AMERICAN ACADEMY of ACTUARIES

January 29, 2009

Group Solvency Issues (EX) Working Group
Solvency Modernization Initiatives (EX) Task Force
National Association of Insurance Commissioners (NAIC)
Via email: dvacca@naic.org

On behalf of the Risk Management and Solvency Committee of the American Academy of Actuaries,[1] I appreciate this opportunity to provide you with brief comments on sections of the document, *"Windows and Walls" Approach for Regulation of United States Based Insurers Operating within Corporate Groups.*

Communications Between Regulators
The terms "asked and answered" and "proactive confidential communication" need to be clearly defined.

Supervisory Colleges
No comments

Access to and Collection of Information
Holding companies might not be insurance holding companies. Sister and parent companies can be a variety of non-insurance entities, overseas companies and /or non-regulated firms. The guidance should anticipate all these situations.

Regarding the information mentioned:

1. Form B only deals with insurance holding companies and does not address the ultimate parent company. Does the NAIC intend to address only insurance holding companies? How does the NAIC plan to address non-insurance holding companies?

2. Public GAAP financial statements of insurance operations do not exist if:
   i. the insurance holding company is itself owned by another company, with a consolidated GAAP report, or
   ii. the company is privately held.

   The quality and transparency of public GAAP statements varies greatly by country. Financial statements (10-K, 10-Q) of SEC registrants contain disclosures and management

[1]The American Academy of Actuaries ("Academy") 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

discussions that are generally informative and transparent. This is not true where the ultimate parent is not held accountable for the transparency of its shareholder (and other public GAAP) reports. The level of disclosures in SEC reporting does vary significantly between filers.

U.S-domiciled insurers owned by foreign companies often compile the owning company's local GAAP and not U.S. GAAP.

Enforcement Measures
No comments.

Group Capital Assessment

1. Does the NAIC only suggest a group capital requirement for insurance holding companies, but not the ultimate parent? Is it just a monitoring tool (similar to FAST ratios), or are certain requirements intended (e.g., RBC Model Act)? We suggest that a monitoring tool may be more realistic for now, due to difficulties in incorporating risk capital requirements for non-insurance companies (e.g., inability to combine results or metrics not existing for some entities).

2. What would a group capital requirement independent of the capital requirement of each structured part tell us about the potential impact on an individual legal entity in a group? It would be helpful for actuaries to provide explanations of what the numbers might mean and how they could be used in solvency regulation.

3. What are the capital transfer restrictions across different jurisdictions? How would capital numbers from different jurisdictions be evaluated and interpreted? For example, consider a hypothetical situation whether (and to what extent) funds can be transferred from one legal entity to a problematic entity in the group and the subsequent impact of solvency for the legal entity. If the legal entity is "walled off" from the rest of the group, then the group capital requirement might have less meaning. Would U.S.-based regulators be comfortable in relying on resources outside of its jurisdiction to alleviate capital shortages? And vice versa? Does the walling concept exist in all foreign jurisdictions?

4. Can "reputational contagion" risk be quantified for a group capital requirement? If the aim of a group capital requirement is to avoid reputation contagion, can such a determination be quantified?

5. Stress testing across a group would provide valuable insights to (its?) capital adequacy.

Accreditation
No comments.

We appreciate the opportunity to provide comments as the NAIC addresses this important topic. Please address communications to Tina Getachew, Senior Risk Management and Financial Reporting Policy Analyst (Getachew@actuary.org) to discuss any of the above items.

Sincerely,

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