

IIF/GA Joint Presentation on ICS v1.0

IAIS Stakeholder Meeting, Kuala Lumpur
1 November 2017

Overview

- I. Opening Message
- II. Key messages in the 2016 Joint IIF/GA Response Letter
- III. Developments in ICS version 1.0
- IV. Additional Questions to the IAIS

I. Opening Message

- We support:
 - A comprehensive framework for supervision of global groups
 - A framework with quantitative and qualitative components
 - Continuing work to develop an international capital standard (ICS)
- However, for ICS to be successful, it is critical that the IAIS:
 - Clearly indicate Members' willingness to **implement** an ICS
 - Pause to allow **time to reflect** on lessons learned, analyze extensive data
 - An ICS which meets stakeholder concerns is **not achievable** in the current timeframe
 - Explain how an ICS will interact with **existing and evolving jurisdictional rules**
 - Assess the balance between high Field Testing **costs** and the expected outcome
 - Demonstrate how the current project will meet the “**ultimate goal**” of a single measure producing substantially similar outcomes

II. Key messages in the 2016 Joint IIF/GA Response Letter (1/5)

The Geneva Association and the Institute of International Finance provided a common response to the ICS consultation, on 19 October 2016. We would like to reinforce the following:

- Overarching message
- Further key messages
- Comments on relationship of ICS and ComFrame
- Comments on valuation

II. Key messages in the 2016 Joint IIF/GA Response Letter (2/5)

- In our response, we acknowledge the progress made on a range of technical issues – to be further elaborated as part of the Field Testing Exercise. **We are looking forward to results and conclusions of this important exercise**
- The consultation was limited in scope – to valuation, capital resources and calibration. The whole package needs to be known, tested and understood before its implications can be well understood.
- **This still holds. And existing local/regional regimes do not seem to be converging**

II. Key messages in the 2016 Joint IIF/GA Response Letter (3/5)

- As in our 2016 letter, we continue to urge the IAIS to:
 - Take a sequential approach in the development of the ICS and to address a number of fundamental and technical issues first before releasing ICS v1.0
 - In the standard model and valuation approaches, take account of the differences among Insurance markets around the world, characterized by **varying** supervisory **regimes**, regulatory requirements and market circumstances.
 - Strengthen the **interplay of the ICS with other elements of ComFrame**, especially **qualitative elements**
 - Develop an ICS to serve as a basis to achieve comparability, and not a prescriptive set of measures
 - Develop approaches to valuation that bring about comparable results, and address excess volatility
 - Establish a valuation framework that takes due account of the insurance business model, and the treatment of assets and liabilities

II. Key messages in the 2016 Joint IIF/GA Response Letter (4/5)

Relationship of ICS to ComFrame (CF):

Too much emphasis is currently placed on the capital element of ComFrame. Capital should be seen in the context of the broader supervisory framework, including other ComFrame tools, which the ICS should complement, rather than replace.

- The ICS must be firmly embedded in ComFrame
- Appropriate recognition in the ICS of ComFrame risk management tools (ERM standards, corporate governance, ORSA and stress testing) would bring applied capital levels more in line with actual risk, and reward sound risk management practices.

II. Key messages in the 2016 Joint IIF/GA Response Letter (5/5)

Regarding valuation:

- Most IIF/GA members see a number of important issues to take account of in the ICS, including:
 - Tackling excessive short-term volatility and pro-cyclicality
 - Promoting comparability of outcomes across jurisdictions
- Impact of various methods has still to be learned
- Of importance is:
 - To respect and reflect the long term nature of the insurance business model
 - To allow for proper ALM management
 - To not disincentivise against long term investments
 - To eliminate noise in the balance sheet

III. Developments in ICS v1.0

Based on our previous response, we have the following comments on ICS v1.0

- Valuation: We welcome the open options in testing different valuation approaches.
 - We support the inclusion of OAG in Field Testing.
 - Discounting remains a key concern.
- MOCE
 - We continue to question the need for a MOCE as proposed in ICS v1.0
- Capital resources
 - While two tiers are proposed, what qualifies as capital under each tier remains unclear.
- Calibration
 - We think the calibration in ICS v1.0 is too strong.

IV. Additional Questions to the IAIS

- What is the IAIS current thinking on implementation?
- Implications of the US Treasury report?
- Interplay with the US group-wide solvency framework?
- IFRS 17 - accounting convergence (IASB and FASB)?
- Will the IAIS conduct cost-benefit analysis of this project?
- What will the IAIS do to further refine the qualitative elements of ComFrame?
 - Will the IAIS formalize a process for receiving input from frontline supervisors (e.g., Supervisory Forum)?
 - Can refinement of existing tools (e.g, ORSA, colleges) meet current needs in supervising globally active groups?