

Insurance Capital Standard (ICS) Key Issues

George Brady

La Jolla CA, January 17, 2017

IAIS Stakeholder Meeting



Institute of International Finance

- **IIF: the global association of the financial industry**
 - Approx. 500 members from 70 countries - from insurance, banking, asset management, accounting firms,
 - Representative offices in London, Dubai, Singapore, Beijing
- **Insurance membership including G-SIIs, IAIGs, regional insurers**
 - Large diversity of jurisdictions, including EU/UK, US, Canada, Switzerland, Mexico, Japan and China
- **Regulatory Affairs Department**
 - Global advocacy, including for insurance
 - Active engagement in response to global policy making, standards
 - IAIS: comment letters (often with Geneva Association)
 - ComFrame, ICS, G-SIIs/NTNI, RRP, governance

ICS key issues

Presentation focused on:

1. ICS Process
2. Interrelation to ComFrame
3. Approaches to Valuation



ICS process

- *First address the fundamentals, then sequence further development*
 - Specifically scoped out of recent ICS consultation
- Key aspects of the ICS remain uncertain:
 - Relationship with other capital regimes must be clear
 - Interplay with other ComFrame modules must be clear
 - Political buy-in must be clear
 - Clear political commitment from national regulators to development and implementation of the ICS remains undemonstrated,
 - Especially as national regulators have reinforced commitment to national regimes.
- Sequential approach to ICS development
 - Build on principles, then specifications, then test; repeat

Relation with ComFrame

- The ICS must be firmly embedded in ComFrame to address:
 - **Different characteristics** in spite of formal integration of ICS in ComFrame (module 2, element 5)
 - **Overlap**: both aim to reflect “all material risks” to which an IAIG is exposed (i.e., ICS principle 4 and CF M2E3 on ERM)
 - Currently, **lack of consistency** between ICS and CF of the tools addressing risks.
- Appropriate recognition of ComFrame risk management tools in ICS would bring applied capital levels more in line with actual risk, and reward sound risk management practices.

Valuation

- Most IIF/GA members see 2 (implicit) main goals for valuation efforts in the ICS:
 - Tackling excessive short-term volatility and pro-cyclicality
 - Promoting comparability of outcomes across jurisdictions

Our submission proposes possible pathways:

- An expected earned rate...
 - Most readily reflects insurer business & risk management practices
 - Could support key regulatory objectives: incentivize ALM to minimize balance sheet risk, mitigate procyclicality/volatility
 - ...with appropriate guardrails
 - Importance of embedding ICS solidly in ComFrame
 - Qualitative (ORSA, ERM, governance requirements and related Quantitative guardrails
- Reference portfolio
 - Standardized way to include yields from multiple insurer assets in the discount rate
- Unadjusted discount curves for liabilities