

JANUARY 13, 2018



IAIS STAKEHOLDER MEETING NAMIC COMMENTS

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ABOUT NAMIC

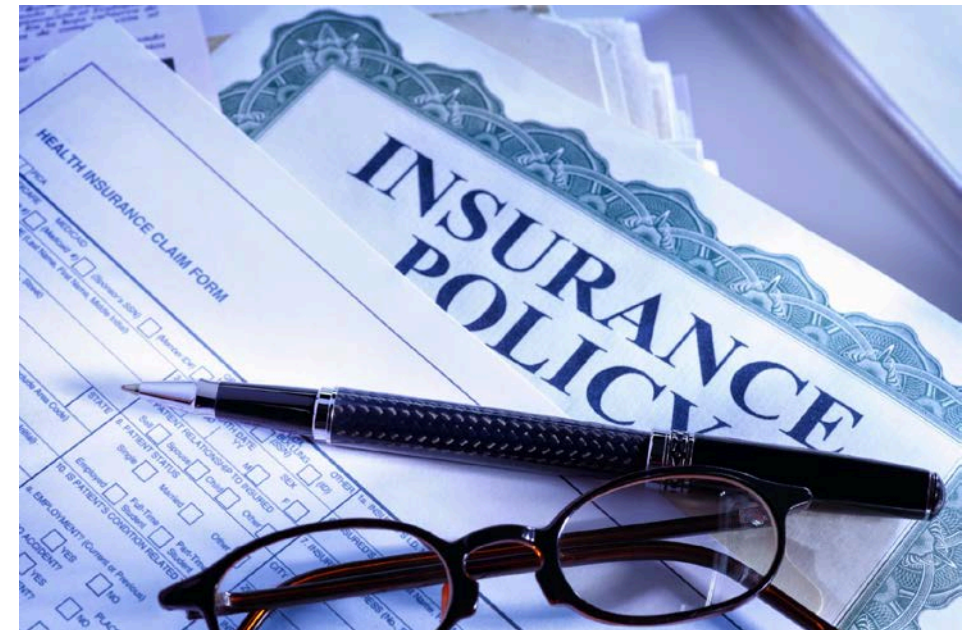


NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400 member companies. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC members represent 40 percent of the total property/casualty insurance market, serve more than 170 million policyholders, and write nearly \$225 billion in annual premiums.



NAMIC represents:

- Property casualty interests only
- All sizes of carriers, some international and some US only
- Mutual companies





NAMIC POSITION

- Since the first meeting regarding the ICS in 2013, NAMIC has argued against the creation of a one-size fits all global group capital standard
- Each time NAMIC comments or testifies on the ICS we provide detailed reasons for NAMIC member concerns and requests for flexibility



NAMIC POSITION

ICS would require changes in 56 jurisdictional laws and regulations for:

- Insurance capital/resource differences
- Incompatibility with U.S. Corporation laws
- Incompatibility with insurance statutory accounting
- Rating laws for P/C companies



NAMIC POSITION

- The bottom line message we have consistently delivered is that ICS needs to be more flexible
- Kuala Lumpur Agreement provides this flexibility
- NAMIC strongly supports the inclusion of an Aggregation Approach to the ICS



U.S. DEVELOPMENT OF GROUP CAPITAL CALCULATION

- Based on Risk Based Capital
- Uses Legal Entity RBC requirements
- Provides insight into the details of the group
- Allows for back-testing of the capital information



PROPERTY/CASUALTY RBC COMPONENTS

Authorized Control Level RBC =

$$R_0 + \text{square root of} [(R_1)^2 + (R_2)^2 + (R_3)^2 + (R_4)^2 + (R_5)^2 + (R_{\text{CAT}})^2] + (R_{\text{OP}})$$

R_0 – Asset Risk - Affiliated Assets

R_1 – Asset Risk - Fixed Income Investments

R_2 – Asset Risk - Equity Investments

R_3 – Credit Risk

R_4 – Underwriting Risk - Reserves

R_5 – Underwriting Risk - Premiums Written (including risk of excess growth)

R_{CAT} – Catastrophe Risk

R_{OP} – Operational Risk (informational)

C_0, H_0, R_0 Represents incorporation of affiliate capital requirements into the RBC formula



RBC RATIO AND REGULATORY ACTIONS

- Total Adjusted Capital and Minimum Capital Level (Authorized Control Level RBC) are used to calculate the RBC ratio = TAC/ACL
- Regulatory Actions based on ratio levels or hazardous trajectories
 - Hazardous Financial Conditions at any RBC level
 - Trend Test at 300% of ACL
 - Company Action level = 200% of ACL
 - Regulatory Action Level = 150% of ACL
 - Authorized Control Level = 100% of ACL
 - Mandatory Control Level = 70% of ACL



RBC - ALWAYS UNDER REVIEW AT NAIC

Changes or Reviews Underway Since the Crisis

- R_3 Credit for Reinsurance adjustments
- Investment factors – bonds, common stock modeling updates, all factors under review
- R_{cat} New Catastrophe Risk category
- R_{op} New Operational Risk category for all lines



GROUP CAPITAL CALCULATION DISCUSSIONS

- Elimination of duplicate charges for Affiliate Investments - R_0
- Identification of actual charges for non-insurance financial institutions [like banks]
- Review of all affiliate risk charges – international insurance and non-financial affiliate risks
- TBD Scope of the Group



GROUP CAPITAL CALCULATION TIMELINE

- Baseline Testing 2017
- Draft Formula Release 2018
- Beta Testing 2018-2019
- Launch GCC 2020-2021?



Questions?



THANK YOU

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