Looking Back and Going Forward: Observations on Key Capital and Reserving Reform Proposals Considered by NAIC 2008-2009

By

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Considered by NAIC
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LIFE INSURANCE FINANCIAL REFORM EFFORTS IN CONTEXT

US LIFE INDUSTRY’S BROADER ENVIRONMENT – LATE 2008

A. Existing Conservative NAIC Capital and Reserving Requirements
   o NAIC’s ongoing Principles-Based Reserving reform not anticipated to be effective in states for at least three years.
   o Ultra-conservative reserve and RBC requirements for some products and/or
   o Mismatch between actual risk[s] and RBC and/or reserve obligations.
   o Prior to market crisis, ultra-conservative or mismatched requirements expensive but tolerable because of reasonable access to capital markets.

B. Growing Market Upheaval By Q3 2008:
   o Pervasive economic turmoil across financial services industry.
   o Capital markets largely illiquid.
   o Rapid decline and unprecedented volatility in US and international equity markets during Q3 and Q4 2008.
   o Existing capital and reserving requirements produce illogical results because they never contemplated economic conditions such as those unfolding in Q3 2008.
   o Unknown future – will market decline/volatility/freeze continue? How long?

Industry Conclusion:

A PLUS B Equals Need for Immediate [YE 2008] Reserving and Capital Reform
INDUSTRY’S PROPOSED REFORM -- PHILOSOPHICAL UNDERPINNINGS

- **Protect Insurer Strength:** Industry needs to remain strong to protect policyholders and pay claims. No one wants changes to minimum reserve and capital requirements that would put at risk life insurers’ ability to follow through on their promises. Consumer trust is essential to our industry.

- **Portray Accurate Picture of Financial Health of Insurance Industry:** Ultra-conservative regulatory requirements can cause insurer Capital or Surplus to be understated, to the detriment of the industry and consumer confidence.

- **Insurers Need Uniformity of Reform across Industry:** Reforms need to be useful to entire industry. NAIC must act to:
  - assure uniformity of regulatory change across jurisdictions, and
  - avoid competitive inequities across industry due to uneven regulatory changes by jurisdiction.

- **Insurers Need Certainty Regarding Regulatory Decisions**
  - Proposed reforms require resolution for 2008 YE financials to allow insurers to most reasonably plan in the midst of larger market turmoil.

- **Reform Effort is on Behalf of Entire Life Industry:**
  - No company is likely to benefit from all reforms. Reform package addresses varying needs of each insurer.
  - Industry is committed to work together as industry toward passage of all reforms.

- **Reform is Achievable for 2008 Year-End Financials**
  - Package focuses upon reforms already in progress at NAIC or industry; most of these are not “new” issues;
  - Most changes can be “recognized” by the states upon adoption by the NAIC; no state-by-state action is required.
  - Key decisions have already been made, allowing year-end NAIC adoption.

REFORM PROPOSAL – NINE-POINT REQUEST TO NAIC

**Life Insurance**

1. Make “Interim Solution” previously approved by NAIC to be retroactive, upon domestic commissioner’s consent, as follows: