



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Public

ICS Consultation Document – Responses to Selected Comments

Stakeholder Session

5 October 2015



About this slide deck

1. This is the next tranche of resolutions of ICS Consultation Document (ICS CD) responses and comments received from IAIS Members and Stakeholders.
2. Member comments are grouped, noting that:
 - i. Members who provided confidential responses are not explicitly identified, but the total number of responses received is reported; and
 - ii. it is the policy of some Members to not comment on public consultations.
3. Stakeholder comments are presented on a thematic basis.

1 Introduction

Question 170. General comments on Section 1 – Introduction (Stakeholders)

Themes from Responses	Proposed Resolution
A very strong theme is that the ICS timeline is very ambitious, unrealistic and should be re-evaluated.	The IAIS has decided to adjust the delivery process, which will result in the ICS being adopted by the 2019 IAIS Annual General Meeting rather than December 2018.
The IAIS should allow flexibility in the implementation of the ICS. That is, local regimes that are consistent with the ICS framework should be recognised as a suitable implementation of it.	The issue of implementation remains under consideration. After ICS Version 2.0 is adopted there will be an implementation period while jurisdictions embed the ICS into regulatory requirements and supervisory practices. During a period of implementation monitoring by the IAIS, lessons will undoubtedly be learned and used as progress is made along the path of convergence to future milestones. By virtue of the fact that the ICS is a group-wide, consolidated insurance capital standard, it is not intended as a legal entity requirement and is not intended to affect or replace existing arrangements or capital standards for legal entity supervision in any jurisdiction.
The IAIS should provide appropriate transition and phase-in periods.	The IAIS recognises that transition measures and phase-in periods for certain elements of the ICS may be necessary in some jurisdictions. This is an important issue and will be addressed prior to the finalisation of ICS version 2.0.

2 Insurance Capital Standard

Question 171. General comments on Section 2 – Insurance Capital Standard (Stakeholders)

Themes from Responses	Proposed Resolution
Valuation should be based on local jurisdictional accounting standards or the prevailing accounting standard in the IAIG's group-wide supervisory jurisdiction.	Comparability is central to the <i>ICS Ultimate Goal</i>, which is a single ICS that includes a common methodology by which one ICS achieves comparable, i.e. substantially the same, outcomes across jurisdictions. Ongoing work is intended to lead to improved convergence over time on the key elements of the ICS towards the ultimate goal. Not prejudging the substance, the key elements include valuation, capital resources and capital requirements. ICS Version 1.0 will be based on the two identified valuation approaches. ICS Version 2.0 may still include the two valuation approaches, but aspires to reduce differences in valuation.

3 Scope of Application

Question 174. General comments on Section 3 – Scope of Application (Stakeholders)

Themes from Responses	Proposed Resolution
The EU should be considered one jurisdiction for the purpose of the international activity criterion for identifying IAIGs.	The issue will be reconsidered in the light of future developments in the EU and IMF practice.
Several stakeholders expressed concerns regarding maintaining a level playing field domestically since IAIG's and non-IAIG's will be subject to different capital standards. Further concerns were expressed from a few non-IAIG's that the ICS will be imposed upon them to eliminate competitive disadvantage.	The IAIS has identified the need for a global group-wide capital standard that will apply to all IAIGs and all G-SIIs. The ICS is anticipated to improve the level playing field among IAIGs and G-SIIs. The application of the ICS beyond IAIGs and G-SIIs, as well as the interaction between the ICS and existing local regimes, is a jurisdictional matter.

4 Measuring risks across sectors

Question 3. Should the IAIS consider integrating the measurement of some or all risks across different sectors?

BAFIN, Central Bank of the Russian Federation, China Insurance Regulatory Commission, EIOPA, MAS, NAIC, Office of the Commissioner of Insurance (Hong Kong), OSFI, and 5 other Members support considering all risks in the ICS using existing sectoral requirements.

The Office of the Commissioner of Insurance (Hong Kong), OSFI, and 1 other Member noted that if a separate sectoral standard does not exist, those risks may be addressed within the ICS.

MAS suggested taking a deconsolidation approach for non-financial activities, as well as to deduct any deficits from capital resources if subsidiaries do not correct any capital shortfall in a timely manner.

IAIS Response: The 2015 Field Testing approach focuses on the impact of risks on insurance business under the example of the standard method while requesting volunteers to report their respective sectoral requirements for non-insurance business. For the time being, this approach of aggregating capital requirements across sectors while considering capital resources on a consolidated level is considered to be an appropriate and simple way to consider risks across the sectors.

7 ICS Capital Requirement

Question 37. Should the ICS capital requirement be developed so that it can be implemented as a PCR? If not, why not?

AMF, BMA, BAFIN, EIOPA, MAS, NAIC, OSFI, PRA, and 4 other Members support the implementation of the ICS as a PCR.

China Insurance Regulatory Commission and the Central Bank of the Russian Federation do not support the implementation of the ICS as a PCR.

Stakeholders responded overwhelmingly that the ICS should not be developed as a PCR because:

- a breach should not trigger intervention actions;
- it would conflict with local jurisdictional PCR's.

IAIS Response: The ICS is proposed to be implemented as a PCR. ICP 17.4 defines a PCR as a solvency control level above which the supervisor does not intervene on capital adequacy grounds. The PCR treatment provides the most flexibility as supervisors are able to initiate discussions with the IAIG in order to restore its PCR without invoking their strongest consequences. The ICS would not be a legal entity PCR, but would serve as a minimum standard for a group PCR.

7 ICS Capital Requirement

Question 37. Should the ICS capital requirement be developed so that it can be implemented as a PCR? If not, why not?

Themes from Responses	Proposed Resolution
Alternatives proposed: • ICS implemented as a “discussion level” that would initiate supervisory college discussions (i.e. an “early warning indicator”) • ICS implemented as a MCR with no binding consequences	At this time, the IAIS expects that the downward movement of capital resources of an IAIG towards its PCR would initiate discussions within the supervisory college. As per ICP 17, the breach of a MCR is far more significant than a breach of a PCR. The ICS would be a minimum standard for the group-wide PCR, which is not the same as a MCR.

7 ICS Capital Requirement

Question 37. Should the ICS capital requirement be developed so that it can be implemented as a PCR? If not, why not?

Themes from Responses	Proposed Resolution
Too early to implement as a PCR. Should be reassessed once a reasonable level of comparability and risk-sensitivity is reached.	ICS Version 2.0 is expected to be adopted within ComFrame and will be more risk-sensitive and comparable than ICS Version 1.0. The IAIS recognises that transition measures and phase-in periods for certain elements of the ICS may be necessary in some jurisdictions. This is an important issue and will be addressed prior to the finalisation of ICS version 2.0.
Difficult to comment because the consequences of a breach have not been clarified.	The ICS capital requirement is proposed to be implemented as a PCR. Module 3, Element 1 will reflect this intent and therefore elaborate on supervisory action and intervention. A breach of a capital requirement is only one of many reasons that a supervisor may intervene.

7 ICS Capital Requirement

Question 38. Should the IAIS promulgate a less risk-sensitive backstop capital measure? Should this backstop measure be used for monitoring the risk-sensitive ICS capital model, or should the backstop serve the role as a capital floor to the ICS?

AMF, BMA, BAFIN, Central Bank of the Russian Federation, and MAS do not support the promulgation of a backstop capital measure.

NAIC and PRA support the promulgation of a backstop capital measure.

EIOPA, OSFI, and 4 other Members think that priority should be given to the development of the ICS.

Stakeholders responded overwhelmingly that a backstop capital measure should not be promulgated because it detracts from risk-sensitivity of the ICS, adds complexity with little benefit, and may create complications for risk and capital management such as conflicting incentives.

IAIS Response: A decision has not been made with respect to a backstop capital measure; however, this issue will be revisited once ICS Version 1.0 is complete.

7.1 Risks in the ICS Capital Requirement

Question 39. What other risks should be included in the ICS capital requirement? Should any of the risks identified be excluded from the ICS capital requirement? Please provide reasons.

BMA, BAFIN, EIOPA, OSFI, and 6 other Members support the list of risks.

EIOPA and 5 other Members also support that individual jurisdictions may consider including additional risks and or jurisdictional specificities in the context of jurisdictional implementation.

OSFI suggested that large exposure risk should be considered in the ICS Ultimate Goal.

Most stakeholders commented that all material risks are taken into account and no additional risks should be added.

IAIS Response: The list of risks included in the ICS will not be amended at this time.

7.1 Risks in the ICS capital requirement (alternate views)

Question 39. What other risks should be included in the ICS capital requirement? Should any of the risks identified be excluded from the ICS capital requirement? Please provide reasons.

Themes from Responses	Proposed Resolution
A few stakeholders questioned the inclusion of operational risk: • Need a risk-sensitive method to quantify it • Better addressed qualitatively • Possible double counting of exposures	The ICS Consultation Document and field testing exercise show that the IAIS is considering different methodologies for quantifying operational risk. Most domestic solvency frameworks include operational risk when determining capital requirements. The IAIS is exploring an appropriate quantification of operational risk to be included in the capital requirement.

7.1 Risks in the ICS capital requirement

Question 40. Are these specified risks and their definitions appropriate for the ICS capital requirement? If not, why not?

AMF, BMA, EIOPA, OSFI, and 5 other Members support the specified risks and their definitions.

BAFIN, Central Bank of the Russian Federation, and NAIC made some comments/suggestions with respect to the definitions.

IAIS Response: The list of specified risks and their definitions will not be amended at this time. Refinements may be made following analysis of the Field Testing data.

7.1 Risks in the ICS capital requirement

Question 40. Are these specified risks and their definitions appropriate for the ICS capital requirement? If not, why not?

Themes from Responses	Proposed Resolution
A few stakeholders commented that premium risk (non-life) should be expanded to account for underwriting risk and pricing risk, not only event risk.	Premium risk for non-life is defined as unexpected changes in the timing, frequency and severity of future insured events. This definition encompasses underwriting, pricing and event risk. The insurance liabilities cover expected changes in premium risk.
A few stakeholders commented on catastrophe risk: • It should be defined as the risk of extreme losses due to low frequency, high severity events; • It is perhaps better assessed by considering the impacts on other key risks (e.g. mortality risk)	The consultation document defines catastrophe risk as unexpected changes in the occurrence of low frequency and high severity events. Since the ICS encompasses both life and non-life insurance, catastrophe risk is proposed to remain a separate risk.

7.1 Risks in the ICS capital requirement

Question 40. Are these specified risks and their definitions appropriate for the ICS capital requirement? If not, why not?

Themes from Responses	Proposed Resolution
A few stakeholders commented that it is not appropriate to include spread risk given the long-term nature of insurance liabilities.	This issue will be addressed through the valuation approaches.
A few stakeholders commented that the ICS should not include asset concentration risk, while a few stakeholders commented that all concentration risk should be considered, not just asset concentration risk.	2015 Field Testing is meant to test the degree to which IAIGs may have asset concentration issues. The IAIS will utilise the results from this testing to help determine the nature, extent and complexity of the asset concentration risk charge that may or may not be necessary to develop within the standard method for the ICS capital requirement. Concentration risk in the ICS is not limited to asset concentration risk as catastrophe risk is included, which is a liability concentration risk.

7.1 Risks in the ICS capital requirement

Question 41. Is it appropriate to not quantify risks other than those identified in Table 2 in the ICS capital requirement? If not appropriate, what risks in addition to those in Table 2 should be quantified in the ICS capital requirement, and how should they be quantified?

BMA, BAFIN, EIOPA, OSFI, and 6 other Members support the exclusion of the risks that are not identified in Table 2.

Most stakeholders responded that it is appropriate to not quantify risks other than those identified.

IAIS Response: The list of risks included in the ICS will not be amended at this time. Refinements may be made following analysis of the Field Testing data.

7.1 Risks in the ICS capital requirement

Question 41. Is it appropriate to not quantify risks other than those identified in Table 2 in the ICS capital requirement? If not appropriate, what risks in addition to those in Table 2 should be quantified in the ICS capital requirement, and how should they be quantified?

