IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

ICS Stakeholder Meeting

1 February 2019, Basel

Agenda

1. Welcome and Introduction

2. ICS Version 2.0
    a. Key issues to resolve
    b. Monitoring period
    c. Q&A

3. Presentations from Stakeholders
    a. AIA Group
    b. Metlife
    c. Prudential plc
    d. Q&A session and other interventions

4. Concluding remarks

ICS Version 2.0 – Key Issues to Resolve

2018 Field Testing of ICS Version 2.0

- 47 Volunteer Groups from 18 jurisdictions
- Some key changes were introduced in 2018 Field Testing:
  - MAV Three-Bucket Approach to discounting
  - GAAP Plus: split between those GAAP Plus jurisdictions doing a full ICS calculation, balance sheet only or answering qualitative questions
  - Margin over Current Estimate (MOCE): three MOCE options included in 2018 Field Testing: fixed C-MOCE, variable C-MOCE and P-MOCE
  - Capital resources – only one issue open for 2018 Field Testing (acceleration clauses that may be triggered in going concern)
  - Capital requirements – introduction of Non-Default Spread risk within Market risk
  - Tax – inclusion of a DTL cap on the ICS stress tax effect

Major drivers of ICS coverage ratios

Positive and negative changes

- **Discounting**: small changes in insurance liabilities have a material impact on the coverage ratio
- Inclusion of the **margin of current estimate** (MOCE) has a large impact on equity (through a reduction in capital resources)
- Inclusion of **non-default spread risk** (NDSR)
- The introduction of a **tax cap** for the calculation of capital requirement

Discounting

Three Bucket Approach

- Small changes in insurance liabilities have a material impact on the coverage ratio.

- Revised base yield curve field tested for first time

- Changes in values of insurance liabilities are mainly driven by the discounting rates.

- The Three-Bucket Approach allows for several spreads on the discounting curve.

Issues to resolve for MAV

- Criteria for the buckets
- Consider further refinement of the long-term forward rate (LTFR), such as an intermediate classification between developed and emerging markets
- Spread over the LTFR

MOCE

MOCE in 2018 Field Testing

- Two families of approaches were tested this year, ie the cost of capital (C-MOCE) and the prudence (P-MOCE) approaches

MOCE tested in 2018 FT		
C-MOCE	C-MOCE	P-MOCE
Fixed cost of capital rate (5%)	Variable cost of capital rate	n/a
No deduction from capital requirement	No deduction from capital requirement	Full deduction from capital requirement

- The shaded section of the table describes the default MOCE for 2018 Field Testing

C-MOCE and P-MOCE

- The possible designs of MOCE have different effects on the coverage ratios of Volunteer Groups. However, the interaction with the capital requirement has a larger impact.

	Amount ($)	Impact on ICS Coverage Ratio (CR)
Predominantly life	C-MOCE > P-MOCE	CR P-MOCE (deducted) > CR C-MOCE (no deduction)
Predominantly non-life	P-MOCE > C-MOCE	CR P-MOCE (deducted) > CR C-MOCE (no deduction)

Issues to resolve for MOCE

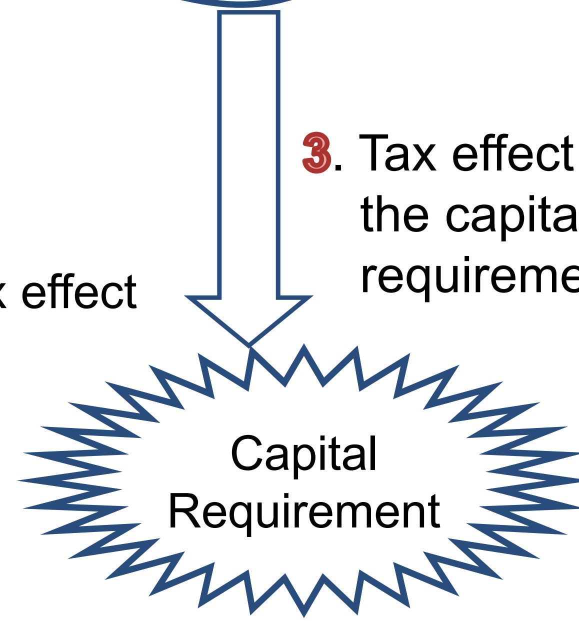
- Interaction of MOCE with the capital requirement and/or capital resources
- Design of MOCE

Overview of tax treatment in the ICS

1. DTAs on jurisdictional audited GAAP/SAP

2. DTAs recognised from the ICS adjustment

3. Tax effect on the capital requirement



Key consideration points

1 DTAs on jurisdictional audited GAAP/SAP basis

- Consistency of utilisation assessment across GAAP/SAP

2&3 DTAs recognised from the ICS adjustment and tax effect on the capital requirement

- Top-down vs Bottom-up
- Group effective tax rate
- DTAs recognised from MOCE?
- Utilisation assessment
- Treatment of the stress tax effect

Tax treatment in the ICS

Issues under consideration

- Jurisdictional differences in GAAP/SAP audited financial statements
- Reduce volatility in the calculation of the group effective tax rate
- Measures to address pro-cyclicality in a stress event
- Utilisation assessment of the stress tax effect on the capital requirement
  - Tax loss carrybacks
  - Future taxable income (projected or based on historical profits/losses)
- Treatment of the stress tax effect on the capital requirement
- Whether MOCE will be considered a temporary or permanent difference

NDSR

Context

- Field tested for the first time in 2018
- NDSR is designed as two stress scenarios (spreads narrowing or widening) applied to assets and liabilities that are sensitive to changes in spreads.
- Specific corporate spreads are provided by the IAIS for five major currencies (USD, EUR, JPY, GBP, CNY). Post-NDSR spreads are specified by the IAIS for these corporate spreads.
- The corporate spreads for 14 other currencies are mapped to one of these five major currencies while a default “world” bucket is used for 12 other currencies.
- Individual sovereign spreads are provided for 35 currencies. They do not change under the NDSR stress scenarios.

