
Implementing Stochastic Methodologies for Reserves and Capital Seminar - Part 1: Principles- Based Regulation – The Regulatory Perspective

SOA Spring Meeting
Session 52
May 25, 2006



Session Overview

- Lessons Learned – Transition from Rule Based to Principles Based
- Regulatory Experience with RBC C-3 Phase 2
 - AAA Industry Survey
 - NAIC CADTF Results Subgroup



Transition from Rule Based to Principles-Based RBC Requirements

C-3 Phase II Issues

- No regulatory framework, no matter how well thought out and developed, will be totally acceptable to all insurers.
- Future regulatory initiatives need to get more input from reinsurers. What is possible for direct writers, may not be possible for reinsurers.



C-3 Phase II Issue: Limit on Tools AAA can provide

- Prepackaged Scenarios
- Alternative Methodology factors/spreadsheet
- Calibration Criteria
- Practice Note
- Enhanced C-3 Phase I Interest Rate/Scenario Generator



C-3 Phase II Issue: Solving the “Time Lag” problem

An Illustration:

- Issue arose during the development of the NAIC Q&A document (November 2005) concerning the measurement of interest rate risk and whether the amount can be smoothed.
- Some people have suggested that smoothing of the interest rate risk component of C-3 Phase II was prohibited.
- Were all insurer’s aware of the “requirement”?
 - Level plying field issue
 - Due Process Issue



C-3 Phase II Issues

- Complex regulatory initiatives should be “field tested” before complete implementation.
 - Pre-adoption Pilot Test (C-3 Phase I)
 - Post-adoption Phase-In (C-3 Phase II)
 - Initially use as a required RBC Sensitivity Test

