Enhanced Supervision
Perspectives of a nonbank SIFI and U.S. G-SII

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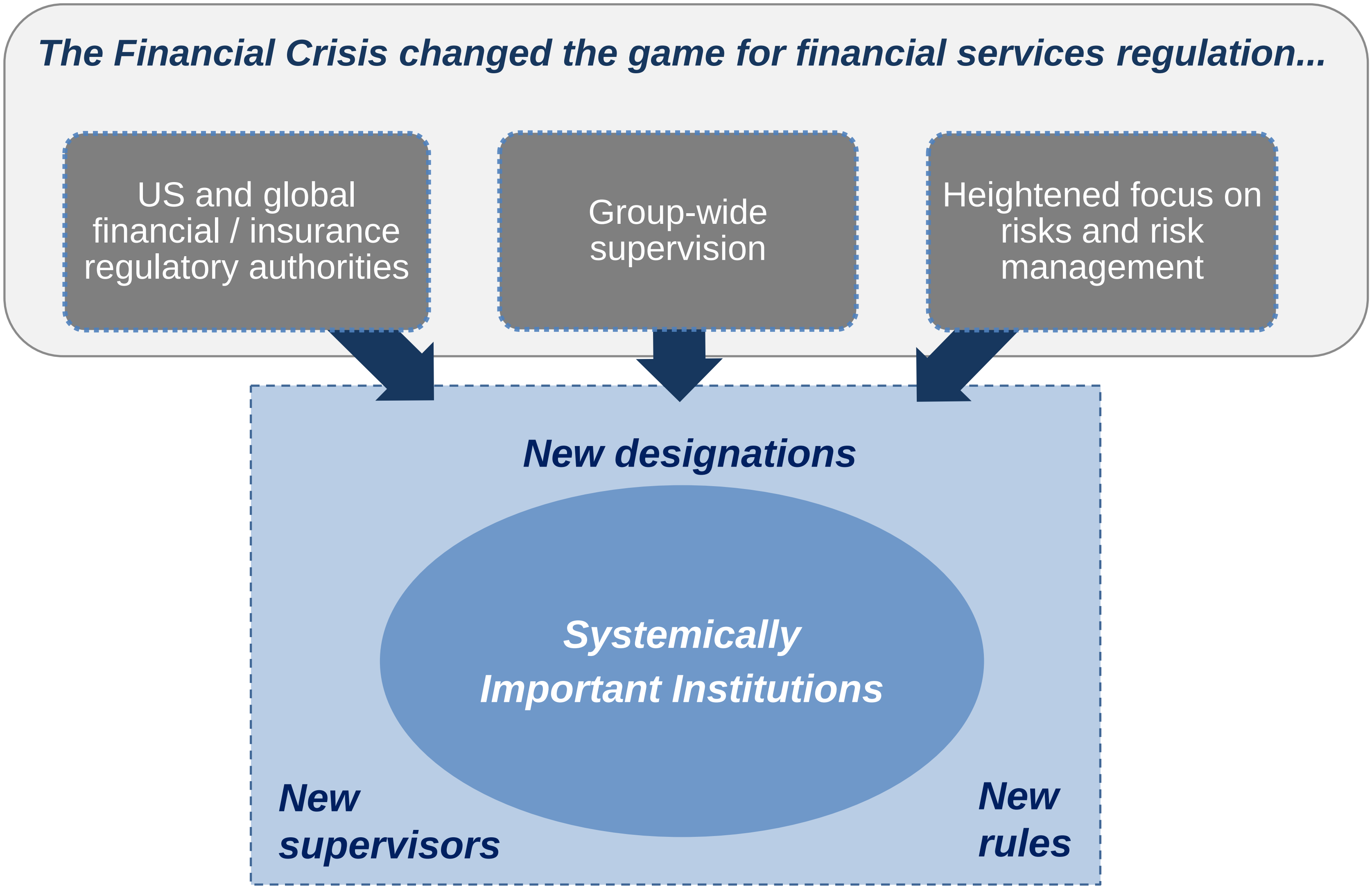
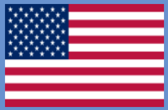
Prudential
Bring Your Challenges

