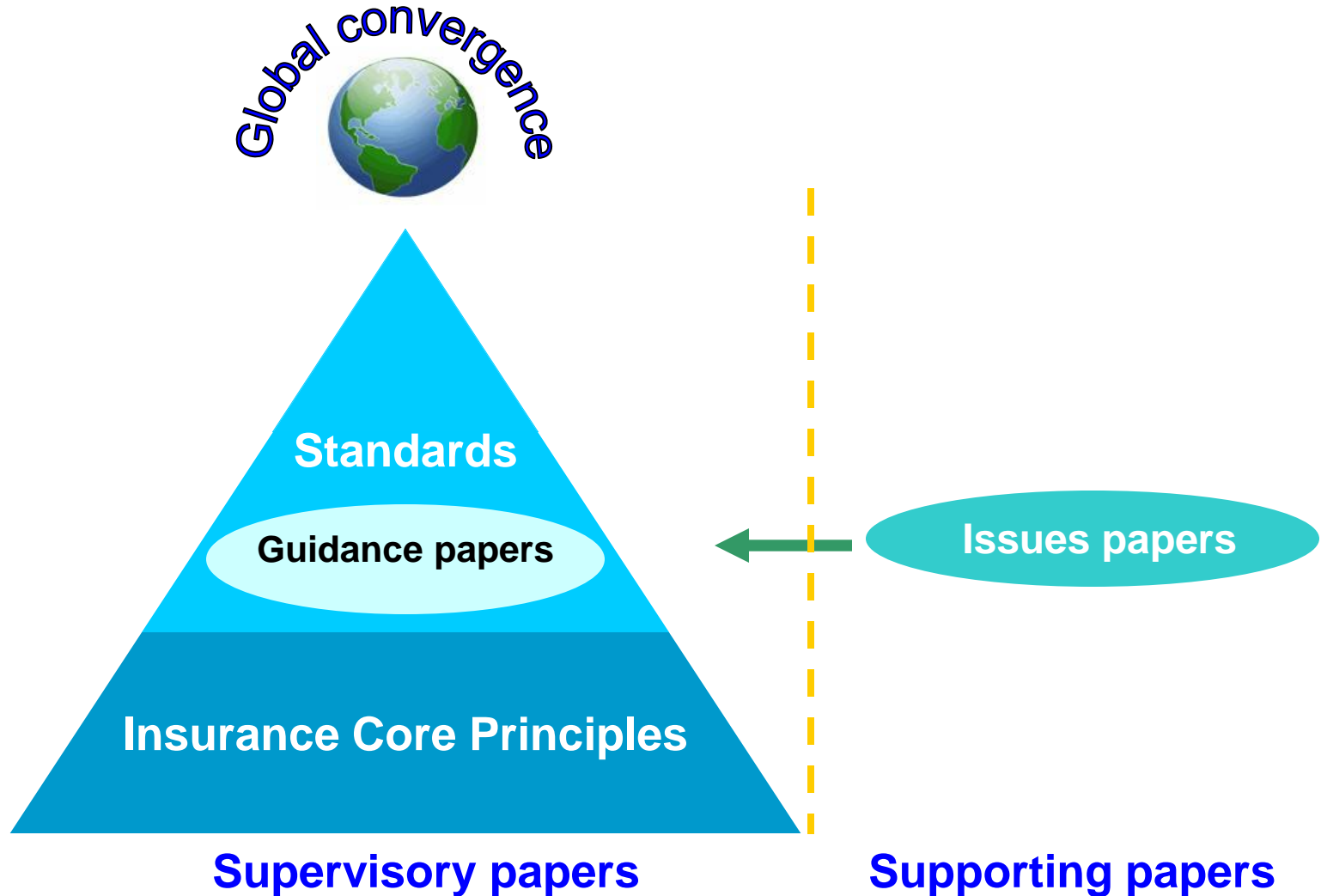
# Solvency requirements are integral in the Framework for insurance supervision



