

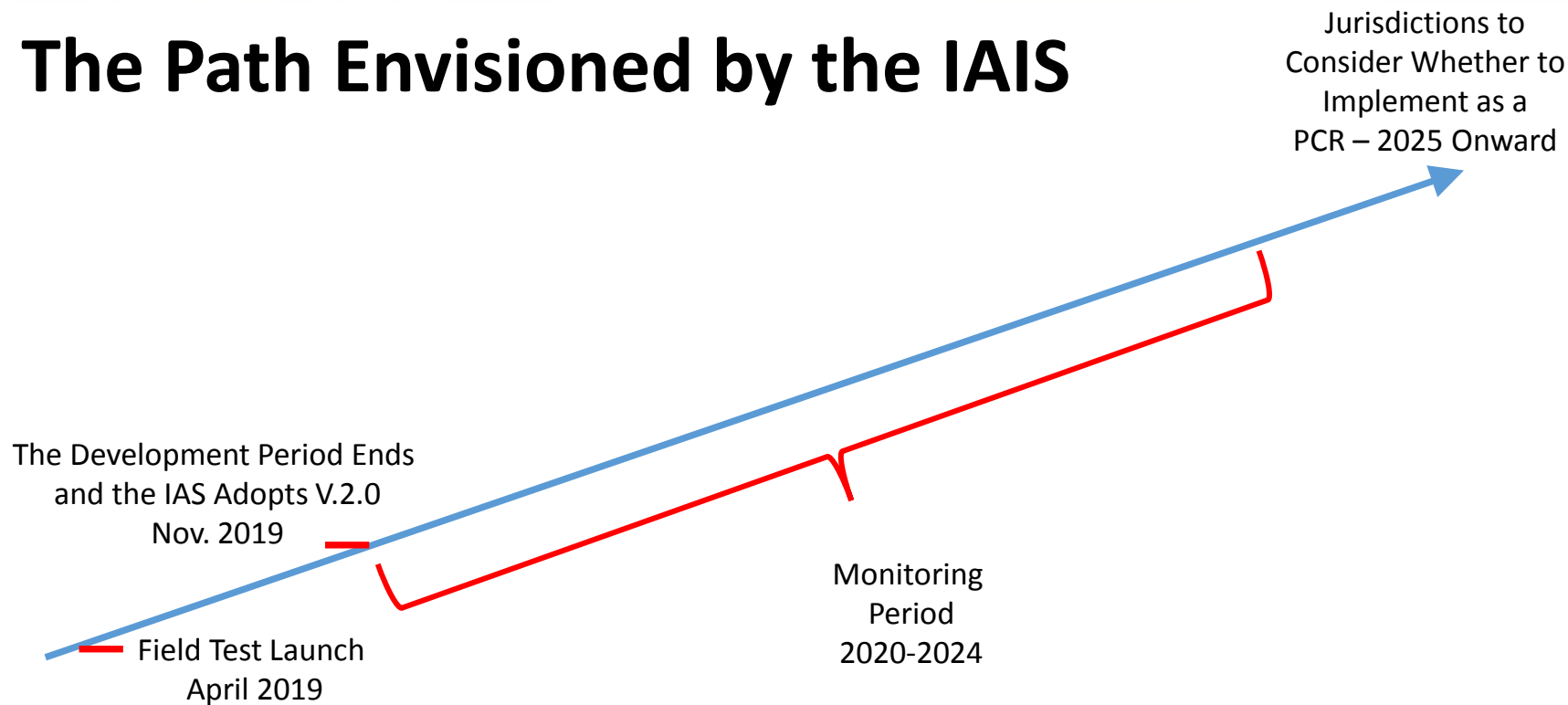
The Insurance Capital Standard Our Views About the Path Ahead

American Property Casualty Insurance Association

April 10, 2019

Orlando, Florida

The Path Envisioned by the IAIS



With 6+ Years Invested and Only 6 Months to Go, Much Remains Unresolved, Including:

- MOCE
 - Discounting
 - Senior debt
 - Calibration
 - Non-default spread risk
 - Tax treatment
 - And more...
- Plus: ComFrame and the Holistic Framework for Systemic Risk are also to be finalized in the same timeframe

