



SOCIETY OF ACTUARIES

**ERM Symposium
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**GS1: Regulatory Reform – Systemic Risk, Risk
Governance, Transparency and Capital Changes**

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U.S. Insurance Regulation: Lessons Learned

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The U.S. Insurance Story

- U.S. insurance industry remained relatively stable.
- Areas of stress
 - Mortgage insurers, financial guaranty
 - Variable annuities
- American International Group (AIG)!

AIG

- Large complex global financial institution with significant insurance operations
- Multiple regulators, with U.S. Office of Thrift Supervision as the holding company regulator.
- Primarily source of problems was the unregulated Financial Products Division (outside the insurance companies).

AIG – September 16-18

- S&P warned that AIG could be downgraded by up to three notches because of liquidity issues.
- U.S. insurance regulators are asked to upstream \$20 billion to support the holding company.
- It became clear that the problem was bigger, and the Fed agreed to extend a liquidity facility amounting to USD85 billion with an interest rate of 11.3%.

Lessons Learned for U.S. insurance supervisors

- Group supervision
 - Information sharing
- Securities lending

Broader lessons

- Regulators make mistakes
 - Fail to identify a problem
 - Identify the wrong solution
 - Fail to implement the solution
- Why?
 - Human beings are fallible
 - Regulatory capture/political pressures

Implications

- There is no such thing as a perfect, omniscient regulator.
 - Regulatory reforms must acknowledge the reality of regulatory failure
- Solutions
 - Checks and balances
 - Diversity of perspectives
 - Incentives: peer pressure/"skin in the game"

The Solvency Modernization Initiative

- U.S. SMI: accounting, capital requirements, group supervision, ERM, corporate governance, reinsurance regulation, etc.
- The basic structure of the U.S. system
 - Regulatory capital is a floor for regulatory intervention. (Note: Not primarily intended to "create incentives for companies.")
 - Detailed regulatory reporting, robust analysis tools, and periodic risk-focused examinations.
 - Strong peer review systems.
- Worth noting: RMBS project