A Global Framework for Insurer Solvency Assessment

The purpose of the call was to discuss LHATF's proposed response to the above-named report issued by the International Actuarial Association (IAA). The report is available at www.actuaries.org (if you are not a member, you must establish an account).

The report itself and the proposed response are based upon general principles and high-level discussion. There is little mention of specific requirements and explicit formulas.

New York took the lead in formulating the response, which will cover the following six points:

1. LHATF wants further discussion on the application of the principles across diverse product lines. AAA will be asked to participate.
2. LHATF recommends well-defined objective floors for calculating capital requirements (cf. the "standard scenario" for variable annuities).
3. LHATF requests additional study on explicit items such as taxes, systemic risk and credit for dynamic hedging.
4. The efficacy of a regulatory capital level must be viewed in light of the conditions that exist when it comes into play – e.g., credit for dynamic hedging might have value for a going concern, but have no value for a company in dire straits.
5. LHATF supports the use of the CTE (conditional tail expectation) approach.
6. LHATF is concerned about the difficulty of determining correlations among internal assumptions used in the modeling process.

LHATF discussed the merits of temporary versus permanent floors (#2 above), but ultimately agrees that floors need to be permanent. They also briefly discussed defining "prudent best estimates" for #6 above, but decided not to pursue that at this time. The response will be sent soon so that IAA can consider it at its November meeting.

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