Looking Ahead to November in Abu Dhabi

- Like ICS 1.0, it is looking likely that some aspects of ICS V.2.0 will remain unresolved when time comes for the planned adoption by the IAIS, which would begin the monitoring period
- Other pieces of the formula will have been subject to too few, and possibly to only one, field test exercise
- The IAIS has not stated where the ICS “will land” nor is there a consultation to provide feedback on the potential impact of the ICS scheduled prior to planned adoption by the IAIS; legislators are already seeking that information; that it is not the stated “intent” of the IAIS that the ICS raise capital levels is not sufficient
- The IAIS will not have arrived at a suitable ICS until its development is complete, its testing encompasses sufficient time periods/cycles to demonstrate utility and stability, and its impact across jurisdictions has been assessed and subjected to consultation
- When ICS 2.0 is adopted by the IAIS in November, there will be insufficient evidence to suggest it is either fit for purpose, or sufficiently stable as a benchmark for comparison to other methods such as aggregation
 - The ICS should not be used for purposes for which it was not designed, e.g., as an indicator within the Holistic Framework for Systemic Risk

The Monitoring Period Must Be More Robust than is Currently Envisioned by the IAIS

- Various aspects of the ICS will need further development during the monitoring period, and the impact of those changes may be significant
- The following will therefore be necessary:
 - Exposure to stakeholders and consultation with respect to proposed changes and anticipated impacts
 - Assurances, through agreement and effective processes, of confidential treatment of company data
 - A prohibition on disclosure of results by supervisors or by insurers
 - A communication strategy to inform the public (in particular, rating agencies and analysts) of caveats involving the unfinished ICS and to avoid misinterpretations or misuse of company-specific information

At the End of the Monitoring Period

- Implementation of the ICS as an IAIS standard at the end of the monitoring period must require:
 - Public consultation on the changes and overall impacts
 - Sufficient detail for stakeholders to understand and provide consultation as to impacts on their jurisdiction or region (providing there are sufficient volunteers to assure confidentiality of data)
 - A decision of the IAIS based on collective evidence at that time that the ICS is fit for purpose, made on a contemporaneous basis with decisions on the use of other methods as outcomes-equivalent for implementation purposes in jurisdictions that choose to use them

And Beyond: After the Monitoring Period

- Implementation in a jurisdiction is for the long term; supervisors and insurers alike will need assurance that the ICS, as a standard and a benchmark, will be adequately maintained for the long haul
- The IAIS will need to:
 - Express its commitment and that of its members to maintain the ICS into perpetuity
 - Determine and communicate plans to do so, including resource needs, processes, and for governance
 - Allow for related consultations with stakeholders

Aggregation Method is Critical for the United States

- The MAV-based ICS is not aligned with the well-developed existing supervisory system, processes and tools used in the state-based system
 - The ICS would send signals which would conflict with inputs from all other aspects of the existing system
 - The ICS would thus introduce a significant risk into the supervisory decision-making process, as well as impose high implementation costs
- An aggregation method would preclude such risks and costs through use of a group capital design that:
 - Is an incremental and pragmatic natural extension of the existing system
 - Is aligned with all aspects of that system (which has been shown to be effective)
 - Results in a group capital measure that is easily understood, and aligned with legal entity requirements and audited data

Comparability Principles

- Principles are needed to assess aggregation and other methods as outcomes-equivalent means for implementation of the ICS; to stakeholders, there are important unknowns:
 - Where the IAIS stands now in its process to evaluate and negotiate comparability principles
 - Going forward, the plan and timeframe to finalize the principles
 - How stakeholders' views will be considered through consultations at appropriate intervals
- Other concerns:
 - That comparability consider implementation by other jurisdictions as well, not just the U.S.
 - That comparability apply to all other methods, e.g., internal models, GAAP Plus, as well as aggregation

About APCIA

APCIA represents nearly 60 percent of the U.S. property casualty insurance market and the broadest cross-section of home, auto, and business insurers of any national trade association. APCIA members represent all sizes, structures, and regions, which protect families, communities, and businesses in the U.S. and across the globe. APCIA was formed on January 1 by the merger of the American Insurance Association (AIA) and the Property Casualty Insurers Association of America (PCI).

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