



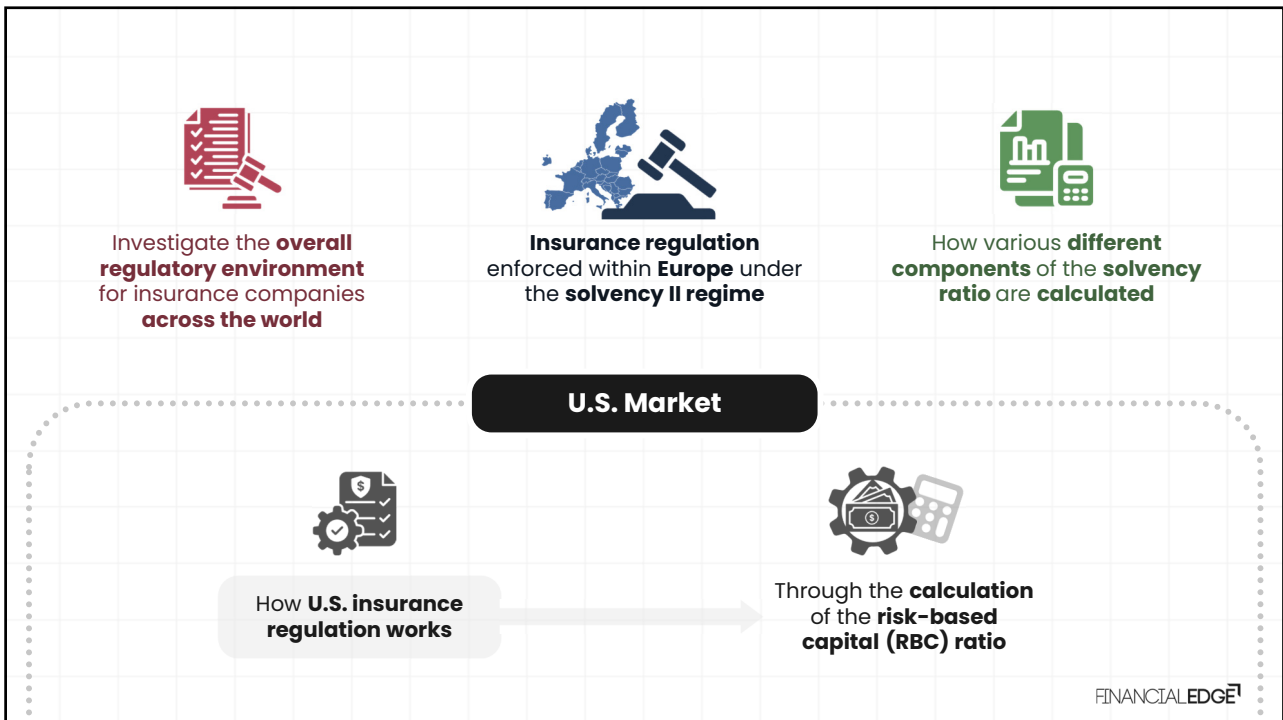
Insurance Regulation



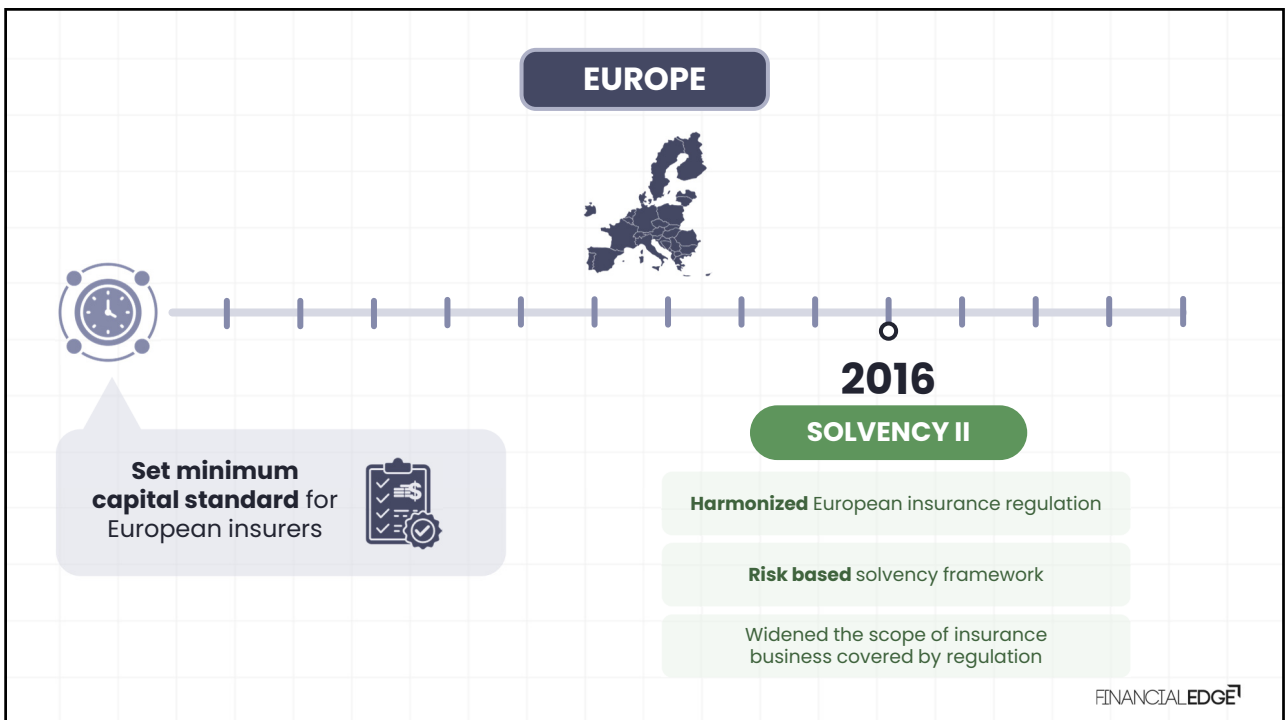
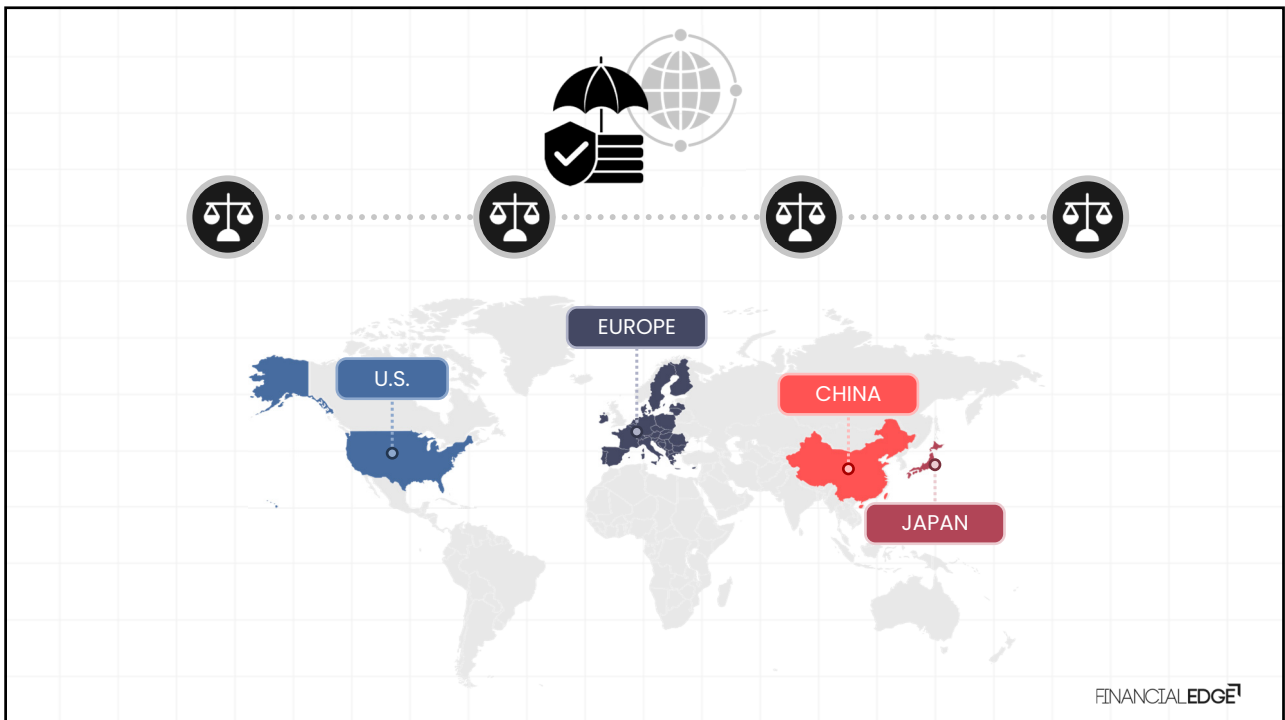
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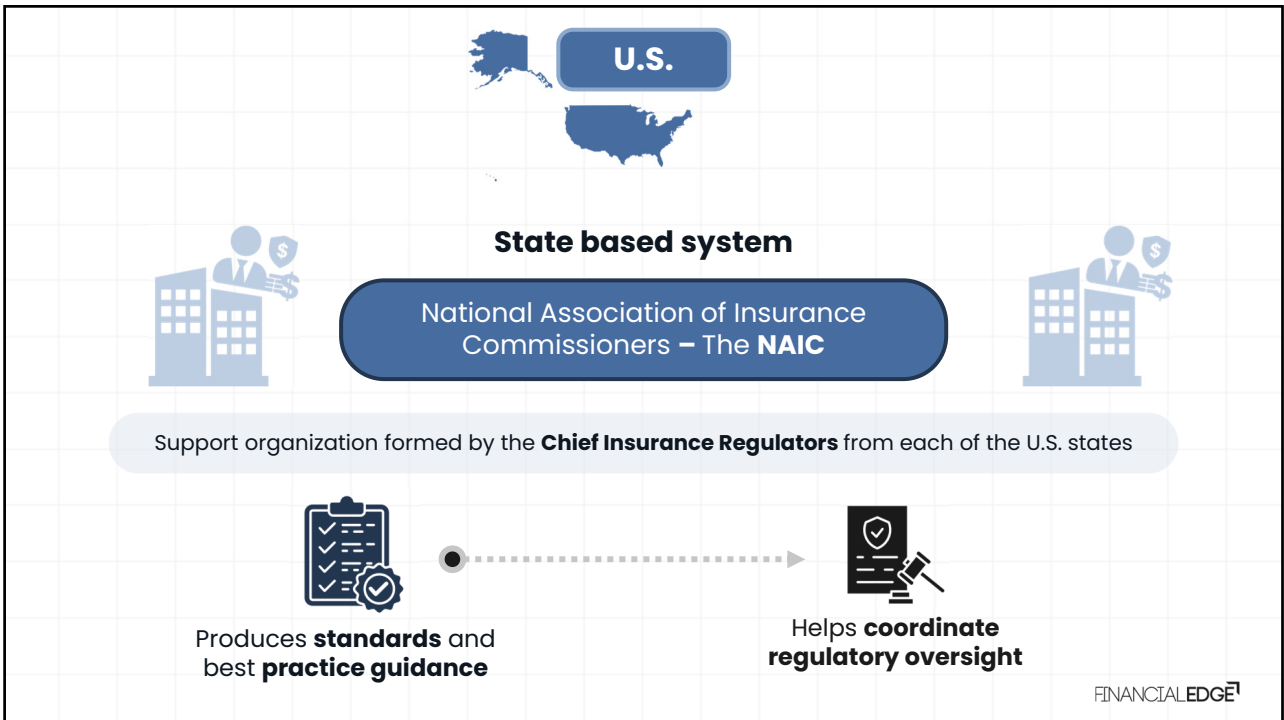
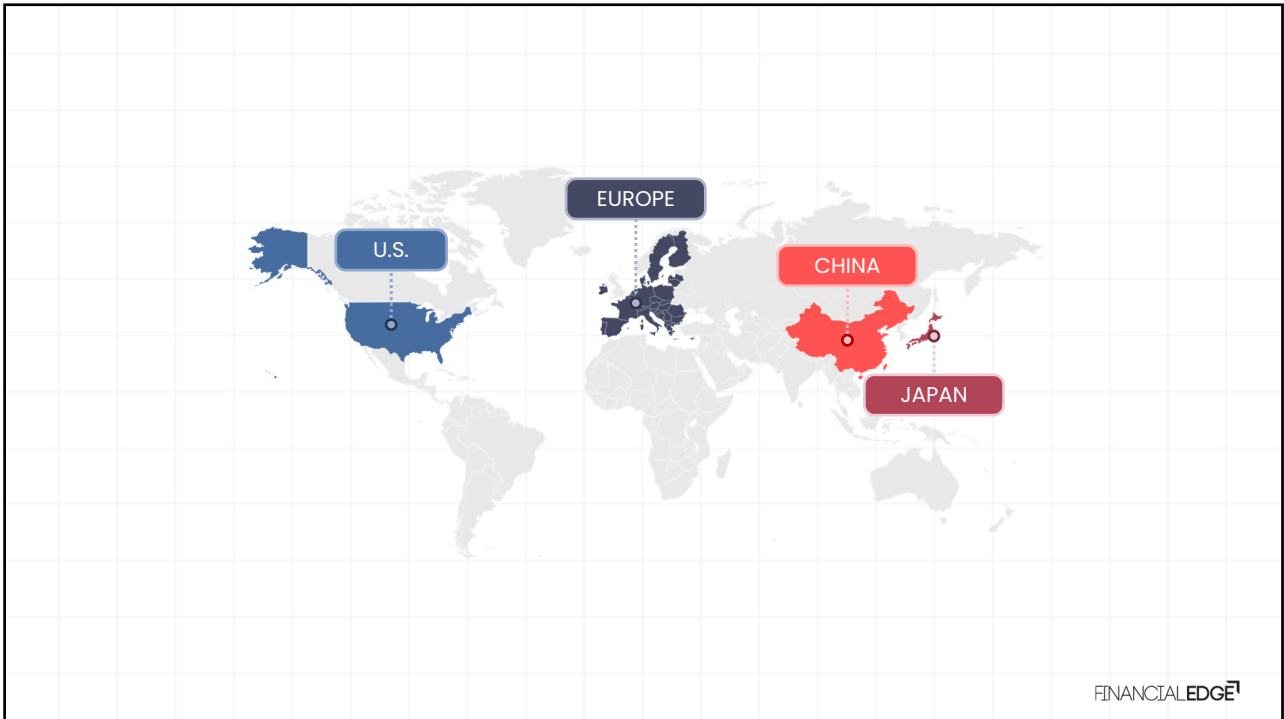
Course Overview