Themes from Responses	Proposed Resolution
A few stakeholders responded that the IAIS should include liquidity risk in the ICS since it is associated with systemic risk.	A capital requirement may not be the most appropriate way to mitigate liquidity risk. Liquidity risk may be implicitly captured by other components of the ICS (e.g. lapse risk). Module 2, Elements 3 and 4 of ComFrame cover Enterprise Risk Management and will allow a qualitative assessment of liquidity risk.
A few stakeholders expressed concern that the ICS does not consider possible fungibility restrictions within the group.	The ICS is a group capital standard. The issue of fungibility of capital remains under consideration.

7.2.2 Time Horizon

Question 44. Is the prescription of a one-year time horizon appropriate? If not, what are the alternatives and why?

AMF, BMA, BAFIN, EIOPA, MAS, OSFI, and 6 other Members support a one-year time horizon.

NAIC suggested that each risk category use a time horizon that is most appropriate to its nature (with appropriate adjustments to confidence levels).

Most stakeholders responded that a one-year time horizon is appropriate. However, there were a few that commented that a one-year time horizon is inappropriate for insurers with long-term liabilities. A 3-5 year horizon was suggested by one stakeholder. Others commented that if a longer time horizon is used, confidence levels would need to be adjusted.

IAIS Response: The IAIS will proceed with a one-year time horizon as it is in line with the annual cycle of financial reporting and solvency surveillance prevalent throughout the financial services industry. Supervisors, policyholders, beneficiaries and other stakeholders are interested in the financial position an IAIG reports through its balance sheet. The ICS capital requirement should be sufficient so there is only a small probability that the balance sheet one year from now will have negative capital resources.

7.2.2 Time Horizon

Question 45. Should the ICS capital requirement include an assumption that the IAIG will carry on existing business for the one-year time period as a going concern? Should the ICS capital requirement only apply to risks at the existing measurement date? Why?

EIOPA, MAS, OSFI, and 4 other Members support the going concern assumption.

BAFIN, China Insurance Regulatory Commission, NAIC (for non-life), and 2 other Members support the inclusion of new business, though some recognise the difficulty of doing so.

AMF and NAIC (for life) support the application of the ICS capital requirement only to risks existing at the measurement date.

Stakeholder responses varied. Some view the going concern assumption as more appropriate because it will lead to a more accurate risk assessment by reflecting the business plan. Others said that ICS should only apply to risks at the measurement date because including new business increases complexity and the focus should be on policyholder protection (i.e. a run-off basis).

IAIS Response: The IAIS will proceed with the assumption that the IAIG will carry on existing business for the one year time horizon as a going concern.

8 Possible approaches to measuring risk

Question 58. What major approaches for measuring risk are not included in Sections 8.2 to 8.5? In what circumstances would these alternative approaches be appropriate?

BMA, EIOPA, OSFI, and 5 other Members responded that all major approaches have been identified or did not identify other approaches.

Most stakeholders commented that all major approaches have been identified.

IAIS Response: Consultation comments did not suggest the need for the IAIS to consider adding any other approaches.

10 Other methods of calculating the ICS capital requirement

Section 10 of the ICS Consultation Document focuses on alternate methods of calculating the ICS requirement and asked for comments regarding comparability of different implementations of the ICS, variations to the standard method, the use of internal and external models, as well as criteria for the use of models. Many Member and Stakeholder responses were received on these topics.

IAIS Response: Following the consultation period, the IAIS considered the feedback received and determined an ultimate goal for the ICS, as well as specific goals for two interim versions of the ICS. The goal for ICS Version 2.0 (for adoption within ComFrame in 2019) is the delivery of an ICS that is fit for implementation by supervisors:

- that will achieve an improved level of comparability compared to ICS Version 1.0 but possibly not the level of comparability envisaged by the ultimate goal
- may still include the two valuation approaches but aspires to reduce differences in valuation
- may allow for both the standard method for calculating the ICS capital requirement and other methods of calculation including the use of internal models (partial or full), external models, and variations of the standard method.

The feedback received from Member and Stakeholders on the interaction of the standard method and other methods will be considered as part of the move from ICS Version 1.0 to ICS Version 2.0.