

6.5 Management actions

Q100

Q100 Section 6.5.2 Is this extension of the definition of management actions to include limited premium increases for health business appropriate? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	Yes	If the premium increase is recognized as within the contract boundaries, we agree to reflect that as a management action in the valuation.
EIOPA	EIOPA	IAIS Member	No	Yes	EIOPA supports a principles-based approach to the definition of management actions which may be considered in the calculation of insurance liabilities. Provided that the criteria established by the IAIS are fulfilled, it would be acceptable for specific management actions to be included, for all types of business. However, we believe that not all management actions allowed for in the valuation of insurance liabilities should automatically be extended for consideration in the calculation of the loss absorbing effect of management actions for the ICS Capital Requirement. For the latter, we believe that only changes to future discretionary benefits should be allowed. Otherwise, the mitigating effect of management actions may be overestimated as material risks triggered by the use of certain management actions will not be captured by the ICS capital requirements.

BaFin	Germany	IAIS Member	No	Yes	Premium increases in the health business can help to mitigate the effect of certain risks (e.g increasing (superimposed) inflation).
Financial Supervisory Service	Korea	IAIS Member	No	No	
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	(re)insurers should be aware that due to possibility to adjust premiums, contract boundary should be shortened. So premium increase rather will not work in practice as risk mitigation in capital requirement calculation.
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	There are some long term health insurance contracts where premiums are guaranteed for specific time periods. Most health contracts have premiums that can be modified annually or even more frequently – sometimes even monthly. In the U.S., such increases may have to be cleared with the supervisor and justified actuarially. It therefore is appropriate to allow limited premium increases for health business as management actions.
Ageas	Belgium	Other	No	Yes	The premium increases for contracts that fall within contract boundaries are appropriate.
Canadian Institute of Actuaries	Canada	Other	No	Yes	The ability for management to implement rate increases for health and P&C businesses is an important risk mitigation feature that can be used by management when warranted by experience. This is especially important for multi-year insurance policies and should be considered when quantifying the impact of certain prescribed shocks. We note that the impact of recognizing this management action should be expected to be more material for long-term health insurance contracts (vs. short-term contracts).

Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We agree to include this factor into management actions. For products whose rates can be adjusted as specified in the contracts, premium rate adjustments could be allowed to absorb the losses from loss ratio deterioration.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	Other	No	Yes	As a general principle the benefit of management actions (section 6.5) should be allowed for where the IAIG has the ability to amend the premium. In this context the definition of management actions should be extended to allow for the appropriate premium increases for business on (re)insurance contracts other than health where the features of those contracts allow for such premium increases. Where the premium increases are economically justified in line with the nature of the contract they should not be subject to a cap
Allianz	Germany	Other	No	Yes	The inclusion of premium increases is appropriate and in line with the contract boundaries and management actions for Solvency II. We find it appropriate as there is no full coverage of all the risks (e.g. no premium increase based on market risks which can be a significant risk when building up old age provisions) and the actions usually have discretionary elements, i.e. are not fully prescribed by regulations.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	It is only appropriate where legal and market circumstances allow for such premium increases.
Munich Re	Germany	Other	No	Yes	But only where legal and market circumstances allow for appropriate premium increases.
AIA Group	Hong Kong	Other	No	Yes	We welcome any extension of the definition of management actions provided that such definitions will not unnecessarily penalise IAIGs against the actual management actions that they can really achieve in practice. But note this also is related to the treatment of contract boundary. As stated in our response to Q7, we

					favour the contract boundary treatment to be based on an economic rather than legal principle.
International Actuarial Association	International	Other	No	Yes	One health insurance product which is subject to regular review of experience and hence re-pricing is Long Term Care insurance sold in the US. As the underlying contract is subject to considerable health care cost and utilization trends, it is not-realistic for the valuation to not recognize management actions to reflect emerging experience through premium increases. Of course such management action may be subject to various constraints such as competitive pressures and the need for regulatory approvals.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	• Reflecting the management actions with high feasibility make the IAIS capture the actual risk management of IAIGs more appropriately. • From the standpoint described above, we agree to extend the definition of the management actions, but if management actions are limited to the specific business line, it would lack fairness. The applicable management actions should include not only that for the medical insurance but also broad range of the actions with high feasibility.
The Life Insurance Association of Japan	Japan	Other	No	Yes	• The IAIG's risk management practice can be appropriately captured by taking into account management actions that are highly realistic. • In this respect, we agree with the extension of the definition of management actions. However, if the definition of management actions is confined to certain type of insurance businesses, this would lead to an unfair calculation of the ICS capital requirement. Therefore, the recognition of premium adjustments in management actions as highly realistic on a wider basis would be required, rather than just limited premium increases for health business.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	NA

Aegon NV	The Netherlands	Other	No	Yes	Aegon supports the proposed extension of management actions to include limited premium increases for health business. We do, however, have some concern about the criteria outlined in paragraph 329 of the consultation. Because anticipated rate adjustments on long-term health business may occur in a series of planned steps over a period of years, it is important not to limit the reflection of planned future adjustments only to those that have already been approved by regulators. It is not clear whether criterion (a), as drafted, contemplates required regulatory approval of the formal plan or of a specific rate adjustment. Therefore we recommend modifying criterion (a) to: "documented in a formal plan with approval at the right level of management authority."
American Academy of Actuaries	United States of America	Other	No	Yes	Including limited premium increases in the definition of management actions for health business is appropriate and necessary, especially with regard to guaranteed renewable health products such as long-term care, subject to consideration of legal, regulatory, and operational constraints. Not reflecting then would overstate the risk of the product because it will not reflect management actions that are evident to be effective and hence the capital requirements under this framework.
MassMutual Financial Group	USA	Other	No	Yes	

Q101

Q101 Section 6.5.3.1 Are there examples of other instances for which an extension of management actions to allow for the recognition of premium adjustments may be appropriate? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	No	The only instances where premium increases should be allowed to affect the calculation of the ICS capital requirements is where they derive from changes in future discretionary benefits (e.g. where the discretionary benefits were leading to a reduction in the premiums paid, the reduction of such benefits will indirectly lead to an increase of the premiums paid).
Financial Supervisory Service	Korea	IAIS Member	No	No	
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	Mutual (re)insurers may call, under specified circumstances, their members for additional premium, but contract boundary will work earlier.
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	Management actions should only be recognized in limited circumstances where there is a written documented plan which has been shown to have been used in the past. In such circumstances we agree that adjustments to amounts credited to policyholders such as reductions as a result of increased cost of insurance charges (for example for universal life plans) may be taken into consideration. The reason that management actions should be able to withstand a “use” test is that caution should be used in circumstances where companies may be subject to reputational risk.
Ageas	Belgium	Other	No	No	

Canadian Institute of Actuaries	Canada	Other	No	Yes	• Yearly renewable term (YRT) premiums in certain long-term life reinsurance agreements; • Cost of insurance (COI) charges in certain long-term life insurance contracts; and • All non-life contracts with one-year or two-year term. Note that premium adjustments should be allowed only when the shock is assumed to impact the whole industry, and not only the specific insurer.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We agree that premium adjustments allowed in the contracts could be reflected in management actions, which is more consistent in principle and enable comparability.
Insurance Europe	Europe	Other	No	Yes	The benefit of management actions should be allowed for where the IAIG has the ability to amend the premium. In this context, the definition of management actions should be extended to allow for the appropriate premium increases for business on (re)insurance contracts, not only on health business, where the features of those contracts allow for such premium increases. Where the premium increases are economically justified in line with the nature of the contract they should not be subject to a cap.
Actuarial Association of Europe	European Union	Other	No	Yes	As a general principle the benefit of management actions should be allowed for where the IAIG has the ability to amend the premium. In this context the definition of management actions should be extended to allow for the appropriate premium increases for business on reinsurance contracts other than health where the features of those contracts allow for such premium increases. Where the premium increases are economically justified in line with the nature of the contract they should not be subject to a cap.
Allianz	Germany	Other	No	Yes	This would be meaningful as it's a comparable situation.
German Association of Actuaries (DAV)	Germany	Other	No	Yes	As a general principle the benefit of management actions should be allowed for where the IAIG has the ability to amend the premium. In this context the definition of management actions should be extended to allow for the appropriate premium increases for business on reinsurance contracts other than health where the features of those contracts allow for such

					premium increases. Where the premium increases are economically justified in line with the nature of the contract they should not be subject to a cap.
AIA Group	Hong Kong	Other	No	Yes	Management's ability to adjust prices should be recognised wherever it exists and can in fact be used. This includes, for example, adjustable COI charges on universal life products and adjustable premiums on adjustable premium term life insurance.
International Actuarial Association	International	Other	No	Yes	There may well be several types of non-participating life insurance products (e.g. Universal Life) for which certain aspects of the premiums or charges levied under the contract are adjustable by management to reflect emerging experience.
Great Eastern Holdings Ltd	Singapore	Other	No	No	NA
Swiss Re	Switzerland	Other	No	Yes	In the case of yearly renewably terms in the US
Aegon NV	The Netherlands	Other	No	Yes	Aegon believes that it is both appropriate and necessary to reflect the ability of management to increase monthly deduction (or "cost of insurance") rates on universal life and similar policies. Such provisions are included in order to allow the insurer to adjust to changes in future expectations, such as those modelled in ICS stresses.
American Council of Life Insurers	United States	Other	No	Yes	ACLI believes that rate actions such as COI increases should be allowed. We understand that rate actions might precipitate other policyholder actions such as increased lapses and possibly reputational risk. Such policyholder behavior sensitivity could be captured by reasonable dynamic lapse assumptions.
New York Life	United States	Other	No	Yes	Premium increases and COI increases should be considered in stress scenarios. In a 99.5% scenario, most companies would seek to increase rates or charges where they are able to do so. However, where a company does not have the unilateral right to do so, and must receive