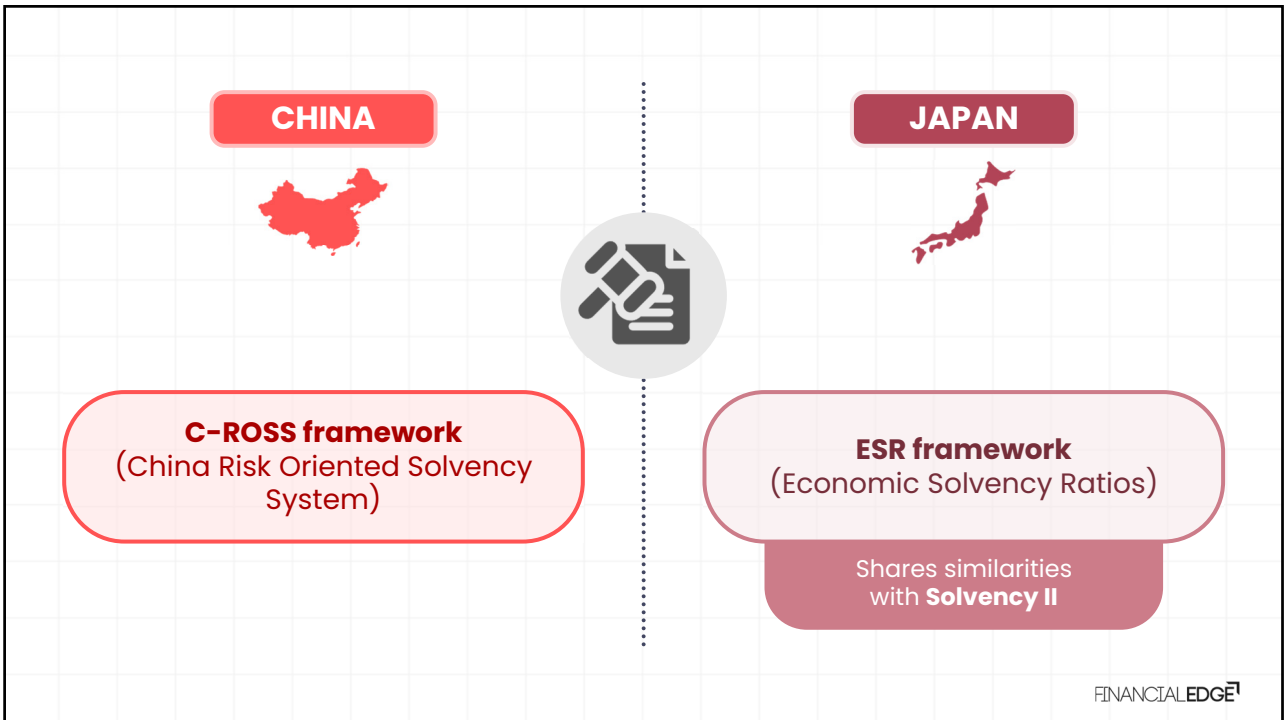
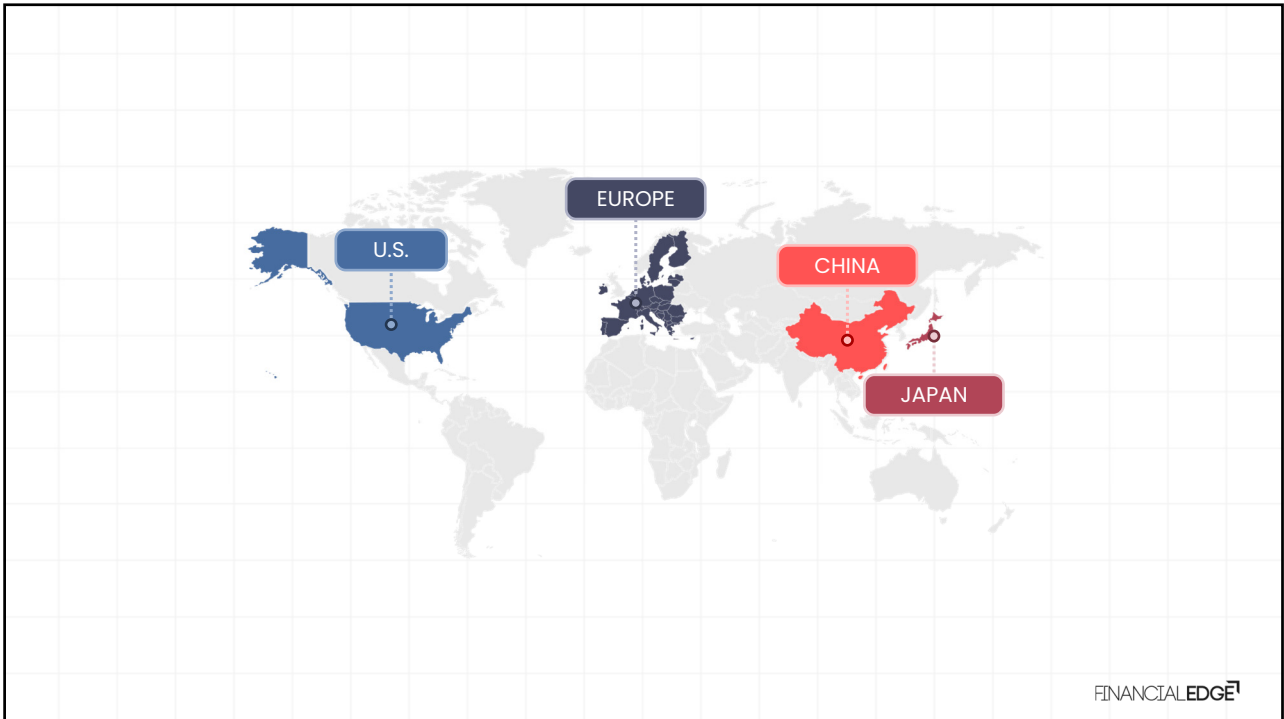
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Regulatory Landscape







HARMONIZATION OF GLOBAL STANDARDS



The International Association of Insurance Supervisors (IAIS)

Common Framework (ComFrame)

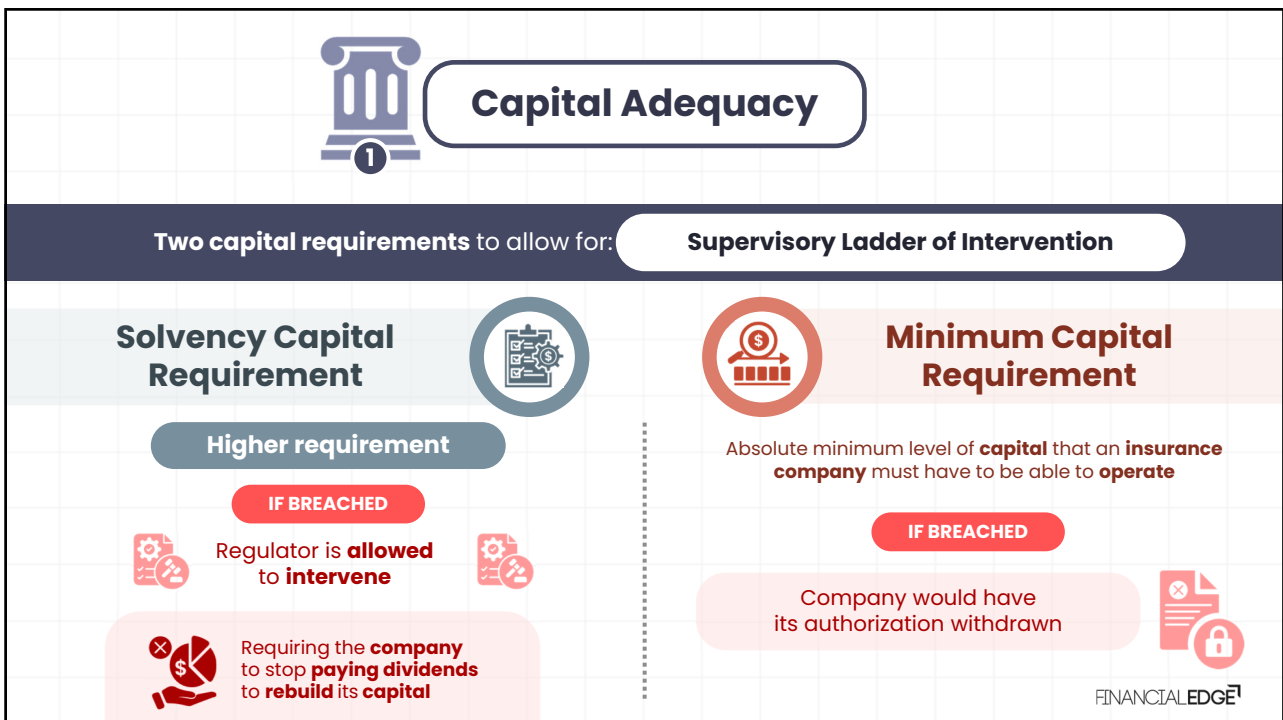
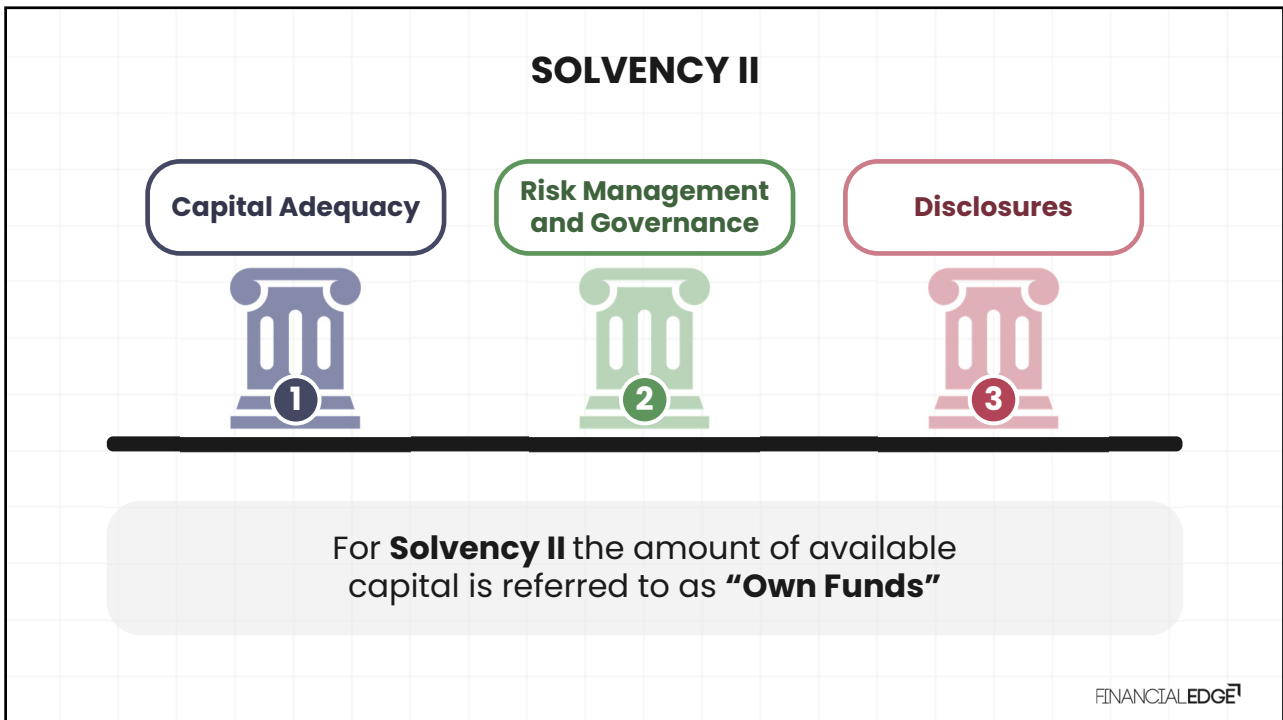


Methodologies for capital requirements

First issued in 2019

Ongoing periodic revisions to stay in line with market trends

Regulatory Landscape





Capital Adequacy

Two capital requirements to allow for:

Supervisory Ladder of Intervention

Solvency Capital Requirement



Higher requirement



Key focus for **analysts** and **investors**



Minimum Capital Requirement

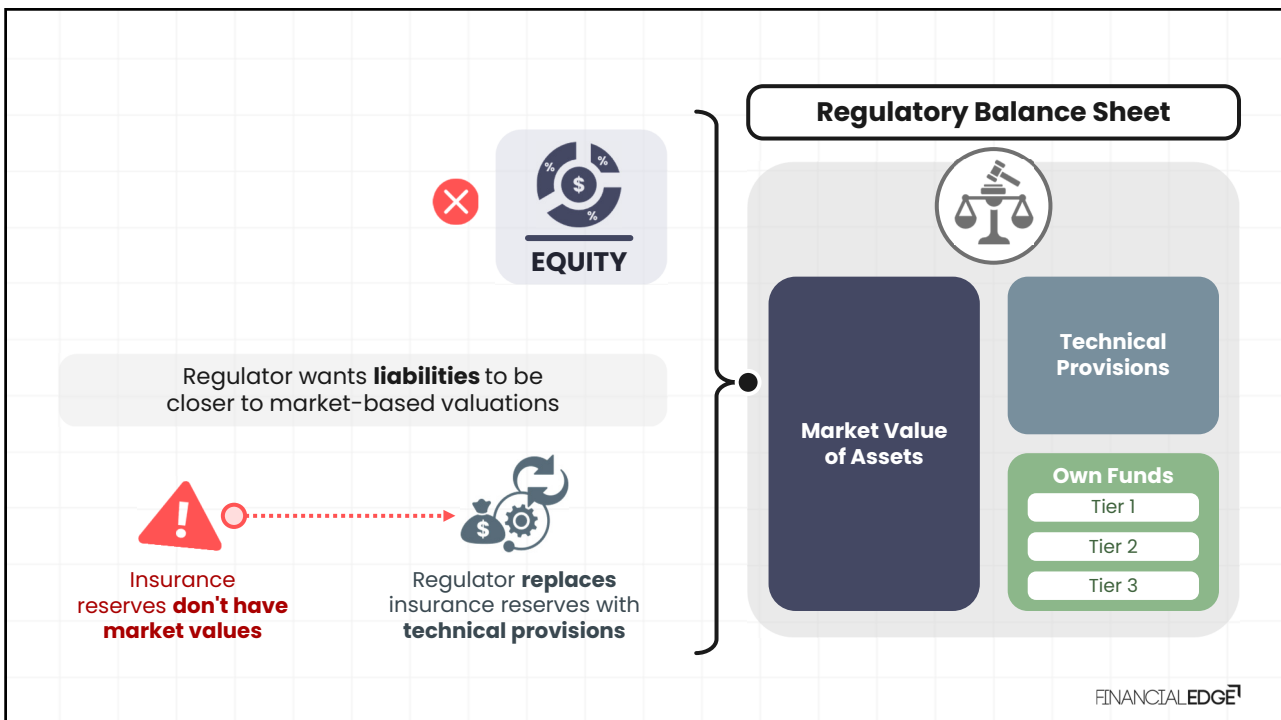
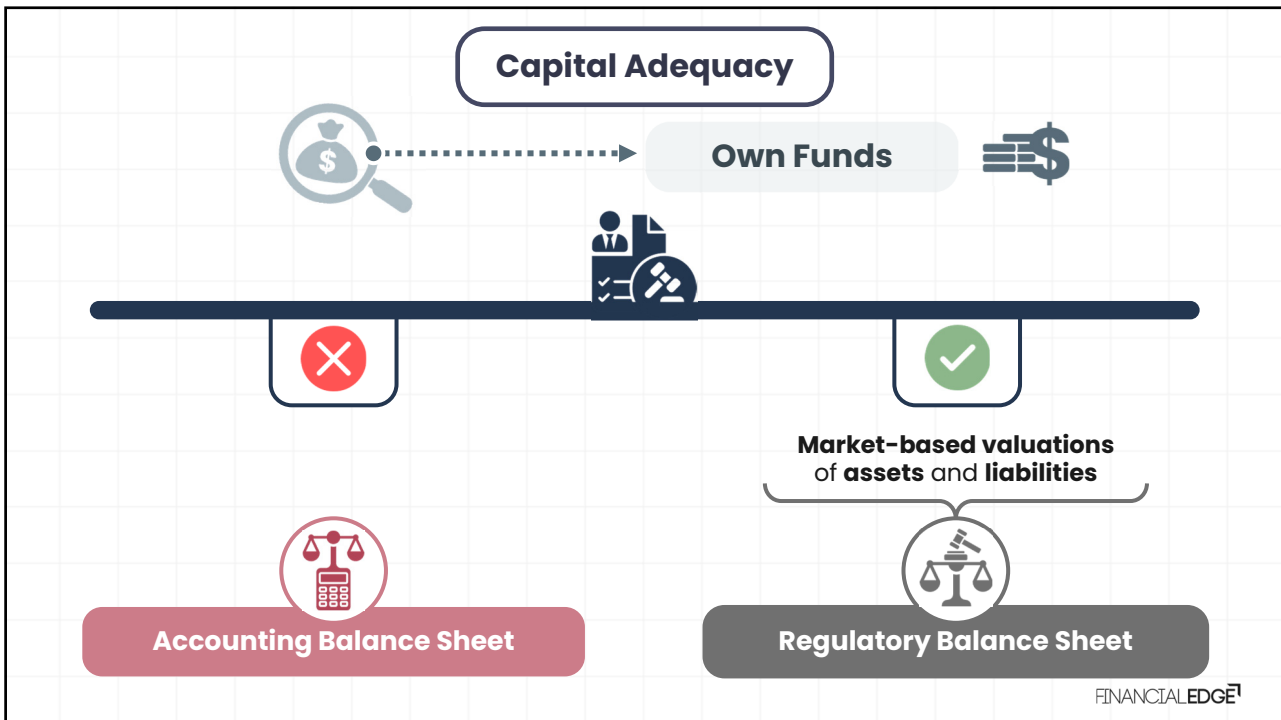
Absolute minimum level of **capital** that an **insurance company** must have to be able to **operate**

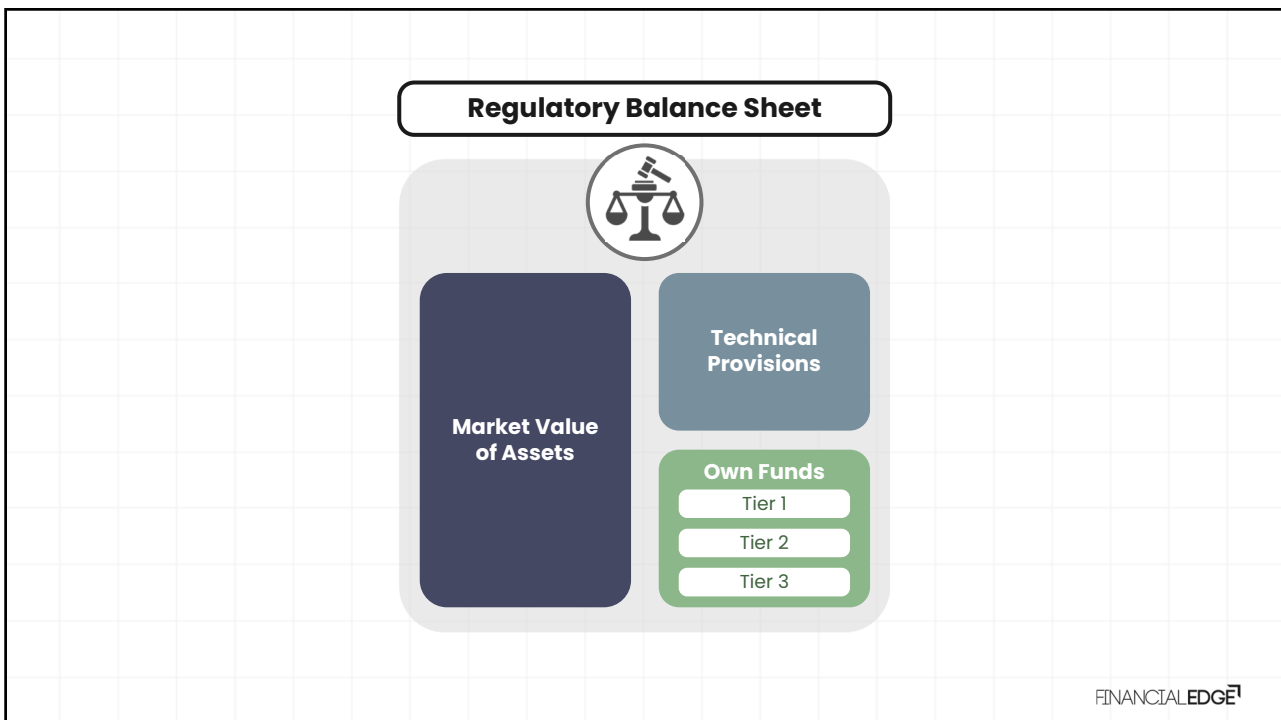
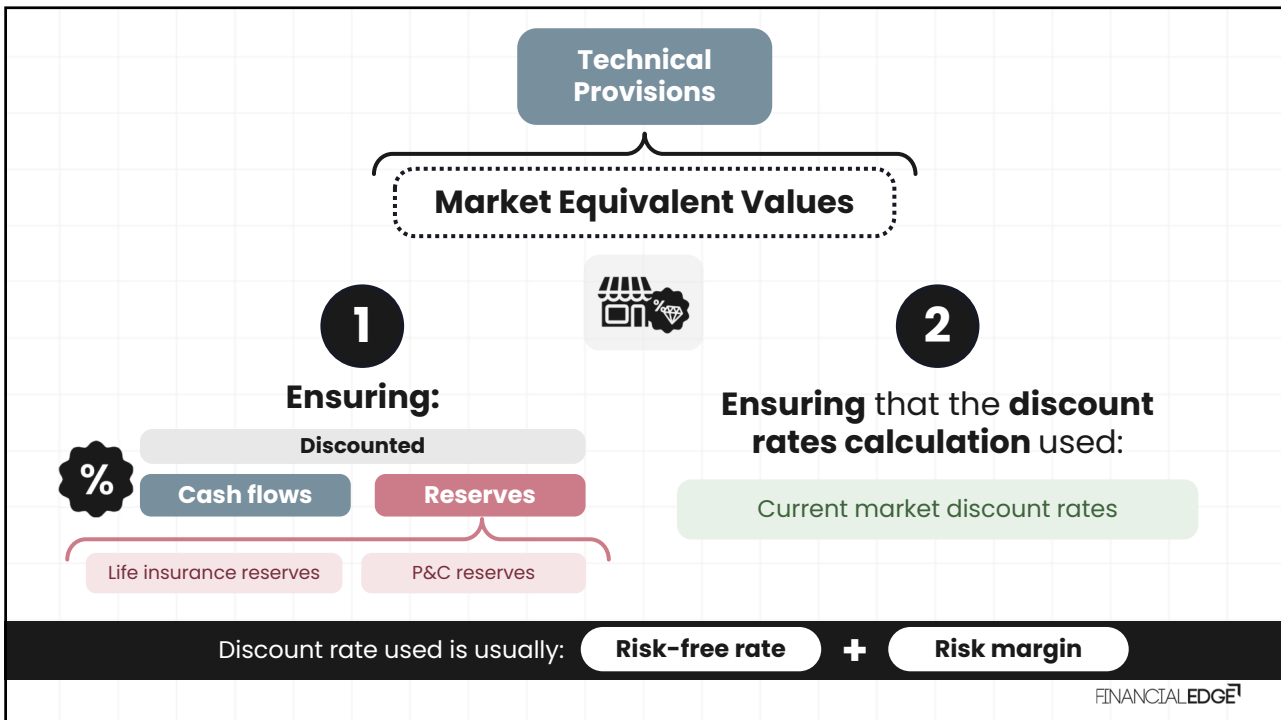
IF BREACHED

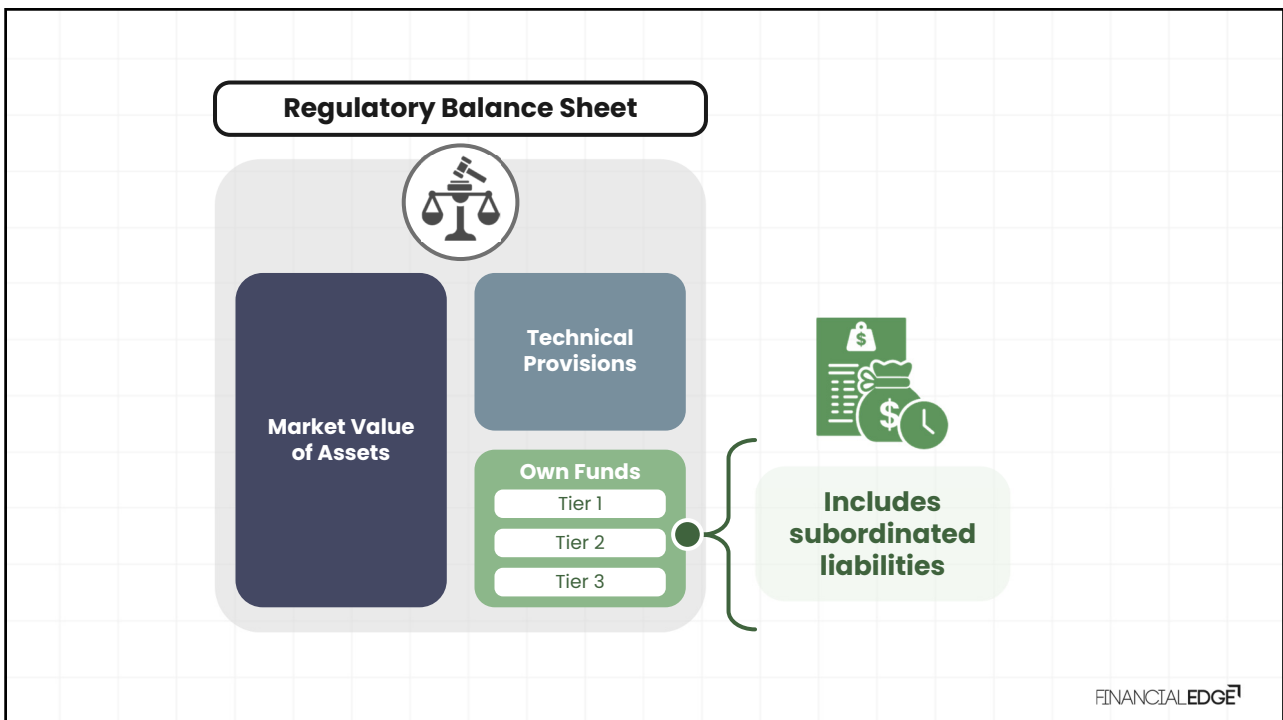
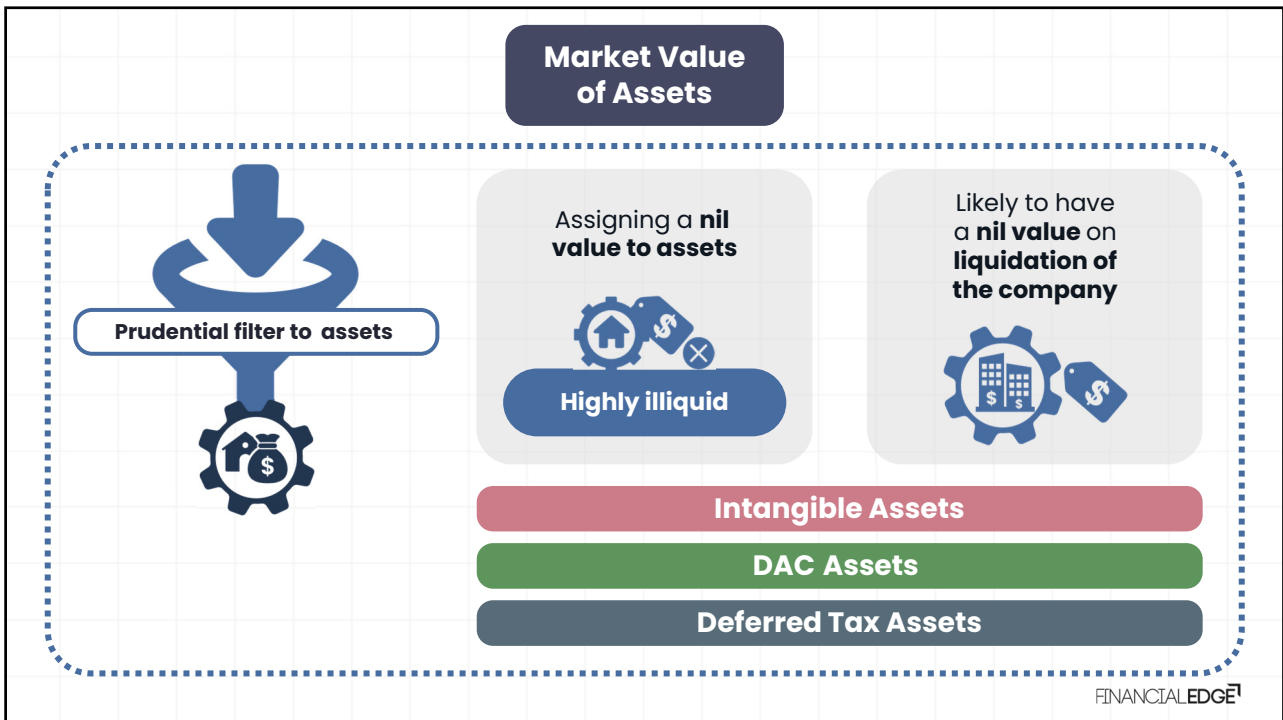
Company would have its authorization withdrawn