Enhanced Supervision – Background



U.S. Federal Authority



Dodd-Frank Act

Financial Stability Oversight Council (FSOC)

SIFI Designation

Size, Complexity, Interconnectedness, Critical Functions, Substitutability

Federal Reserve Board authority to supervise SIFIs

Federal Group-wide Supervisor

Rules for SIFIs

Capital and Stress Testing, Liquidity, Recovery and Resolution Plans,…

Additionally, state group-wide insurance supervisory authority is emerging through the NAIC Holding Company Model Act

Global Authority

The Group of Twenty (G20)

Financial Stability Board (FSB)

International Association of Insurance Supervisors (IAIS)

Jurisdictional Authorities / IAIS Members include:

NAIC and states
Federal Reserve Board (FRB);
Federal Insurance Office (FIO)

European Insurance and Occupational Pensions Authority (EIOPA)

…

(140 countries in total)

G20 – political authority

FSB – financial regulatory policy makers

IAIS – insurance sector translation

- **G-SII designation & measures**
  - Capital / Higher Loss Absorbency
  - Recovery and Resolution Plans
  - Enhanced Supervision
- **Standards for globally active insurers**
  - ComFrame
  - Capital standards
  - Insurance Core Principles (ICPs)
- Implementation of standards through the **Group-wide Supervisor**

Impacted Insurers

Non-bank SIFIs (United States)
Prudential
AIG
MetLife
GE Capital

United States

Non-bank SIFIs

Global

G-SIIs & IAIGs

9 G-SIIs:

9 G-SIIs
Prudential
AIG
Met Life
Prudential U.K.
AXA
Allianz
Aviva
Generali
Ping An

Approximately 50 IAIGs worldwide

← Enhanced Supervision Impacts →

- Board Involvement
- Governance
- Policies & Standards
- **Controls & Documentation**
- **ERM Framework**
- Liquidity Risk Management
- **Model Risk Management**
- Counterparty Risk Management
- **Capital Requirements**
- **Enterprise Stress Testing**
- Recovery & Resolution Planning
- **ORSA**

Enhanced Supervision in Focus: Capital Standards

Defining the group-wide capital requirements for insurers is a key area of focus for regulators and industry.

United States

Non-bank SIFIs

Federal Reserve Board

- Collins Amendment
- Capital rules for FRB-regulated insurers

Target 2016

Global

G-SIIs & IAIGs

IAIS

- Basic Capital Requirement (BCR)
- Higher Loss Absorbency (HLA)
- Insurance Capital Standard (ICS)

Incremental development to 2019

Supervisory approach to development includes:

- FRB: Notice for Proposed Rulemaking ("NPR") and Quantitative Impact Studies ("QIS")
- IAIS: Public Consultation and Field Testing
- Other data collection, ad hoc and informal consultation

Key considerations include:

- Valuation
- Loss absorption capacity
- Risk based required capital
- Stress testing

Key Considerations for Group-wide Capital Standards

Align with the fundamental economics of insurance

- **Insurers perform liability-driven investing and engage in careful asset-liability management.**
  - ❑ Reflected with symmetrical valuation of insurance liabilities and the assets backing them
- **Insurers invest in high quality long term assets and hold them to maturity to support liabilities.**
  - ❑ Reflected with appropriate credit spreads and long term assumptions in the yield curve used to value insurance liabilities
- **Insurers have significant loss absorption capacity on their balance sheets.**
  - ❑ Reflected by recognizing tangible assets backing margins in insurance reserves as high quality capital. Best estimate valuation reveals this loss absorption capacity.

Avoid unintended consequences

The capital standards must not:

- ❑ Hamper the availability of sound, socially necessary insurance products and product innovation
- ❑ Deter the critical role of insurers in providing stable, long term capital investment
- ❑ Introduce artificial and inappropriate volatility and pro-cyclicality into measures of insurer solvency

Thank you!