## *Framework for Insurance Supervision*



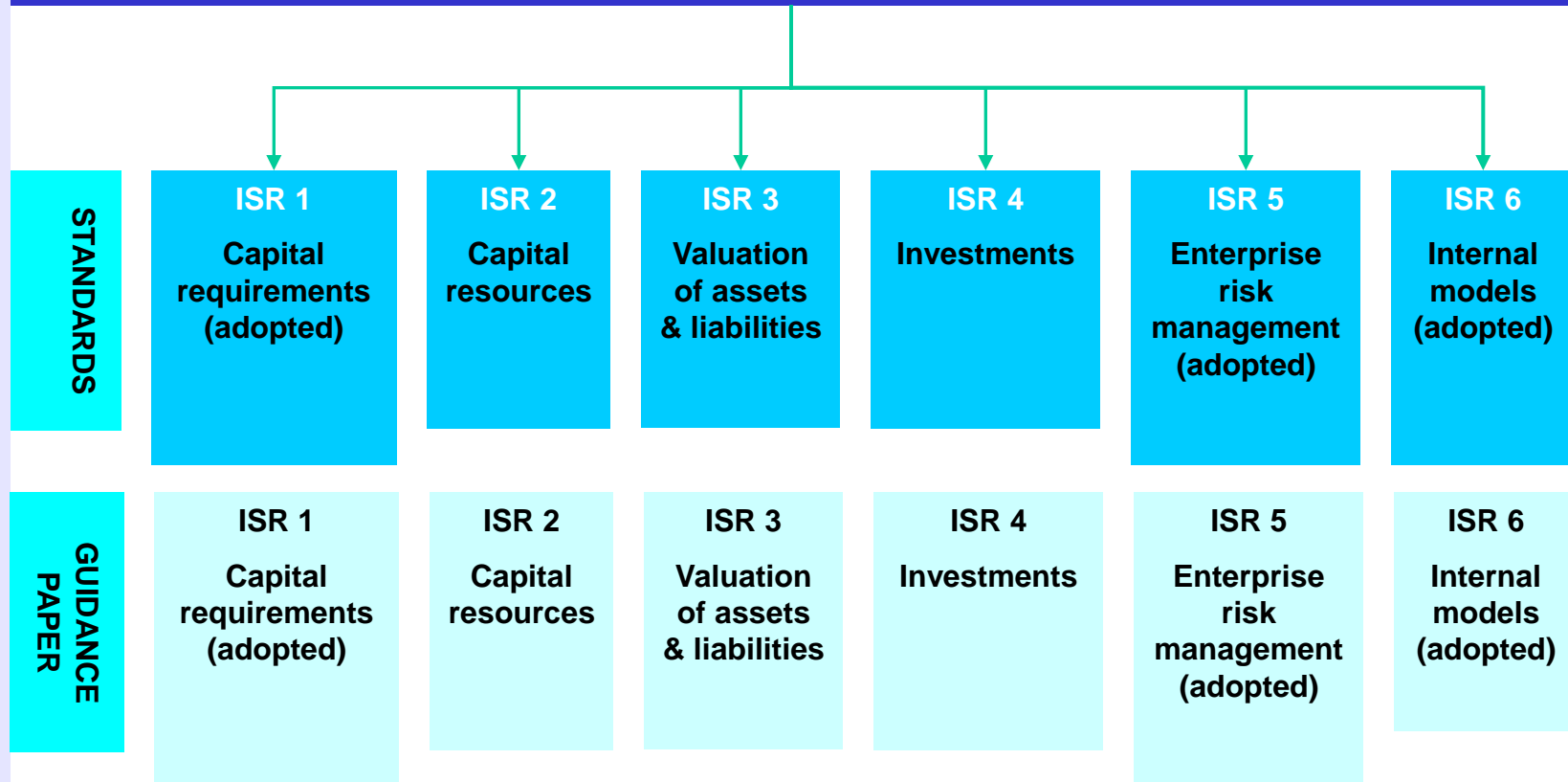
# Standard setting activities aim at global convergence of supervisory practices





# ISRs: a comprehensive and cohesive set of solvency assessment documentation

## International Solvency Requirements (ISRs)





# Standard on the structure of regulatory capital requirements (1)

## Key Requirements

- *A total balance sheet should be used to recognise interdependence between assets, liabilities, regulatory capital requirements and capital resources.*
- *The solvency regime should include a range of solvency control levels which should be coherent with the associated corrective actions.*
- *Prescribed capital requirement (PCR) is the solvency control level above which no action to increase capital or reduce risk will be required. PCR should exceed technical provisions and other liabilities at a specified safety level over a defined time horizon.*





# Standard on the structure of regulatory capital requirements (2)

## Key Requirements

- *Minimum capital requirement (MCR) is the solvency control level at which the strongest action is invoked if no further capital is made available. The MCR should have a minimum bound below which no insurer is regarded to be viable.*
- *The solvency regime should allow a set of standardised and if appropriate other approved more tailored approaches such as the use of partial or full internal models.*



# Standard on the Use of Internal Models for regulatory capital purposes– 3 key requirements

## Statistical quality test

- ✓ Appropriateness of quantitative methodology- model inputs, parameters, assumptions
- ✓ Model addresses overall risk position
- ✓ Data accurate and complete