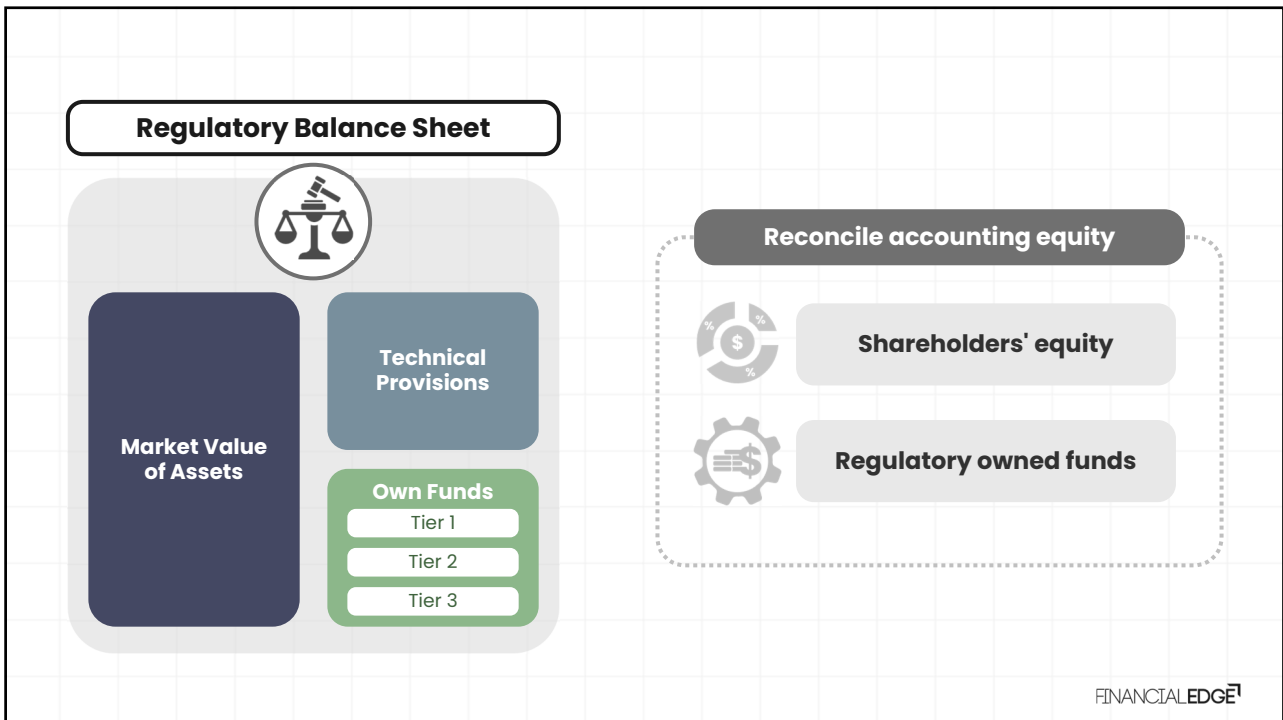


Own Funds










Shareholders Equity


	500
Intangible assets	(20)
DAC assets	(20)
Deferred tax assets	(10)
MTM assets and financial liabilities	500
Best estimate insurance liabilities	(300)
Excess of assets over liabilities	650
Subordinated liabilities	100
Proposed dividends	(50)
Own Funds	700

- Intangible assets
- DAC assets
- Deferred tax assets




Shareholders Equity	500
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Adjust the remaining assets and liabilities

Closer to market values → 

FINANCIALEDGE¹



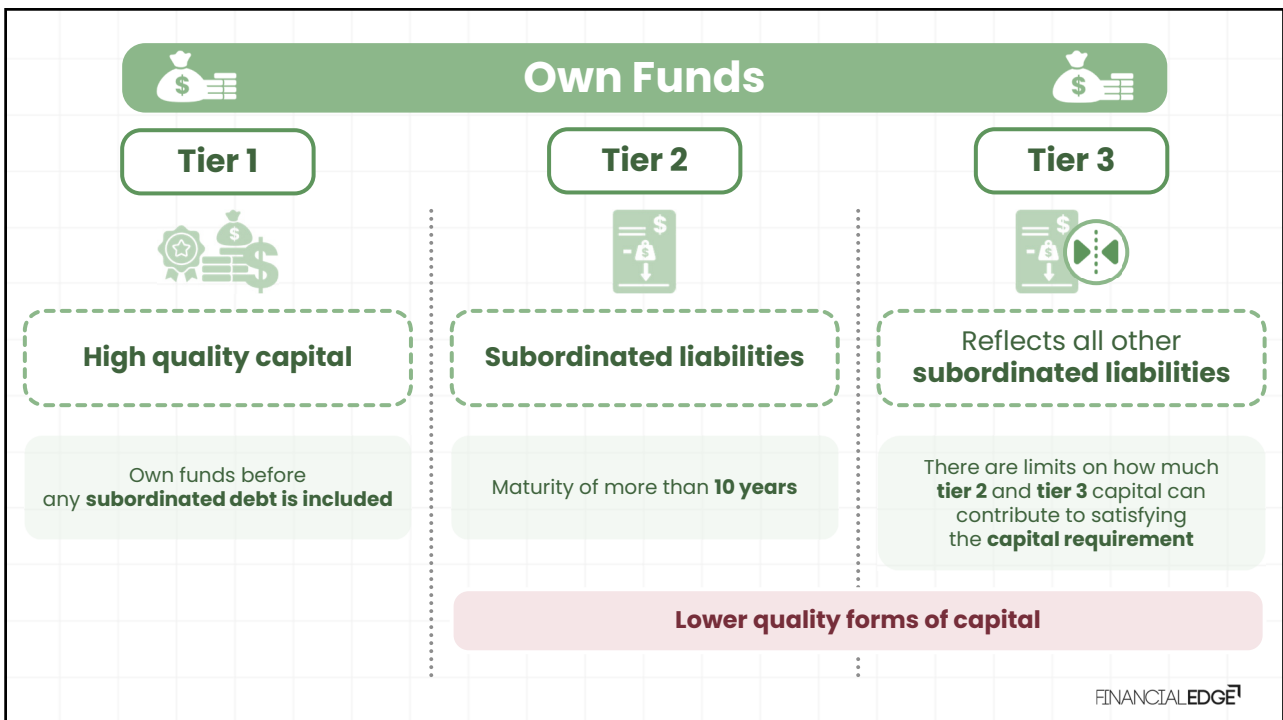
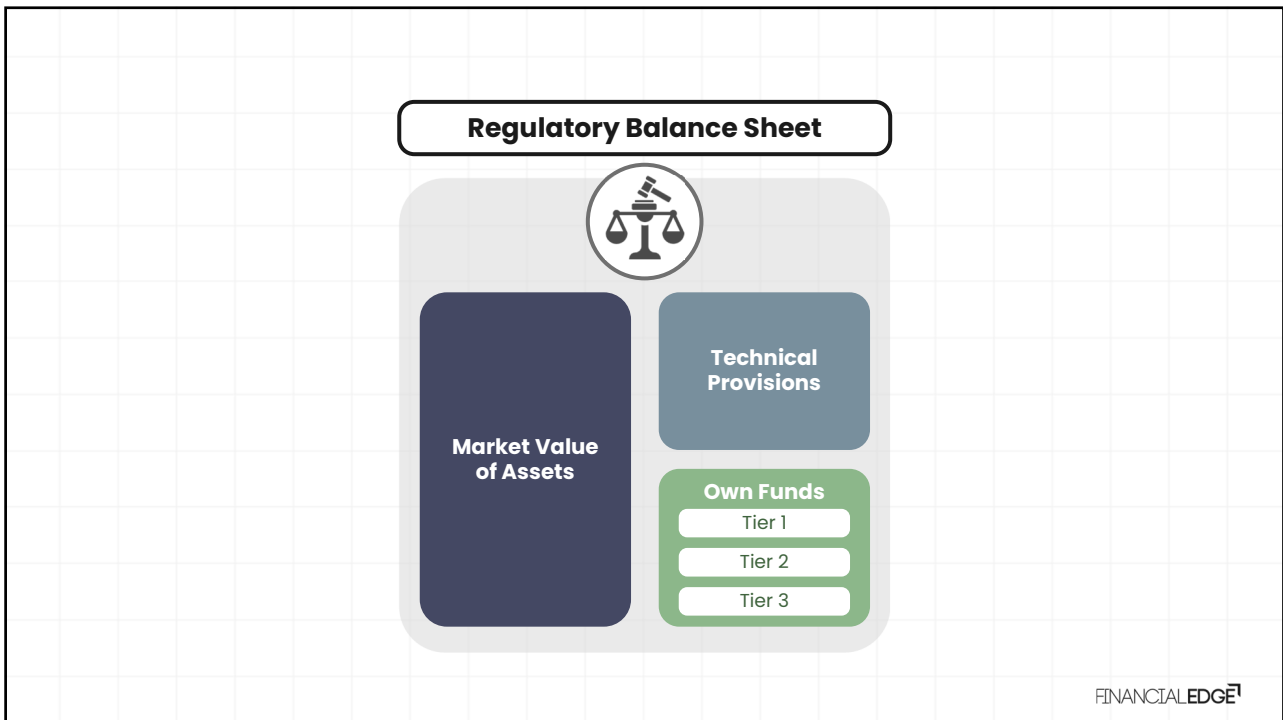
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Own Funds

