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# Update to U.S. EU Solvency Assessment Research

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PwC has completed its assignment to update its original research on Life Insurance Regulatory Structures and Strategy. This research compares the regulatory methods used to assess solvency between the European Union (EU) and the United States. It also includes a comparison to the Insurance Core Principles (ICP) promulgated by the International Association of Insurance Supervisors (IAIS).

The original work was released in May 2013. Enough activity has transpired to warrant an update. Most notably, there were delays to the implementation of the Solvency II regime. The EU tested and agreed on a package of measures in the Solvency II framework, particularly the approach to balance sheet volatility for long-term insurers. There were also amendments to the Solvency II regulations on equivalence which has implications for U.S. insurers with EU parents.

In terms of global developments, the IAIS moved forward with its development of the common framework for large insurance groups. Basic capital requirements were developed and a consultation on a global capital standard was launched in late 2014. This is likely to

have wide-ranging consequences for the largest global insurance companies.

In the fall of 2014, PwC, with contributions from Brian Patton, Dana Hunt, Richard Isherwood, and David Scheinerman, was re-recruited to create the sequel.

The original paper segmented the content into six sections:

- An introduction including historical context, environmental influences and developments underway;
- Financial sector activities including the life company environment in the U.S. and EU;
- Overview of current and expected changes in reserving and capital standards in the EU and U.S.;
- Valuation implications, including capital levels, total balance sheet, liability valuation, capital additions, equivalence internal models, supervisory implications and opinions;
- Impacts on product development; and
- Risk management and governance.

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This research report is bolstered by an appendix that lays out the differences between the IAIS ICPs, the U.S. solvency regime, and the EU's Solvency II framework.

Highlights of the substantive revisions are:

- Section 3.1 contains an update to reflect developments in ComFrame including the proposed International Capital Standards and the treatment of large insurance groups. There were updates to reflect the latest position of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) insurance contract projects, and the Federal Reserve supervision for banks and Systemically Important Financial Institutions (SIFI).
- Section 3.2 now includes an update from the July 2014 paper on the EU-U.S. insurance project.
- Section 4.2.1 has been updated for the August 2013 white paper on Solvency Modernization Initiative (SMI).
- Section 4.2.2 contains recent developments in Solvency II. This includes the Long-Term Guarantee LTG package, transitional measures, recovery period and

equivalence. It also includes the Capital Requirements Regulation developments impacting structured securitizations.

- Section 5.1 has been updated for the recovery period of insurers under Solvency II (SII).
- Section 5.6 includes the latest developments on equivalence.
- Appendix A contains an update to reflect implementation timetables as well as the SII discount rate.
- Appendix C includes the new acronyms.
- Appendix E contains the status of EU and G20 countries.

The SOA salutes the researchers and encourages members to spend time reinforcing, if not learning how, the two sides of the Atlantic measure insurer solvency. ■



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