

Insurer Solvency Regulation: Protecting Companies and Consumers in Tough Economic Times

- *The importance of regulating solvency and sufficient capital levels was illustrated dramatically by the 2008 financial crisis; under the State insurance regulators' national system of conservative solvency regulation, insurers and their consumers weathered the financial crisis far better than other financial sectors.*
- *Regulators have developed a conservative regulatory accounting system, and require extensive reporting, analysis, examination, and regulator approval for material transactions, all to minimize insolvencies and help ensure that insurer obligations will be met both today and in the future.*
- *To avoid regulatory lapses and promote national consistency, the States have developed a system of peer review embedded in the NAIC Accreditation Program, which establishes and maintains robust solvency and financial regulatory standards – **all 50 states, the District of Columbia, and Puerto Rico are currently accredited.***

Background

State insurance solvency regulation helps limit risk taking and leverage with policyholders' premiums and encourages a stable and competitive market. Regulators require insurers to meet explicit financial requirements and monitor compliance and financial condition on an ongoing basis through risk-focused surveillance and on-site examinations. Regulators coordinate additional monitoring and identify emerging trends or issues through the NAIC's Financial Analysis Working Group (FAWG). If a company becomes a concern, state regulators take corrective action through a ladder regulatory intervention process.

The NAIC's Financial Database Repository includes 10 years' worth of quarterly and annual financial statements from more than 4,600 U.S.-domiciled insurance companies. Within the State system, insurer financial disclosures are among the most detailed and transparent in the world, and their electronic collection allows the NAIC to create various analytical solvency tools that provide state insurance departments with an integrated approach to reviewing the financial condition of insurers. **The IMF has called NAIC's data collection and analysis "world leading."**

Key Points

- Over 600 banks and financial institutions used federal TARP funds compared with 3 insurers. Hundreds of banks failed during the financial crisis, while less than 20 insurers became insolvent.
- To reduce reliance on credit rating agencies, state regulators created a new independent assessment process for insurers' investments in residential mortgage backed securities (RMBS) and commercial mortgage backed securities (CMBS).
- The NAIC is well underway with a Solvency Modernization Initiative (SMI) which assesses the entire scope of U.S. solvency regulation and considers best practices from around the world to identify any necessary refinements for our system.