+ Subordinated liabilities

- Proposed dividends

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Capital Requirement

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SOLVENCY II

Capital requirements for insurance companies



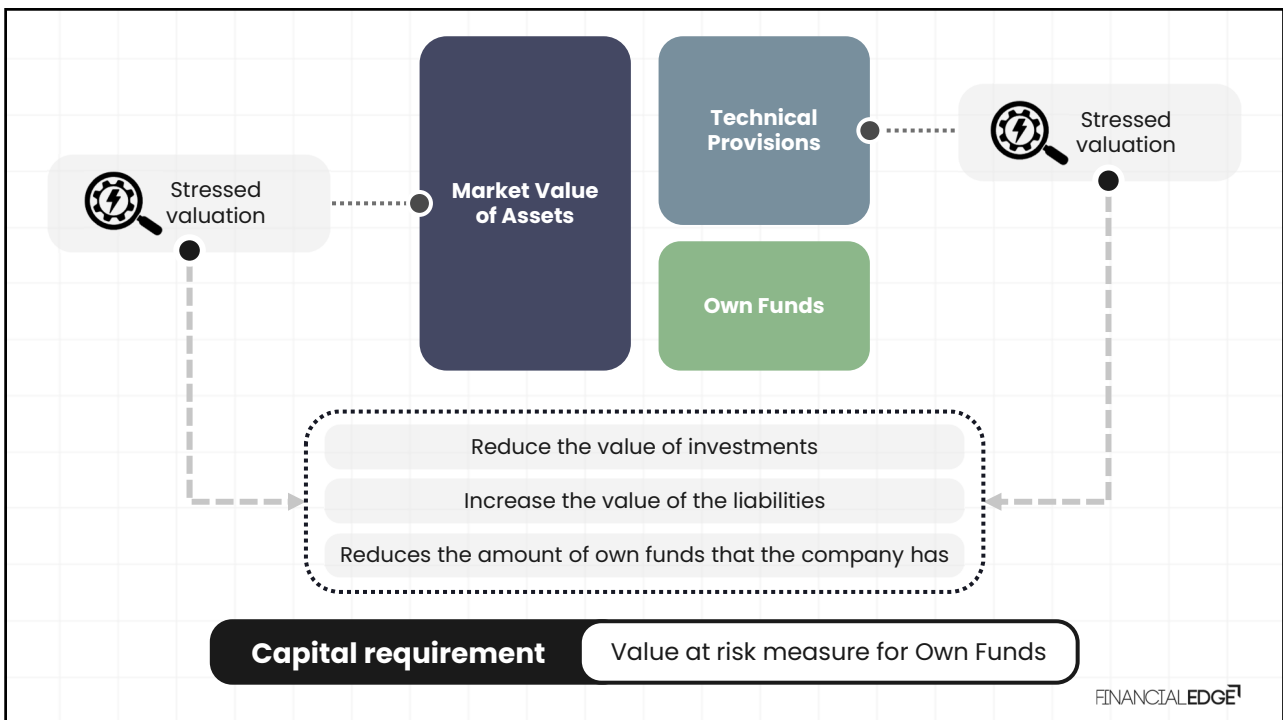
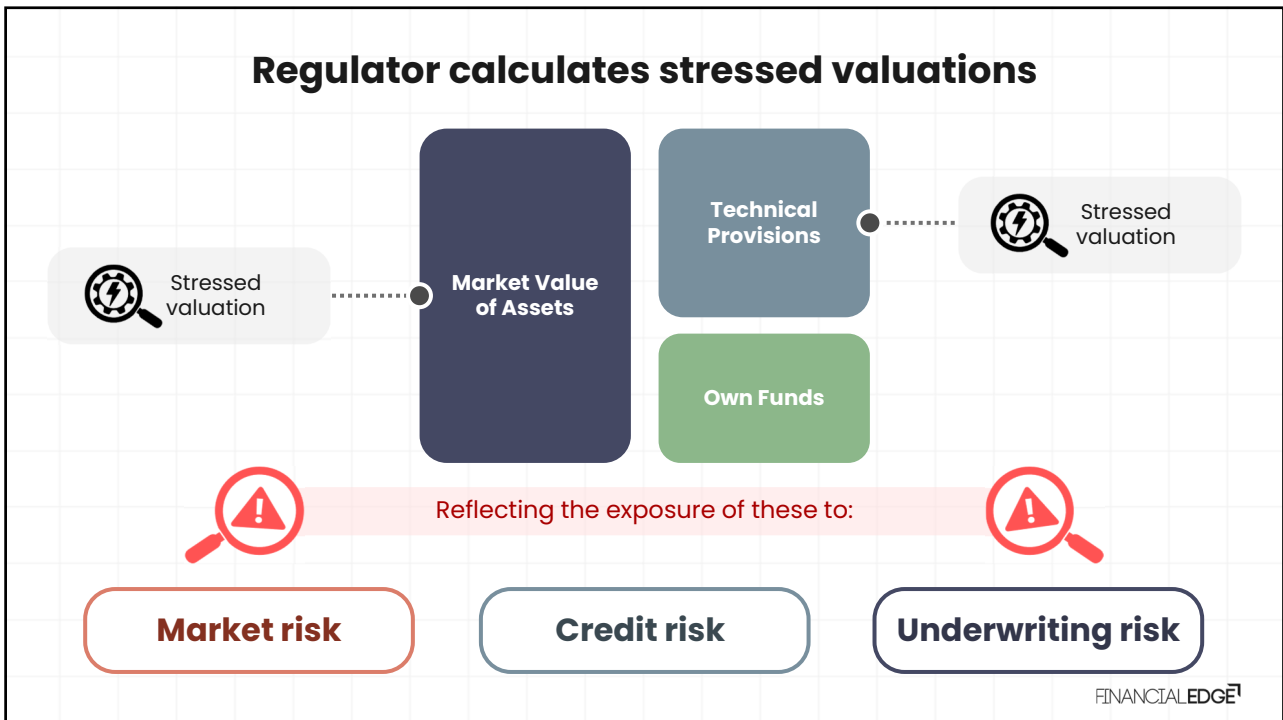
Solvency Capital Requirement

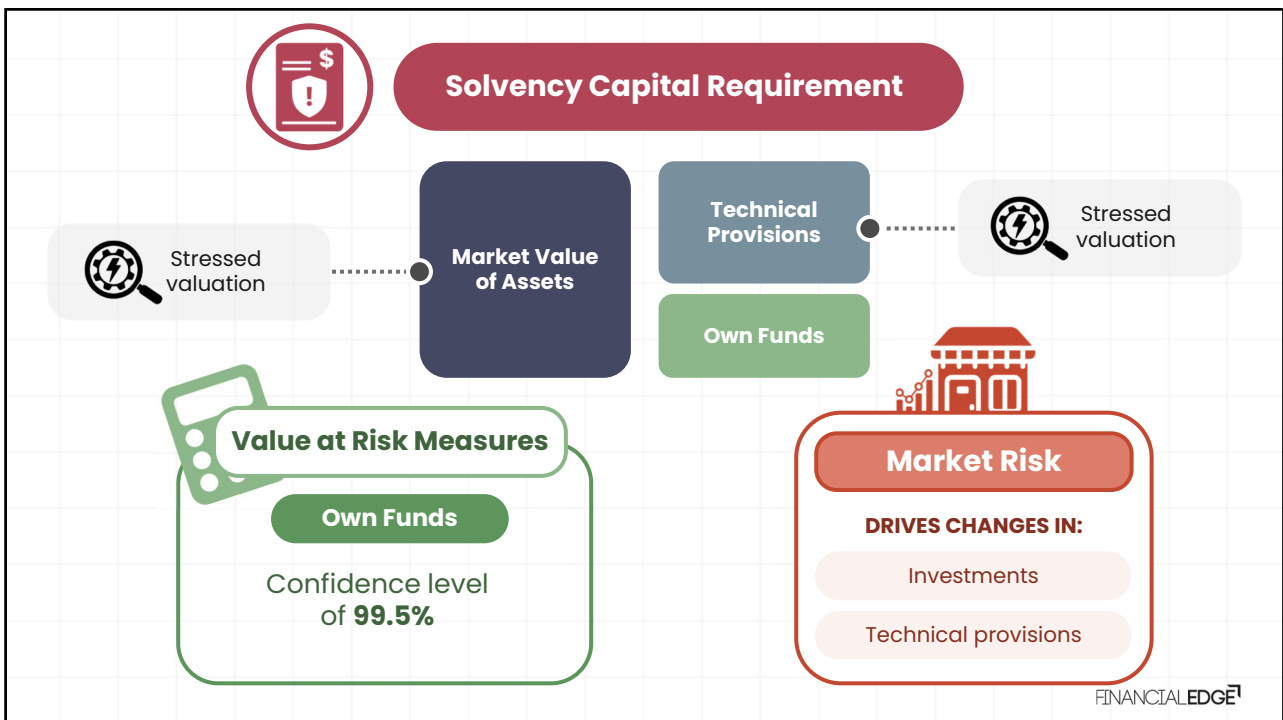
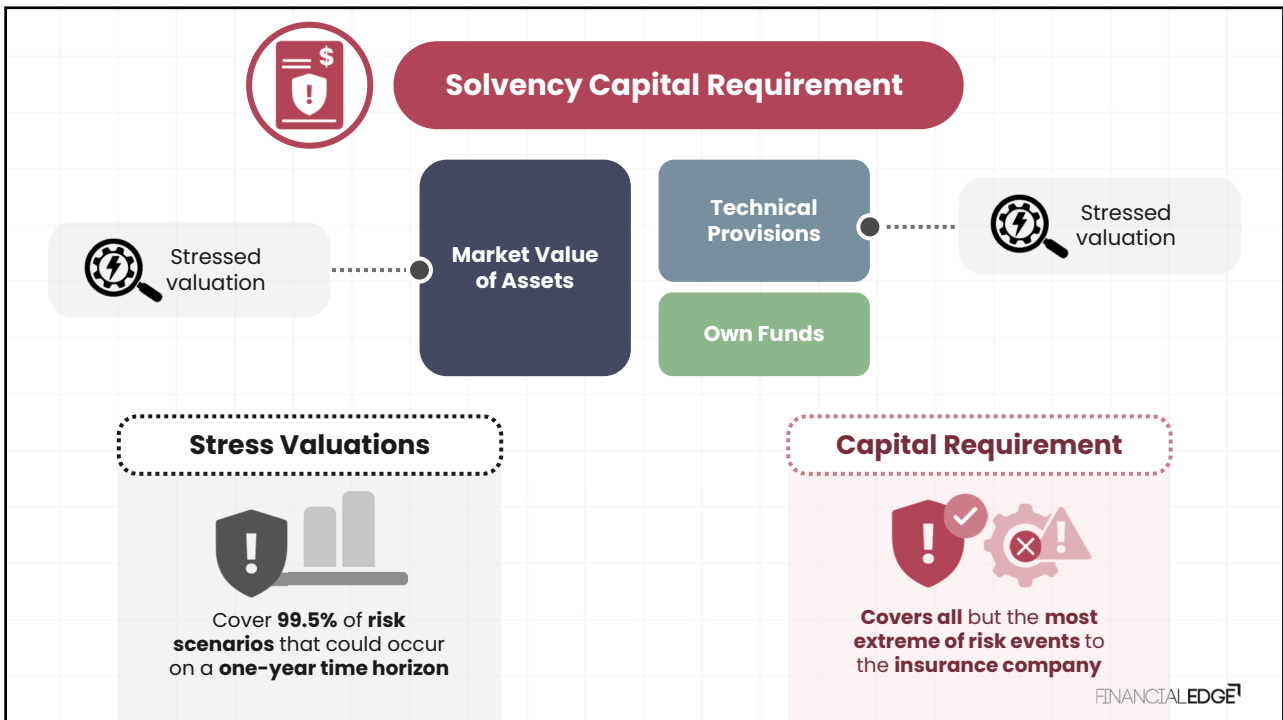
Higher requirement

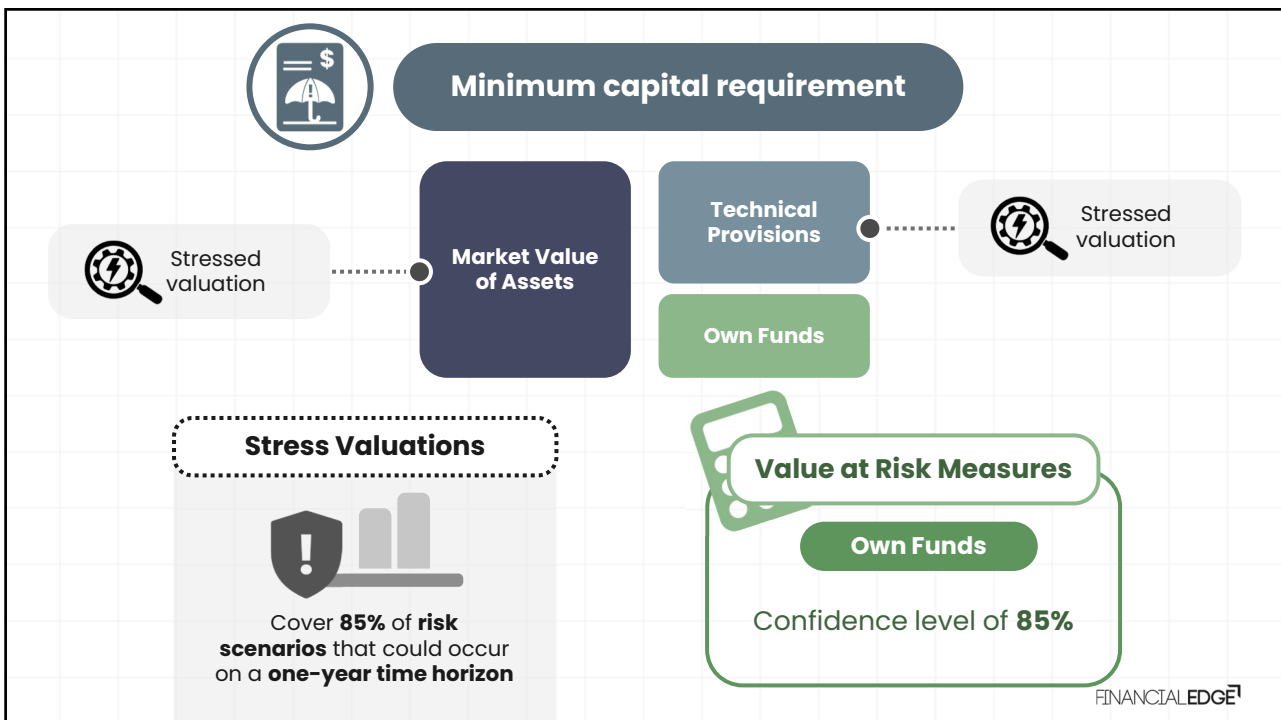
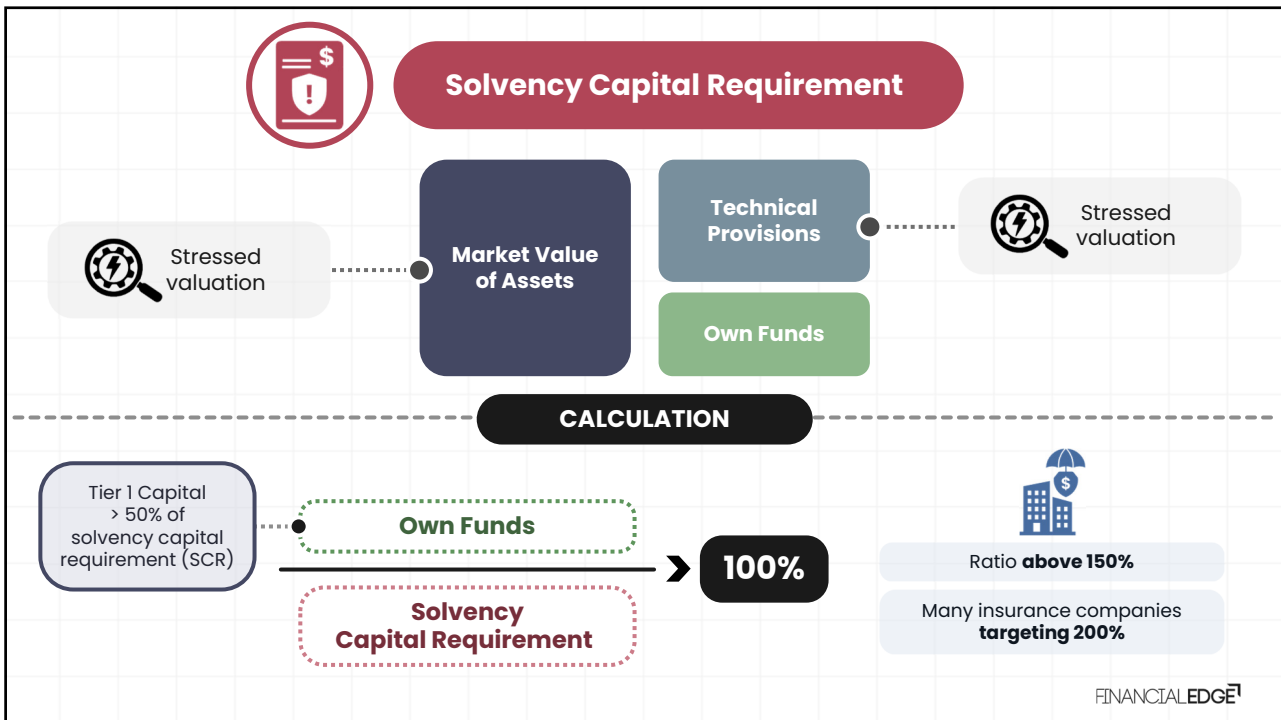


