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D9: New Global Capital Regime via the IAIS & Comparisons to Solvency II

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Introducing Brian and Kenny



Brian Ring

- Field testing the Insurance Capital Standard as well as Solvency II reporting in previous role
- Developing IFRS 17 implementation plans, and
- Supporting Solvency II implementations including IMAP, TMTP applications



Kenny McIvor

- Consulting to regulators on solvency regimes in Asia and the Middle East
- Developing Willis Towers Watson articles on the activities of the IAIS, and
- Supporting Solvency II implementations, including IMAP, MA, TMTP applications



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Agenda

IAIS and its work

Comparisons between Solvency II and the ICS

Balance Sheet

Yield Curves and Discounting

Margin Over Current Estimate

Standard Method and Risk Charges

Views of local and international stakeholders

Key messages and what the future looks like



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But first, reasons to care

Internationally developed standards are...

...influencing **local regulatory requirements** for all companies – e.g. FR 8

...driving **investor behaviours** in the insurance sector – e.g. Carl Ichan and AIG

...the “go to” for nascent market regulators who are interpreting them as **worldwide standards**

...not terribly interested in your **project fatigue** – i.e. the fourth balance sheet is coming!

...possibly an appealing **alternative in the Post-Brexit world!**



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IAIS and its Work



Global convergence of supervision is a team effort where the IAIS is a star player



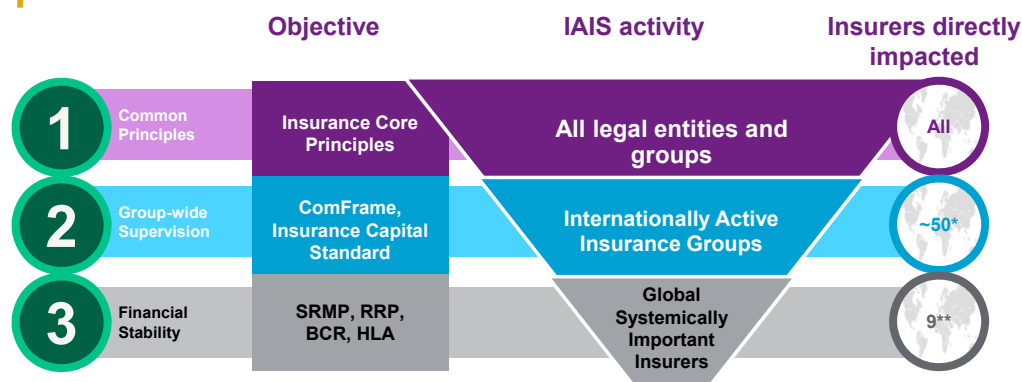
International Association
of Insurance Supervisors

The **mission of the IAIS** is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain **fair, safe and stable insurance markets** for the **benefit and protection of policyholders** and to **contribute to global financial stability**.



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IAIS activities fall into three broad areas of insurance supervision



* To be identified by supervisory colleges (around 50-60 expected).
 ** Identified by the Financial Stability Board (FSB).

Source: International Association of Insurance Supervisors



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ComFrame has a specific purpose and application



Quantitative IAIG criteria

Internationally active:

1. Premiums are written in three or more jurisdictions; and
2. Gross written premiums outside of the home jurisdiction are at least 10% of the group's total gross written premiums.

Significant size:

1. Total assets are at least USD 50 billion; or
 2. Gross written premiums are at least USD 10 billion.
- (Both based on three-year rolling average.)

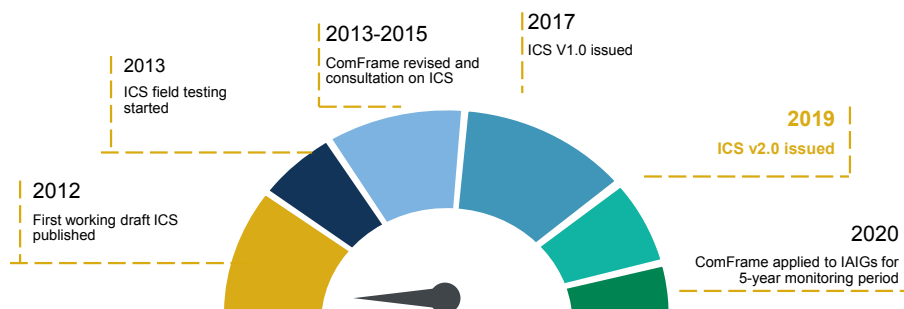


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ComFrame and the ICS are imminent (ish)

A key part of the ComFrame project is the development of a risk-based, global Insurance Capital Standard ("ICS") for IAIGs and G-SIIs.



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Comparison between Solvency II and the ICS



How did it come about?