					regulatory approval, consideration should be given as to whether a regulator would permit such increases, again assuming a 99.5% event.
MassMutual Financial Group	USA	Other	No	Yes	Where the insurer has the contractual ability to unilaterally modify policyholder charges or benefits (such as Cost of Insurance charges), they should be allowed to reflect those as management actions in the ICS.

Q102

Q102 Section 6.5.3.2 Is the method to determine the effect of management actions in a stress scenario inconsistent with the recognition of future premium increases in stress scenarios? If “yes”, please suggest a solution.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	Yes	We suggest considering a capping to the premium increase, for example the premium increase cannot exceed x% of the experience changes of the company or the industry average.
EIOPA	EIOPA	IAIS Member	No		In the situation described in the previous response, such (indirect) premium increases should be allowed to affect the calculation ICS capital requirement through the reduction of the corresponding future discretionary benefits. In these cases, the methodology for the calculation of the cap on management actions would continue to be appropriate.
Financial Supervisory Service	Korea	IAIS Member	No	No	
National Association of Insurance Commissioners	USA	IAIS Member	No	No	It is appropriate for management to respond to a stress situation with a fitting response. For example, an apposite response to negative experience is to increase premiums where permissible, such as in short term health contracts or auto insurance.
Ageas	Belgium	Other	No	No	

Canadian Institute of Actuaries	Canada	Other	No	Yes	Implementing management decisions may have a lag for which the insurer may have an exposure. The ability to recognize the management decisions will have a material impact of technical provisions held but possibly not on the short-term impact of the stress. However, it is not appropriate to limit the impact of this form of management action; we recognize that the approach proposed may be a practical one to recognizing this form of management action.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We have no related experience. If premium adjustments are considered in management actions, their changes should be reflected in determination of discretionary benefits, which is the upper limit of loss absorbing.
Allianz	Germany	Other	No	Yes	For premium increases there shouldn't be prudentially motivated constraints that limit companies actions beyond what is allowed or foreseen by local legislation, including in stress scenarios. In practice management actions (such as adjustments to discretionary benefits) and premium increases are intertwined, so any restrictions (derived from best estimate amounts, such as the best estimate liability for bonuses) do not reflect economic reality and risk management reality, leading to overly conservative and unrealistic assessments.
AIA Group	Hong Kong	Other	No	No	
International Actuarial Association	International	Other	No	Yes	The IAA believes that the current estimate should provide for expected experience of all types (e.g. mortality, morbidity, lapse, inflation, expense etc.) as well as expected management action. A LTC product with health care cost inflation should be valued with that assumption along with expected premium increases. Note that any expected friction costs (e.g. competitive pressures, delays, regulatory approval costs etc.) in taking management action should be considered in the current estimate as well. However, upon application of a sudden shock, the normal abilities of management to react (e.g. premiums, dividends etc.) may be constrained significantly due to competitive or regulatory pressures.

Great Eastern Holdings Ltd	Singapore	Other	No	No	
American Academy of Actuaries	United States of America	Other	No	Yes	No. One important aspect of risk mitigation for long-duration contracts is the ability to change interest crediting rates or policyholder dividends to reflect changes in market interest rates or other adverse experience. The risk on these contracts is less than on those without such an ability, and it would be appropriate to reflect this in the calculation of the liability as well as in the required surplus.
MassMutual Financial Group	USA	Other	No	No	

Q103

Q103 Section 6.5.4 Are there any further comments on management actions that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	No	
Financial Supervisory Service	Korea	IAIS Member	No	Yes	Cap on management action is deemed appropriate. However, if the cap limits dividend reserve (only applicable for participating products), separate cap for non-participating products is necessary. In Korea, the proportion of non-participating products is much larger than participating products and therefore it is necessary to define the management actions for non-participating products too.
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	Management actions should only be recognized in limited circumstances similar to those which would be accepted by auditors (i.e. where there is a written documented plan which has been shown to have been used in the past).
Ageas	Belgium	Other	No	No	