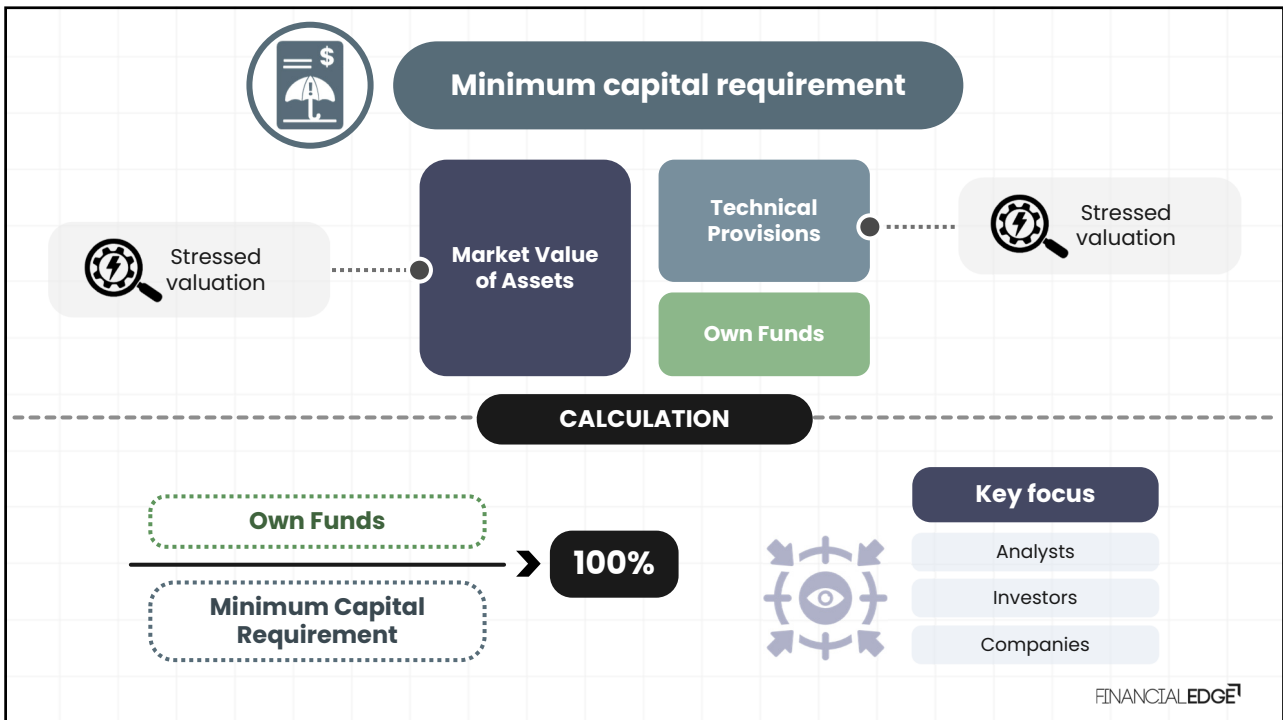
Minimum Capital Requirement

FINANCIALEDGE¹



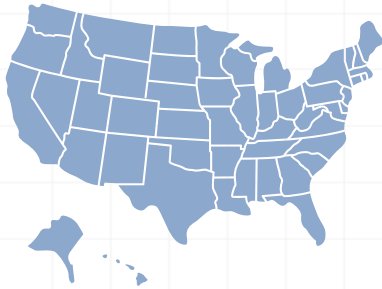






U.S. Insurance Environment

U.S. Regulatory Environment



Insurer is regulated by their **state regulator**

State of domicile for the company determining its **lead regulator**

Regulations are **not set in isolation** by **each state's regulator**



National Association of Insurance Commissioners – The NAIC



Establishing **standards** and **best practices**

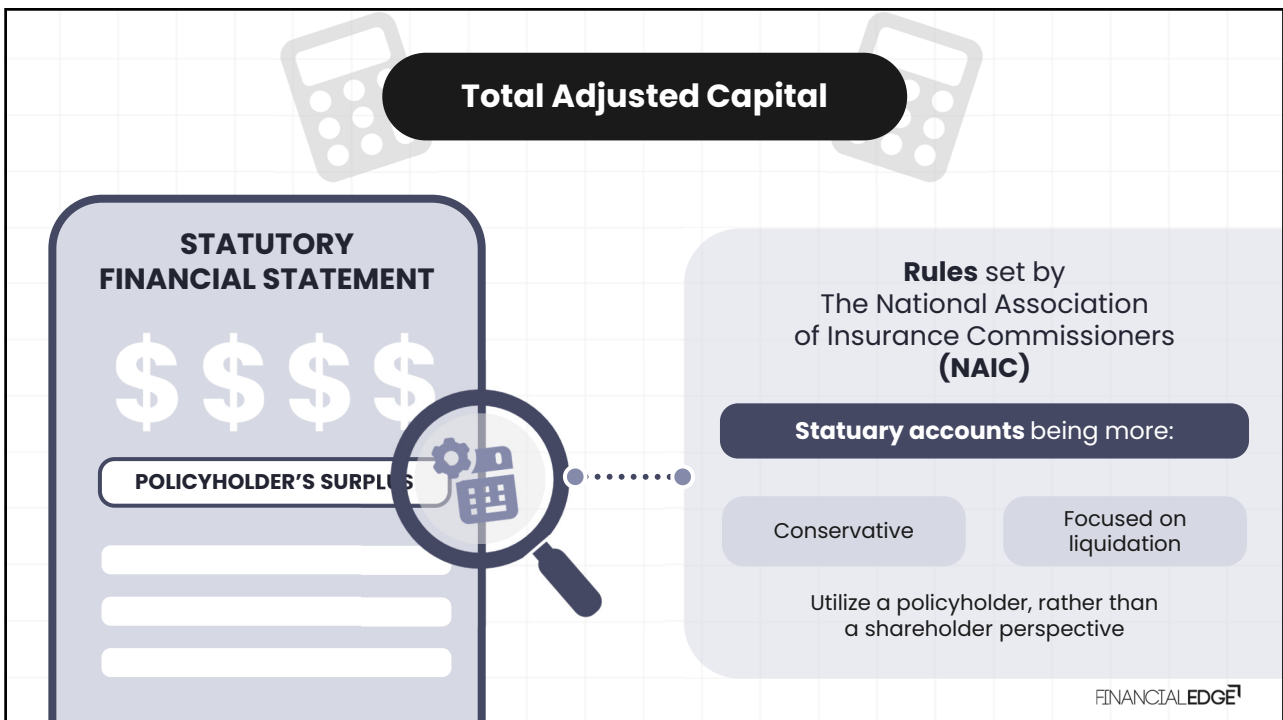
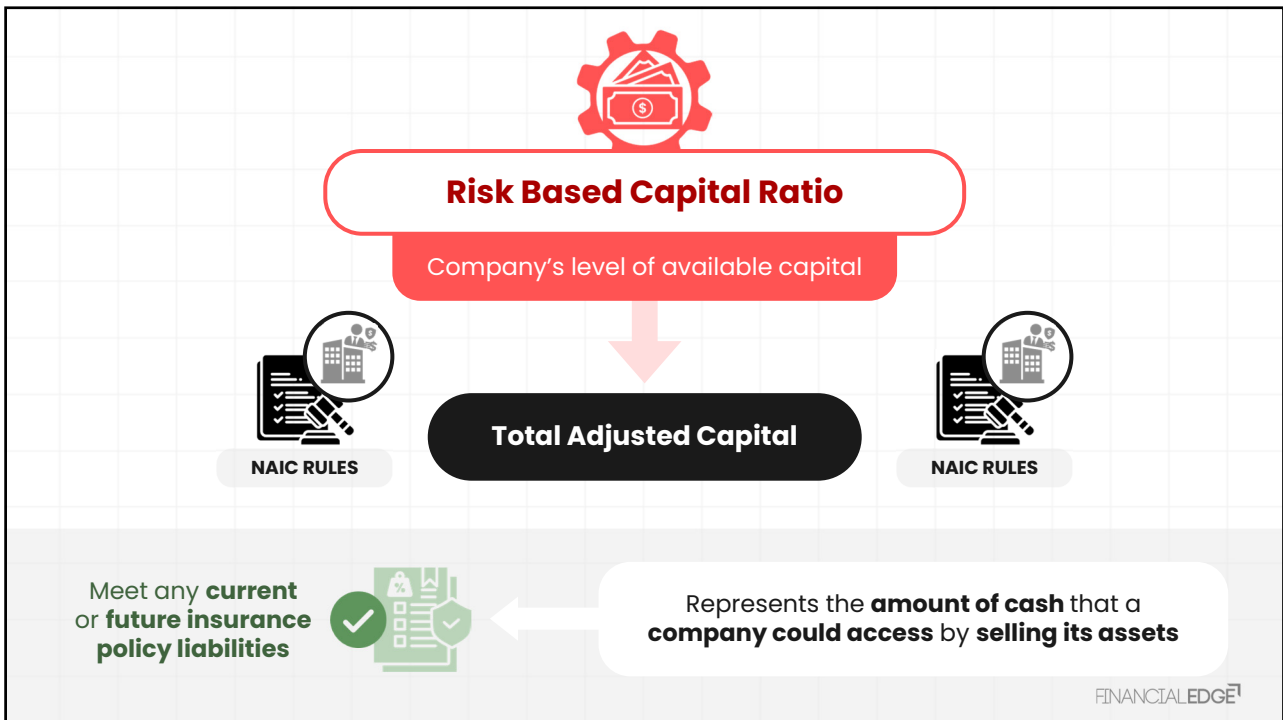
Coordinates **regulatory oversight**

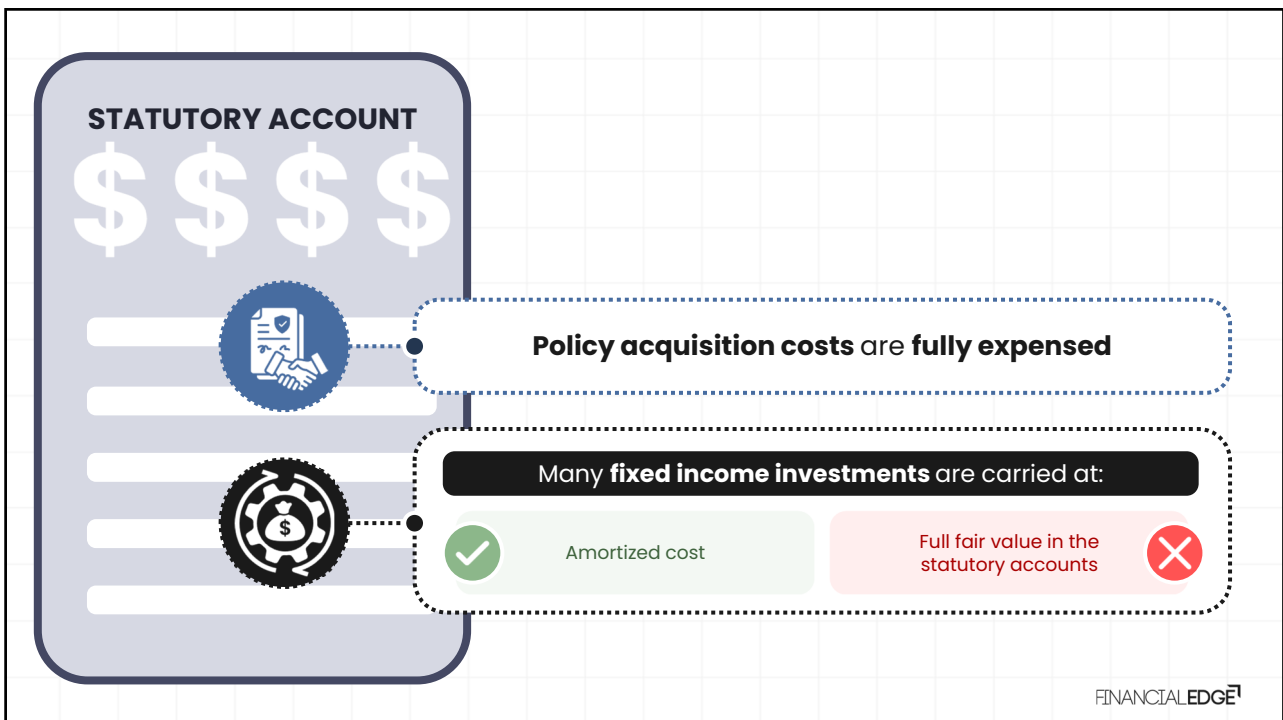
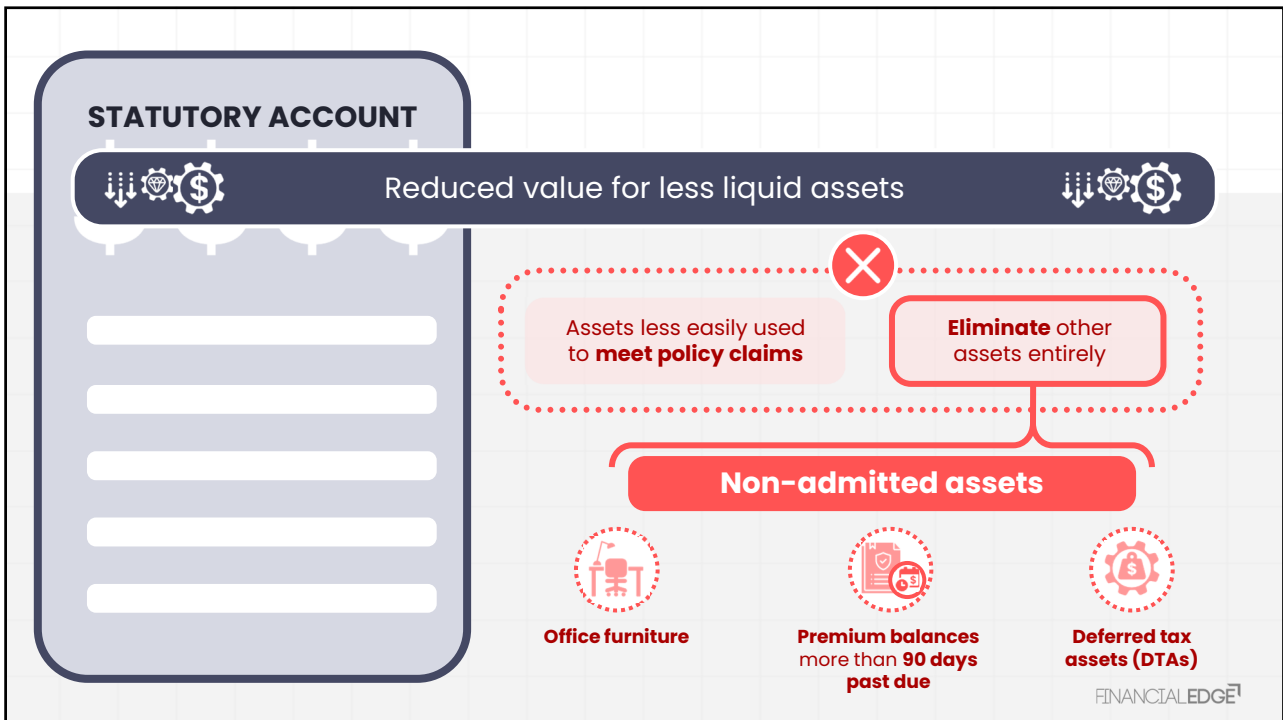