## Calibration test

- ✓ Demonstrate that the regulatory capital computed using the model satisfies the modelling criteria specified by the regime

## Use test

- ✓ The internal model is fully embedded into the risk strategy and operational processes
- ✓ Board and management have control over construction and use of the internal model
- ✓ Adequate governance and internal controls (documentation and disclosure)



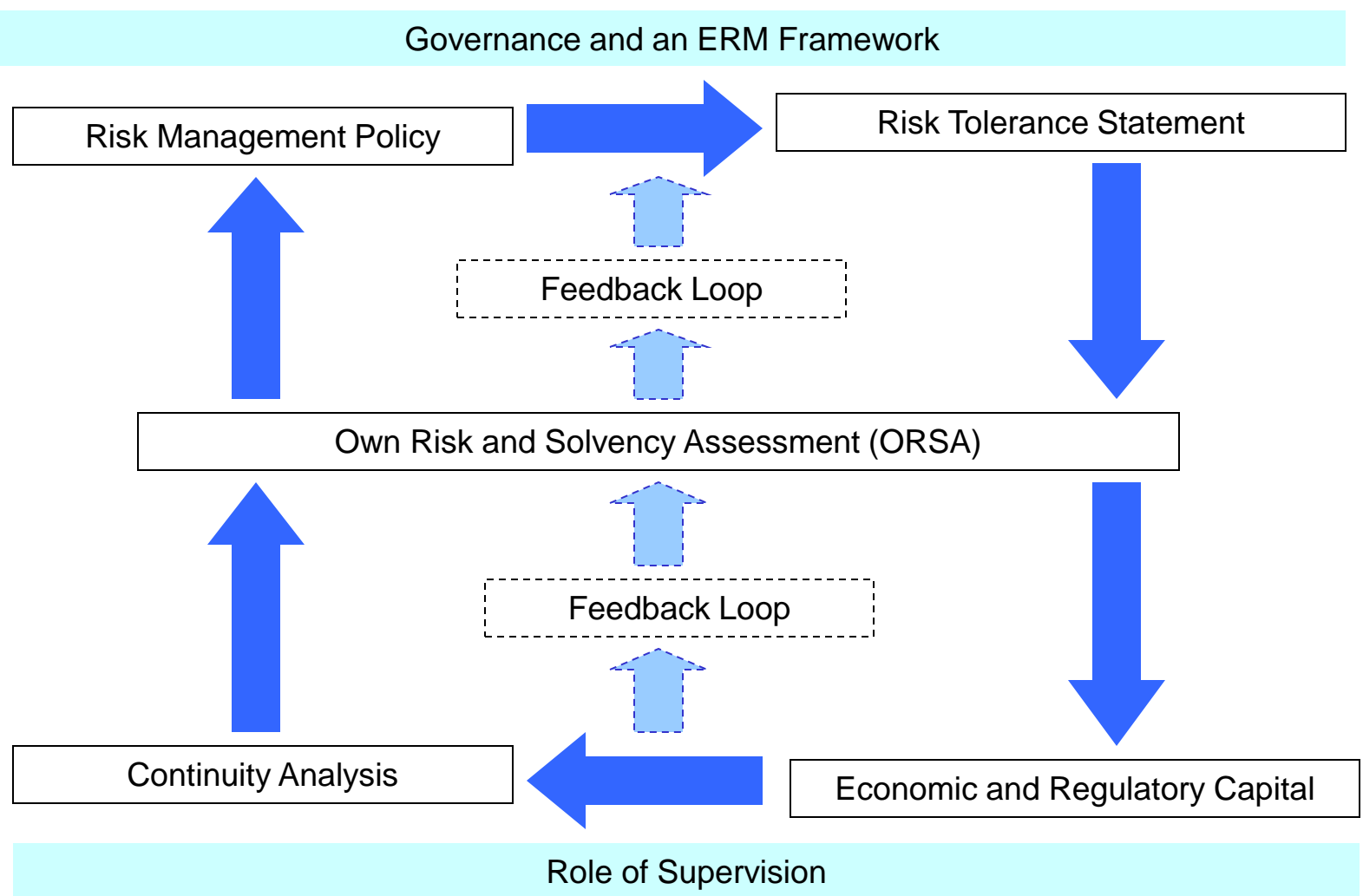
# Standard on ERM for capital adequacy and solvency purposes:

## Key Requirements

- *the overall governance structure should include a proportionate ERM framework integrated with business operations and culture*
- *Addresses all reasonably foreseeable and relevant material risks*
- *Led and overseen by board and senior management*
- *Supported by accurate and appropriately detailed documentation*
- *risk management policy, risk tolerance statement, and own risk and solvency assessment (ORSA) including continuity analysis (see diagram)*