Canadian Institute of Actuaries	Canada	Other	No	Yes	Canada uses an Appointed Actuary concept to provide an overarching view of assumptions including management decisions. The CIA has provided guidance to the Appointed Actuaries. The CIA would be willing to share this with the IAIS. Other considerations with potentially impactful results include contingent profit commissions that are provided to brokers, and employee bonuses.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	
AMICE, Association of Mutuals and Cooperatives in Europe/ICMIF, International Cooperative and Mutual Insurance Federation.	Europe	Other	No	Yes	See answer on ALM as a management action
Allianz	Germany	Other	No	Yes	It is not clear to us what additional insight any separate information about the effects of management actions yields; the calculation is not straight forward and leaves room for interpretation (e.g. on dynamic lapse).
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	No	
Munich Re	Germany	Other	No	No	
AIA Group	Hong Kong	Other	No	No	
International Actuarial Association	International	Other	No	Yes	The IAA notes that the credit to be given to participating contracts with dividends (bonuses) appears (in the CD) to equal 100% of the present value of currently projected dividends, For many

					North American life insurers this present value can be a large amount and provide a very significant capital credit versus a comparable non-participating contract. Given reasonable policyholder expectations for dividends as well as competitive pressures, some regulatory jurisdictions favour a run off of guarantees as an acceptable resolution and others would like to target a going concern of continuing “reasonable “ dividends/bonuses after a resolution. Thus the jurisdiction’s regulatory “risk appetite” preference and its legal requirements will indicate whether 100% of dividends is too large of a credit under a shock scenario or is an appropriate credit. This topic (treatment of par) was extensively field tested by Canada as OSFI prepared its LICAT requirements for life insurers during the last year. Further the IAA recommends that the next version of the ICS include a comprehensive clear description of the treatment of participating (with profits) business, its valuation, provision for future dividends, capital requirements versus similar non-participating policies and the manner in which the ICS affords credit in the ICS for the adjustability of par.
General Insurance Association of Japan	Japan	Other	No	No	
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	No	
New York Life	United States	Other	No	Yes	Under the currently constructed version of the ICS, there is a cap on management actions to total insurance liabilities for future bonuses or other discretionary benefits, under the baseline

					valuation. This creates an artificial cap on the ability of discretionary benefits, such as dividends, to provide relief in a stress scenario. The problem is that the cap is calculated on a present value basis. Considering that a 99.5% event is likely to be driven by interest rate scenarios for most life insurers, this causes an issue when considering the impact of adjustments to discretionary benefits under a low interest rate scenario. The present value impact of cutting discretionary benefits under a severe low interest rate scenario may be greater than the initial valuation of discretionary benefits using higher baseline discounting, despite the cash flows only being cut by the amount available. We agree that discretionary benefit cash flows should not and cannot be assumed to decrease by more than the baseline cash flow, but the discounting creates an artificial cap that is not sensible. We suggest revising the capping methodology to consider the undiscounted cash flow movement in the cap combined with the interest rate scenario that is assumed in the 99.5th percentile.
MassMutual Financial Group	USA	Other	No	Yes	Management actions seem to be defined to include any amounts in excess of contractual guarantees which are either provided to or not charged to the policyholder. This appears to include ALL dividends, interest credited in excess of contractual guarantees, expense charges less than contractual guarantees, etc. These amounts exist even in the baseline scenarios. To fully quantify management actions, each scenario would need to be run with and without amounts in excess of contractual guarantees. One would then quantify the change in amounts in excess of contractual guarantees as management actions. This approach fails to recognize that changes from the baseline amounts may simply be part of the business plan and NOT a

					management action at that point. An example of this is a deferred annuity product whose credited rate follows the 20 yr treasury rate adjusted for the expected spread. Management's original action was to set the strategy, it is not the change in amounts due to the strategy. Similarly, management may set a strategy for the determination of dividends which they may legally have to affirm the results of each year. It should not be a management action to follow that strategy, even if it changes the amounts. If the strategy is changed, that should be a quantified management action.
Northwestern Mutual Life	USA	Other	No	Yes	Yes. The contractual ability of an insurer to adjust non-guaranteed payments such as participating dividends or bonuses under changing circumstances such as economic stress is a source of financial strength for the firm. The concept of capping this effect by rule in the ICS strikes us as contrary to obtaining an accurate strength measurement and in conflict with the regulatory purpose of encouraging insurer financial strength. We view the payment of these non-guaranteed benefits the same as any other cash flows in the liability valuation which need to be verified by the firm and regulator in light of contractual terms, reasonable past practice and expectations. Our suggestion is to replace the concept of a cap with strengthened procedures and analytical rigor around the reasonable estimation of the associated cash flows and their effect on the ICS. Should you decide to retain a cap for ICS Version 1.0, continuing to include total insurance liabilities for future participating dividends or bonuses within the cap would be appropriate.

End of Section 6.5