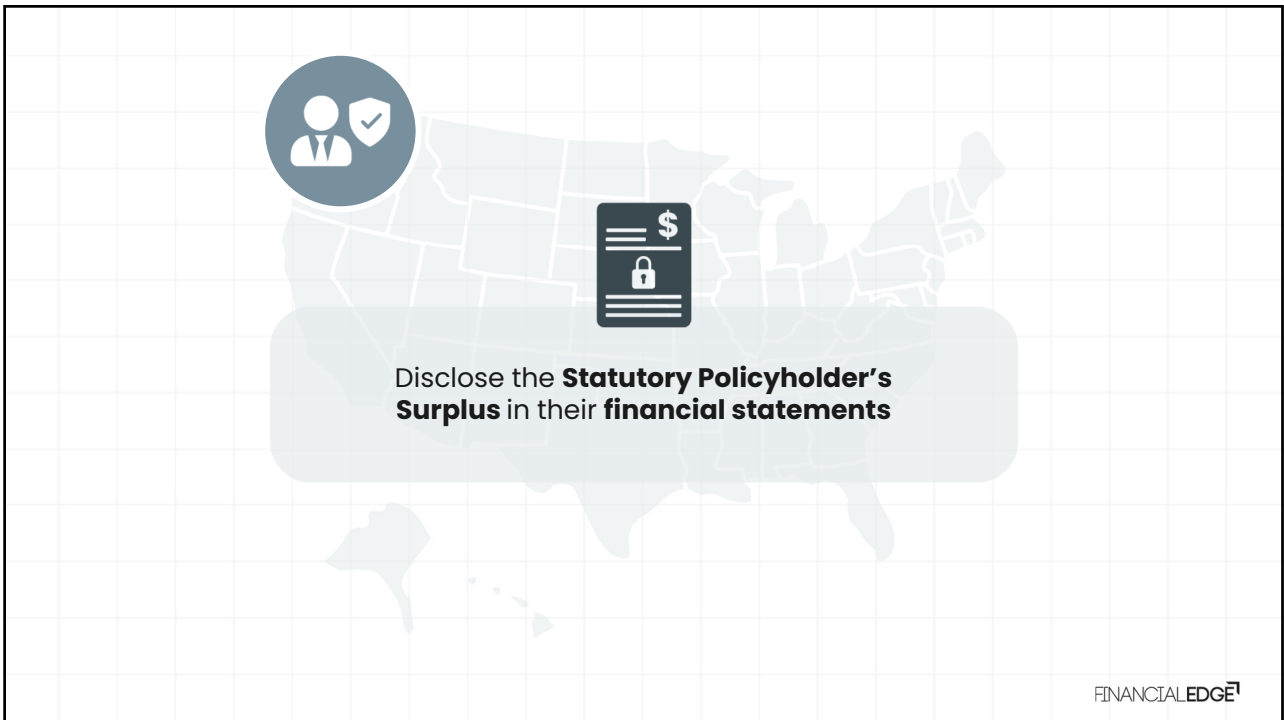
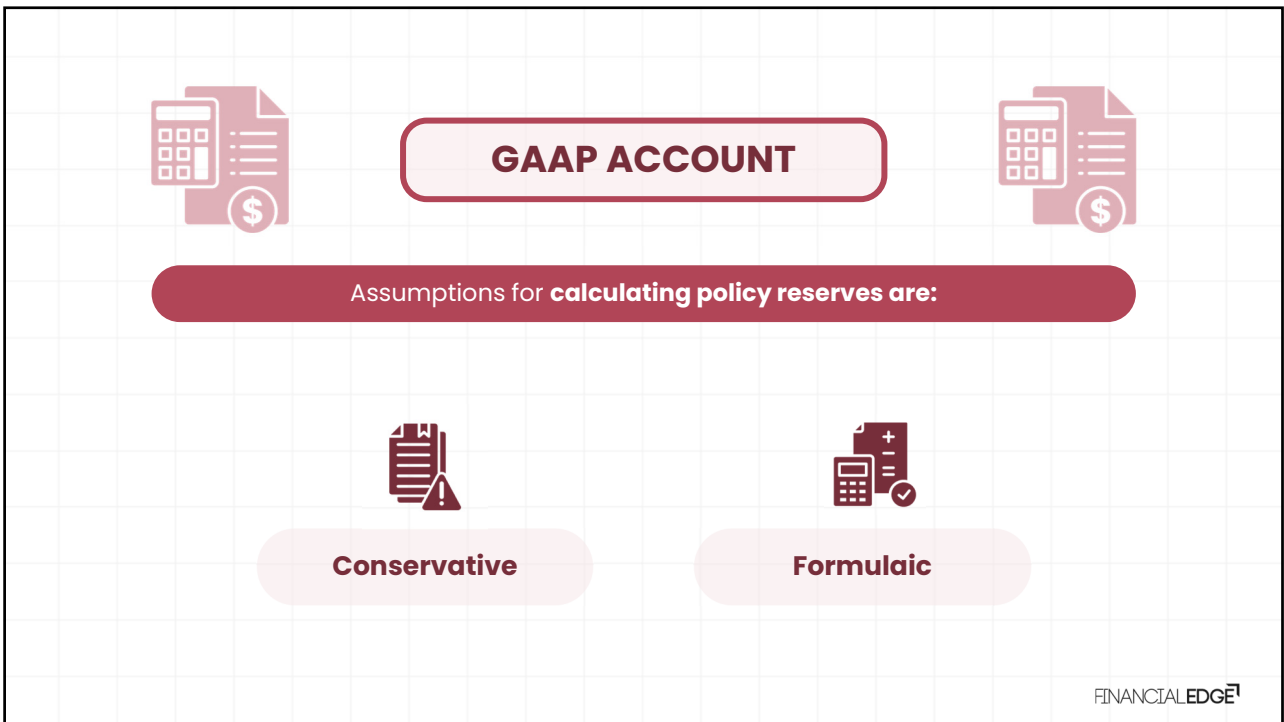
Established in the **statutory accounting principles (SAP)**

Calculating an **insurer's statutory financial statements**

Basis for the **capital adequacy requirement** for **U.S. insurers**







Statutory Policyholders Surplus and Total Adjusted Capital

FINANCIALEDGE¹

GAAP SHAREHOLDER'S EQUITY	1,000
- Loss and LAE Reserve differences	(200)
- Non-admitted assets	(100)
- Mark to market gain on investments	(250)
STATUTORY POLICYHOLDERS' SURPLUS	450
+ Asset Valuation Reserve	300
+ Investment Maintenance Reserve	100
- 50% of proposed dividends	(75)
TOTAL ADJUSTED CAPITAL	775

Adjustments are made




Making the **statutory accounts more conservative** than the **GAAP accounts**

FINANCIALEDGE¹

GAAP SHAREHOLDER'S EQUITY	1,000
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TOTAL ADJUSTED CAPITAL	775

Loss and loss adjustment expense LAE difference

Statutory accounts **calculate policy liabilities**




Formulaic prescribed basis


Policy liabilities being higher in statutory accounts than the equivalent GAAP accounts


FINANCIALEDGE¹

GAAP SHAREHOLDER'S EQUITY	1,000
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Non-admitted assets being deducted


 Deferred acquisition costs


 Reinsurance recoveries


 Goodwill and other intangibles

Not allowed in the statutory account

OR


Only allowed to be included at a reduced value

FINANCIALEDGE¹

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Removal of any market-to-market gain on investments

Fixed income investments in the **GAAP accounts**




Need to be shown at **amortized cost** in the **statutory accounts**

FINANCIALEDGE¹


GAAP SHAREHOLDER'S EQUITY	1,000
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Calculating Total Adjusted Capital

Two reserves added back:



The Asset Valuation Reserve



The Investment Maintenance Reserve

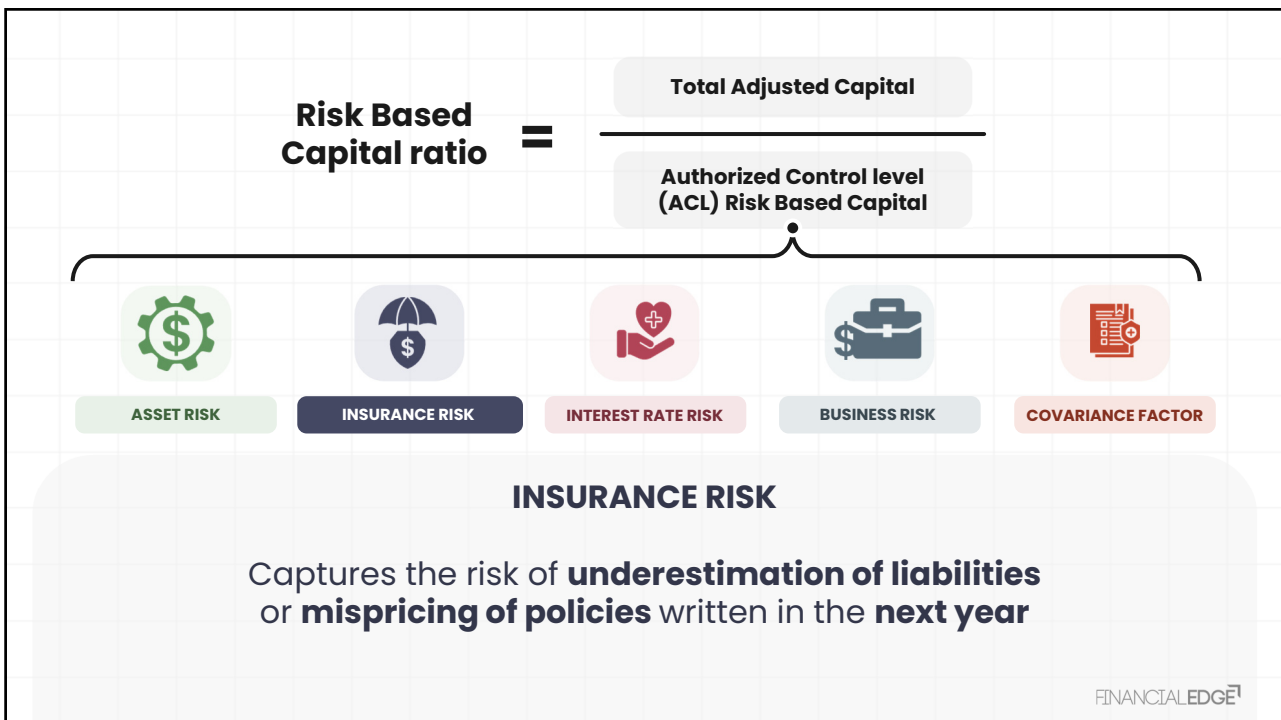
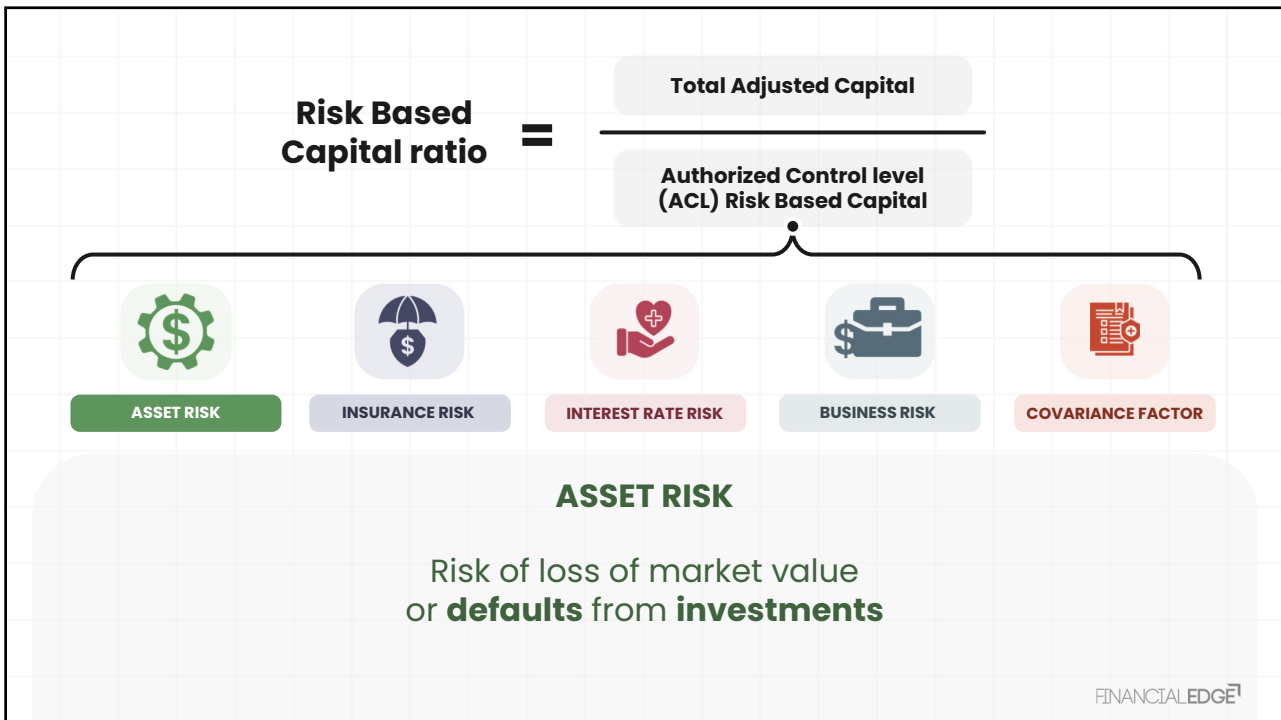
50% of any proposed dividend needs to be **deducted**