Issues to resolve for NDSR

- There will be a review of 2018 Field Testing and the IAIS will consider if this additional charge is appropriate

- Design changes to NDSR, if it is agreed to include it in 2019 Field Testing and ICS Version 2.0

Other issues under consideration

Non-exhaustive list

- Interest rate risk: aggregation across currencies
- Equity volatility
- Calibration of life and non-life risks
- Treatment of reinsurance collateral
- Capital resources: qualifying criteria for financial instruments

ICS Version 2.0 – Monitoring Period

Implementation of ICS Version 2.0

Conducted in two phases:

Phase 1: five-year monitoring period

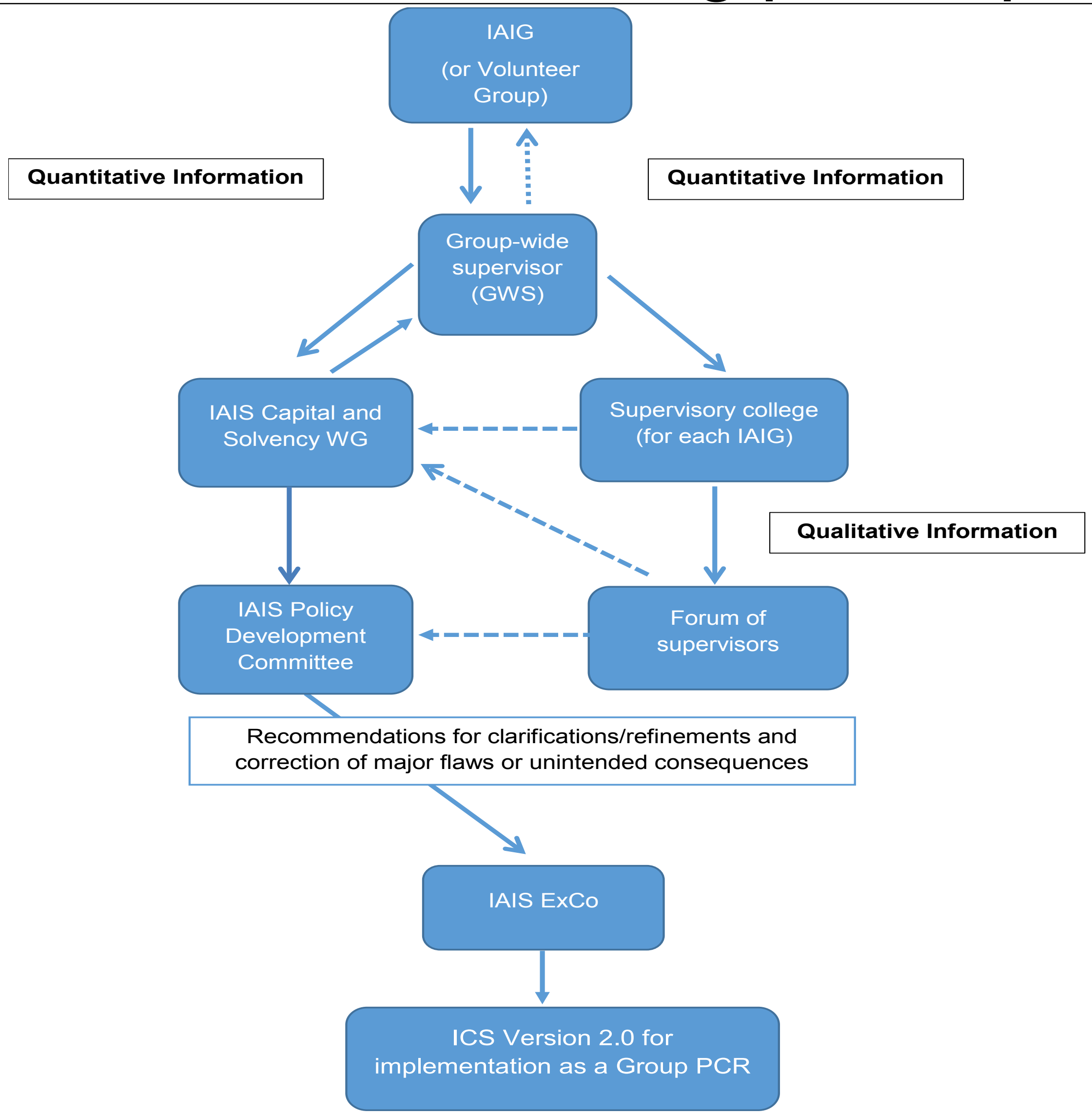
- ICS Version 2.0:
  - will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges
  - will not be used as a PCR (i.e. the ICS results will not be used to trigger supervisory action)

Phase 2: implementation of the ICS as a group-wide PCR

Two equally important components:

- **Mandatory confidential reporting** by all IAIGs of a **reference ICS** which is based on market-adjusted valuation (MAV), the standard method for capital requirements and converged criteria for qualifying capital resources; and
- **Additional reporting, at the option of the group-wide supervisor**, of ICS based on GAAP Plus valuation and/or other methods of calculation of the capital requirement

ICS Version 2.0 monitoring period process



ICS Version 2.0 – Q&A

Presentations from Stakeholders

Concluding Remarks

2019 Key Dates

- Stakeholder meeting: 10 April, Orlando (tentative)
- Field Testing Launch: end April
- Data Due: 31 July
- Analysis of field testing data: August to October
- Adoption of ICS Version 2.0 for the monitoring period: 11-14 November (IAIS Parent Committee Meetings and AGM)