

7.15 Real Estate risk

Q127 Section 7.15 Are there any comments on Real Estate risk that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain, with sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	
Insurance Europe	Europe	No	No	The proposed shock level of 25% is extremely conservative and does not reflect the often very low market volatility of this asset class.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
Global Federation of Insurance Associations	Global	No	No	
Dai-ichi Life Holdings, Inc.	Japan	No	No	

General Insurance Association of Japan	Japan	No	No	
The Life Insurance Association of Japan	Japan	No	No	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	No	We are comfortable with the Real Estate risk element as currently specified.
Association of British Insurers	United Kingdom	No	No	
National Association of Mutual Insurance Companies	United States	No	Yes	The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable. Real estate risk and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges.
Prudential Financial, Inc.	United States of America	No	Yes	We believe the Real Estate for Own Use category does not warrant a risk charge as these assets will continue to be used under adverse stress conditions.
MetLife, Inc	USA	No	Yes	In our opinion, the IAIS ICS Real Estate Investments risk charge factor of 25% is too high. We have consistently recommended reducing the factor from 25% to 15%, consistent with an ACLI Proposal and a IPD Study. --The ACLI proposal is based on NCREIF NPI Index using stochastic analysis using 10 years of data. This study finding were the worst cumulative loss was 8%, much less than the 25% used by the IAIS.



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				--IPD Study: Historical returns on a Pan-European Index. Study concludes that "Based On The Best Evidence Of Tail Values At Risk Currently Available, (The Property Shock Factor) Would Be No Higher Than 15%." The study used 0.5% tail risk.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI's yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

End of Section 7.15