



NAIC 2016 Summer National Meeting

FRB's Proposed Enhanced Prudential Standards and Capital Standards for Insurance Companies

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Important Themes Acknowledged and Emphasized by FRB



- Insurance companies have business models and risk profiles that are different than banks
- Standards should be tailored for insurance companies
- Insurance companies are not expected to adopt the same risk management practices applied to banks
- Time and resources are needed to get it right
- Recognition of the potential to leverage and complement existing insurance regulatory regimes

General Comments Regarding Proposed Standards



- Further tailoring is needed
- Keep standards focused on principles and objectives
- Avoid overly prescriptive rules
- Leverage existing regulatory frameworks
- Balance the time to get it right with the need to fulfill regulatory objectives and provide operating clarity
- Allow reasonable transition and compliance period

NPR – Enhanced Prudential Standards



Primary areas of comment:

- Overly prescriptive board committee responsibilities and reporting lines of Chief Risk Officer and Chief Actuary
- Too frequent cash flow projections and stress testing
- Contractual stay assumptions should depend on severity and conditions of stress test scenario rather than being explicitly prohibited
- Committed and diversified credit facilities should be included as a valid source of liquidity for stress tests
- Cash held with a diversified group of banks should be allowed as a highly liquid asset within the liquidity buffer
- Definition of “liquid and readily marketable” in a 90-day period needs refinement
- Compliance period to meet proposed standard is insufficient

ANPR – Capital Standards – BBA



- Principles that should guide capital standard approach
 - Tailored and risk sensitive
 - Comprehensive
 - Comparable
 - Expedient
 - Credible and controlled

- Building Block Approach (BBA) is the most appropriate approach for group capital standards for insurance companies under FRB supervision, including those designated as systemically important
 - Meets all principles above in the most effective manner
 - Ability to implement with reasonable resources and timeframe
 - Provides framework to incorporate continual enhancements and convergence
 - Avoids entirely new framework with current application to only two companies

ANPR – Capital Standards – CA



Consolidated Approach (CA) could be achieved, but would take considerable time and resources to develop:

- Assets and liabilities must be valued with consistent methods
- Capital should consider all loss absorption resources
- Risk factors should align with drivers of risk to achieve appropriate level of risk sensitivity
- Properly recognize risk mitigating features
 - Separate Accounts
 - Participating Policies
 - Asset Liability Management
 - Hedging