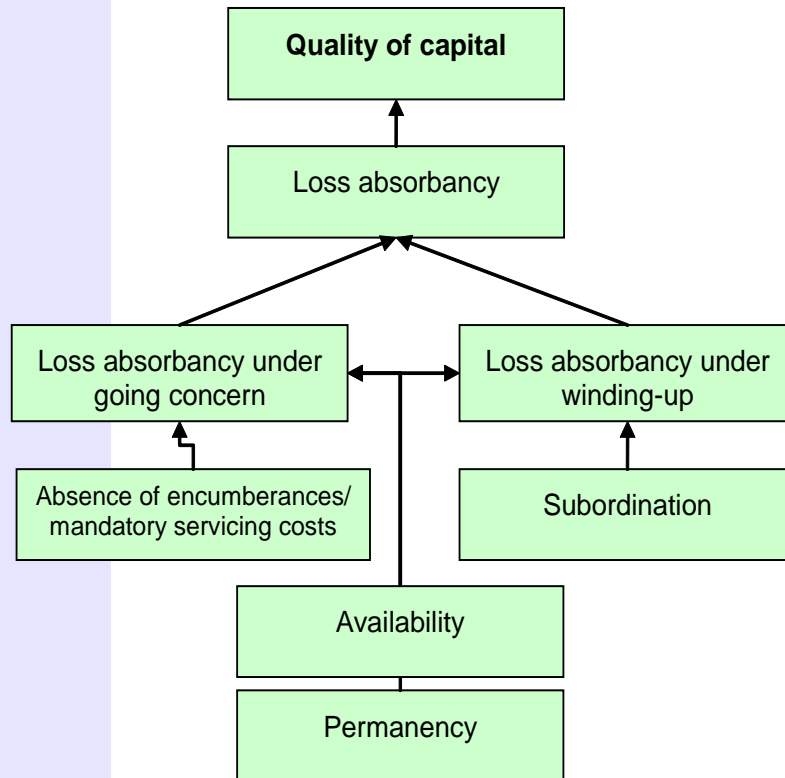


# Key features of an ERM framework





# Draft standard and guidance on capital resources for solvency purposes



- Due for adoption in October 2009.
- Proposed key requirements:
  - Capital resources should exceed capital requirements.
  - Capital resources should be defined and should be consistent with total balance sheet approach with due regard to quality of capital resources.
  - Solvency regime should establish criteria for assessing suitability of capital resources – due regard to loss absorbancy on going-concern and wind-up basis.

*Note : Diagram is part of draft paper under consultation – subject to changes.*



# Draft standard and guidance on valuation of assets and liabilities for solvency purposes

- Joint working group between Solvency & Actuarial Issues Subcommittee and Insurance Contracts Subcommittee developing draft paper.
- Work will take into account developments in the IASB Phase II Insurance Contracts project.
- The established views of the IAIS are articulated in a Positions paper, for example:
  - Market consistent valuation
  - Similar risks should result in similar values of technical provision
  - Technical provision comprises of current estimate and margin over current estimate
- Due for adoption in October 2010.



# Draft standard and guidance on investments

- Review of current standard on ALM and guidance on investment risk management.
- Adoption delayed to October 2010 to incorporate observations from the financial crisis such as:
  - Liquidity risk, concentration risk, SPVs, structured products.
- Some concepts currently being considered:
  - Regulatory investment requirements to ensure sufficiency, liquidity and security of investments
  - Role of ALM under the broader ERM and IM frameworks
  - Diversification of investment portfolios
  - Risk measurement
  - Role of stress/scenario testing



# Issues paper on group-wide solvency assessment and supervision

- Paper does not take any position but aims at considers issues and challenges in establishing a group-wide solvency assessment framework.
- The paper describes:
  - How solo supervision needs to be enhanced to consider group effects
  - Possible approaches to group-wide supervision and solvency assessment
  - Challenges and potential ways to address them
- Paper endorsed by the Technical Committee at the March 2009 triannual meetings – basis for extension of solo to groups.





# Further Work

- Extend the solo level ISRs to groups
- Opt-in for Internationally Active Insurance Groups
  - common international capital and solvency standards
  - task-force to address this new focus for IAIS



Thank you for your attention.  
Any questions/ comments?



*Rob Curtis – Chair, Solvency & Actuarial  
Issues Subcommittee*

**Note :** *The adopted standards and guidance papers can be  
accessed at [www.iaisweb.org](http://www.iaisweb.org)*