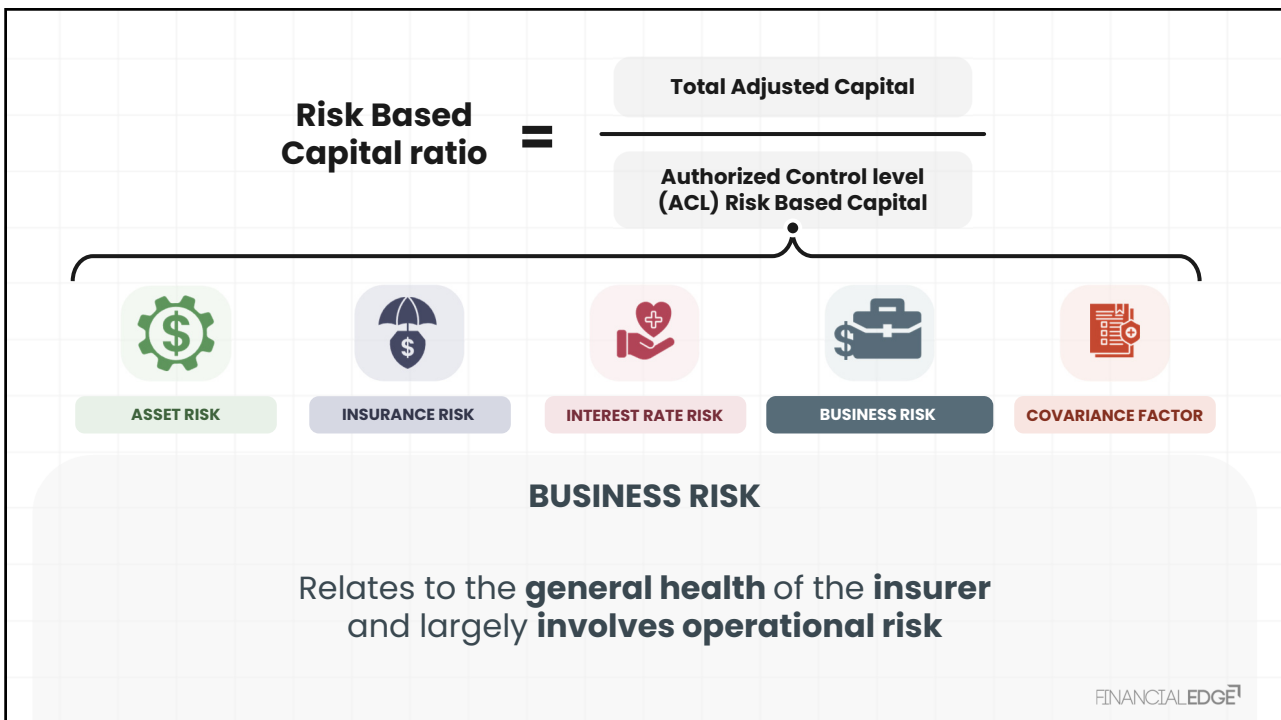
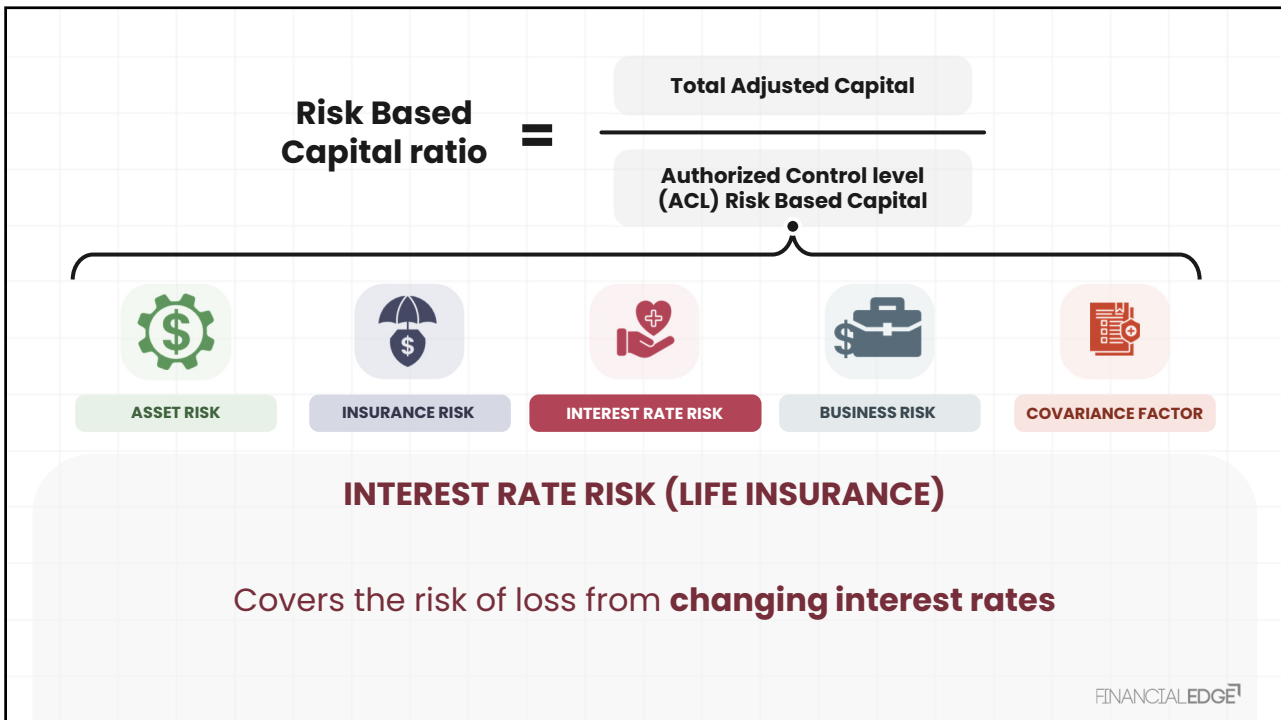
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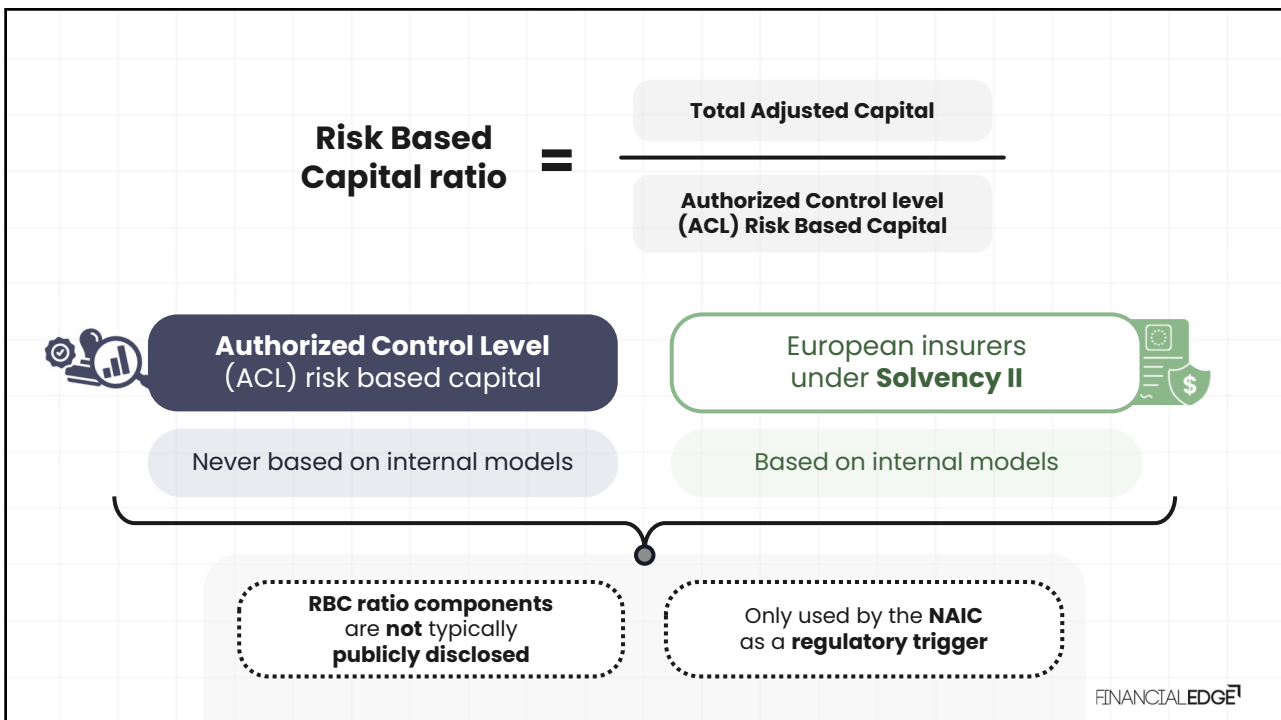
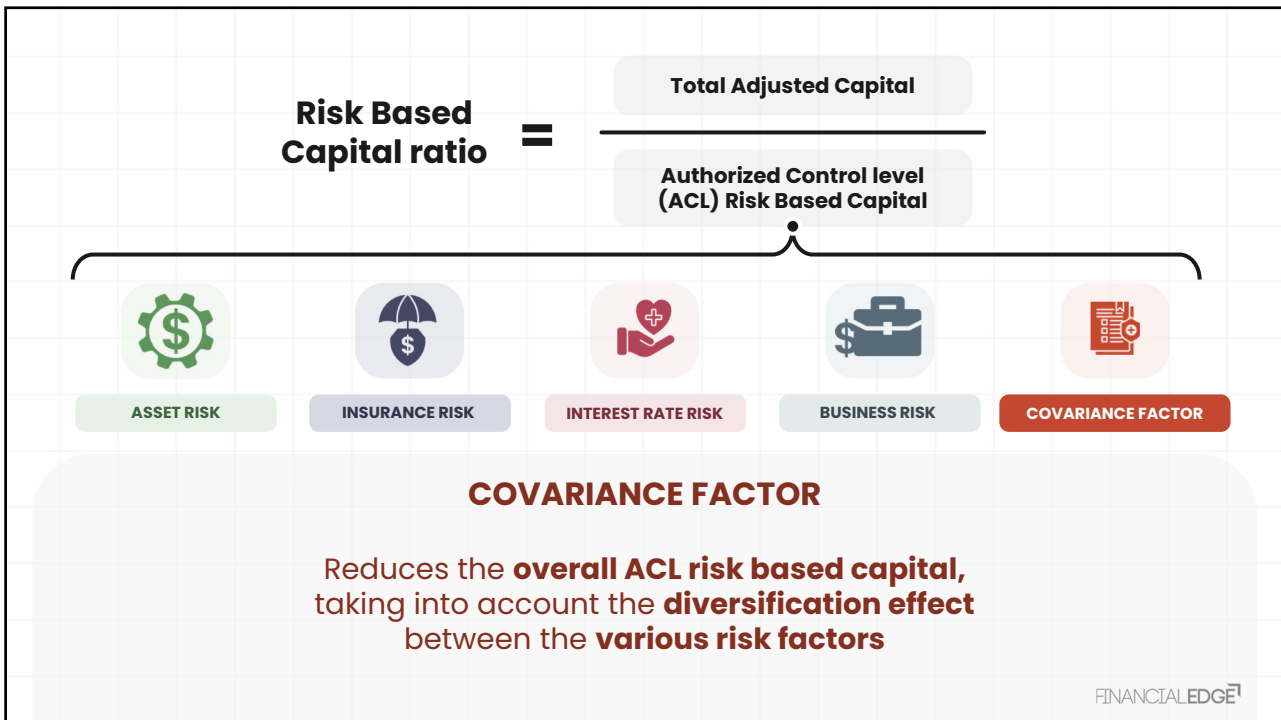
Risk Based Capital Ratio

$$\text{Risk Based Capital ratio} = \frac{\text{Total Adjusted Capital}}{\text{Authorized Control level (ACL) Risk Based Capital}}$$









What are the **implications** of the **Risk Based Capital (RBC) Ratio**?



Used by **insurance supervisors**

Early warning signal of signs of:



Weakness



Undercapitalization

NAIC ACTION LEVELS	RISK BASED CAPITAL RATIO	ACTIONS
	>300%	No additional supervision
Company Action Level	200% - 300%	The insurer must submit an action plan
Regulator Action Level	150% - 200%	Regulator may require actions to be taken
Authorized Control Level	100% - 150%	Regulator is authorized to take over control
Mandatory Control Level	<70%	Regulator obligated to take control of insurer

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