

Comments for ICS Version 1.0

Toru Omachi

Mitsui Sumitomo Insurance Co., Ltd.

On behalf of

The General Insurance Association of Japan

1. Conditions for implementing the ICS
2. Utilization and disclosure of ICS Version 2.0
 - (1) Utilization of ICS Version 2.0 by supervisors
 - (2) Disclosure of ICS Version 2.0

1. Conditions for implementing the ICS

- (1) If the ICS were to be implemented in countries/jurisdictions while maintaining variations in its standard method to calculate capital and risks, it would deviate from the ICS goal to create a global, consistent capital standard to address the lack of comparability among existing jurisdictional group capital standards.

1. Conditions for implementing the ICS

(2) The group ICS ratio is composed of local entity figures and the possibility remains where each country may implement the ICS to apply to each entity.

In such a case, IAIGs/G-SIIs need to consider how to maintain and improve individual local entity contributions to the group ICS ratio. Such considerations could place the local entity of IAIGs/G-SIIs at a competitive disadvantage against non-IAIGs in the country/jurisdiction.

Therefore, the rules to be applied to IAIGs/G-SIIs and others on both a consolidated and single entity-basis should be consistent.

1. Conditions for implementing the ICS

- (3) Unlike G-SIIs policy measures intended to address systemic risks, the ICS as a capital standard can be relevant to non-IAIGs as well.
- (4) An economic value-based measure is extremely sensitive to the interest rate level and is therefore volatile. This is observed in the Financial Sector Assessment Program findings on Japan published in July 2017 and in practical experience of Solvency II.

1. Conditions for implementing the ICS

- The ICS should be implemented only after it achieves convergence toward a single economic value-based approach including for non-IAIGs in respective countries/jurisdictions, thereby ensuring true comparability and fairness.
- The hurdles in implementing ICS Version 2.0, such as the introduction of new legislation and/or regulations, and the burden on insurers to prepare for implementation, will differ considerably among countries/jurisdictions.
- It is necessary to have sufficient transitional measures in place in order to address the gap in current regulations in respective countries/jurisdictions.

2. Utilization and disclosure of ICS Version 2.0

(1) Utilization of ICS Version 2.0 by supervisors

- We propose using ICS Version 2.0 as a “soft” standard such as a “monitoring measure” to accumulate global experience of ICS implementation until there is a consensus among IAIS members, insurers and market participants that the ICS has achieved sufficient credibility in terms of fairness and comparability. The ICS should continue to be fine-tuned through close communication between regulators and insurers.

2. Utilization and disclosure of ICS Version 2.0

(2) Disclosure of ICS Version 2.0

- If the final results of ICS Version 2.0 which maintain competing measures are disclosed, such disclosure will lead to confusion(*) among market participants. It will put insurers under unintended pressure and adversely affect their sound risk management and product strategies.

(*) Example

- If the results of ICS Version 2.0 using different methods contradict over the 100% threshold, i.e., the ICS ratio measured by method A is 105% while the ICS ratio measured by method B is 95%, it might lead to confused implication for the stakeholders whether or not there will be a supervisory action.

2. Utilization and disclosure of ICS Version 2.0

(2) Disclosure of ICS Version 2.0

- If the final results of the ICS are to be disclosed, then disclosure should be limited to figures such as the ICS median ratio. The names and figures of individual insurers should be kept confidential as was the case with 2016 G-SIIs identification process.

Thank you