The Global Financial Crisis (2008)



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Stated Objectives of the Frameworks

“...ultimate goal is a single ICS that includes a **common methodology** by which one ICS achieves **comparable** outcomes **across jurisdictions**. [...] Not prejudging the substance, the key elements include valuation, capital resources and capital requirements”

IAIS

Financial Stability

Common Methodology

Prudent Behaviour

“an opportunity to improve the insurance regulation by introducing a **risk-based system** defining the capital requirements with a **standard formula or an internal model** and taking into account **diversification and risk-mitigation** effects”

CEA & Towers Perrin

Policyholder Protection

Risk-based

Multi-jurisdictional

Comparability



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What is the Insurance Capital Standard – The Key Facts

1. Two main options – **MAV and GAAP Plus** – being considered
2. A groupwide (not just shareholder) measure of capital adequacy **for IAIGs** (and G-SIIs)
3. It will form the basis **for HLAs**, once implemented
4. Finishing up field-testing mode and now entering **5 year monitoring period** (2020 – 2024)
5. Various discounting options have considered, but 2019 Field Testing focuses on the **“Three-Bucket Approach”**
6. Looks and feels **like Standard Formula** – designed to be simplistic with risks calibrated to a 99.5th percentile, with aggregation via correlation matrices
7. Life insurance risks **tend to be less onerous** whereas ICS market risk shocks are **typically higher**



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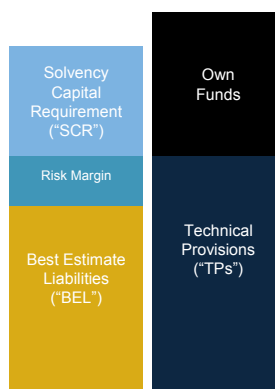
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ICS Balance Sheet is similar to that of Solvency II

ICS Market Adjusted Valuation



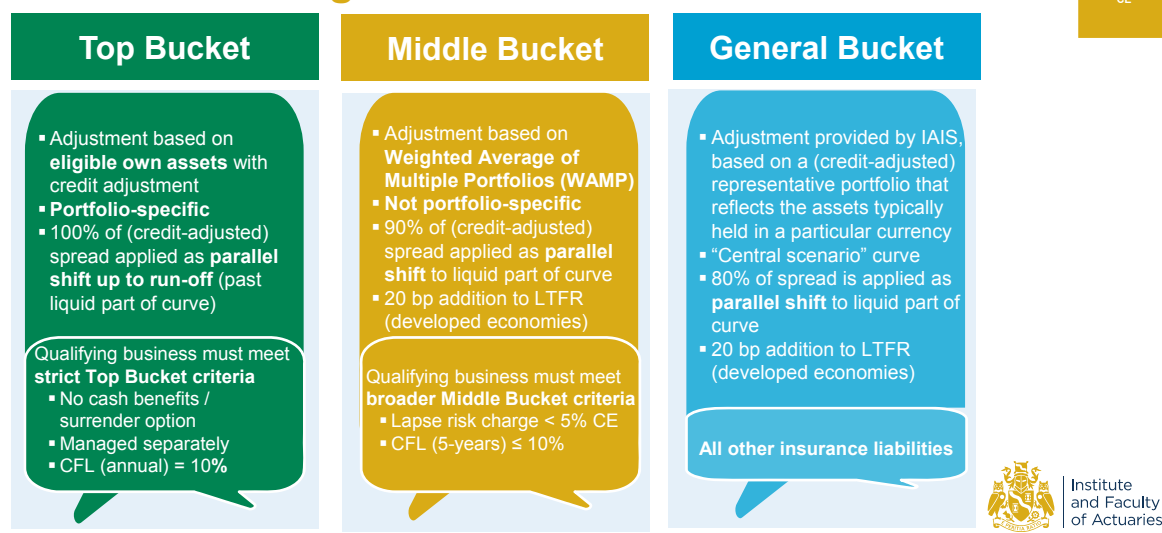
Solvency II



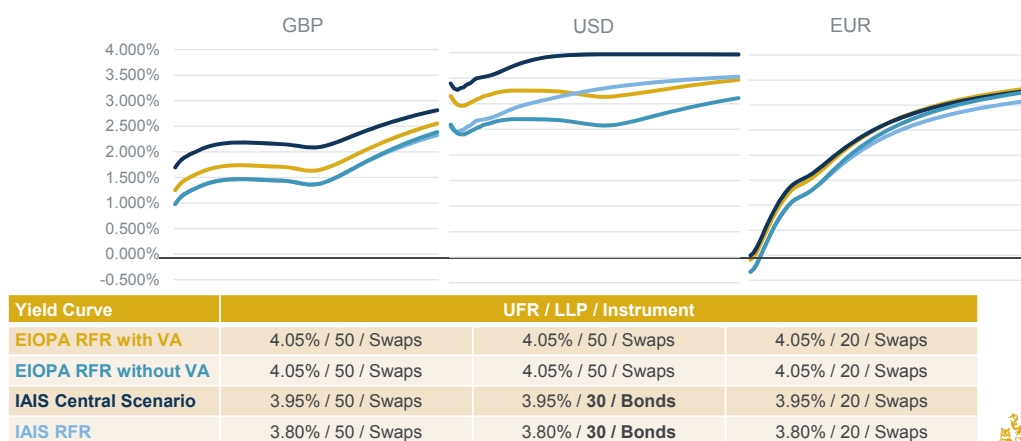
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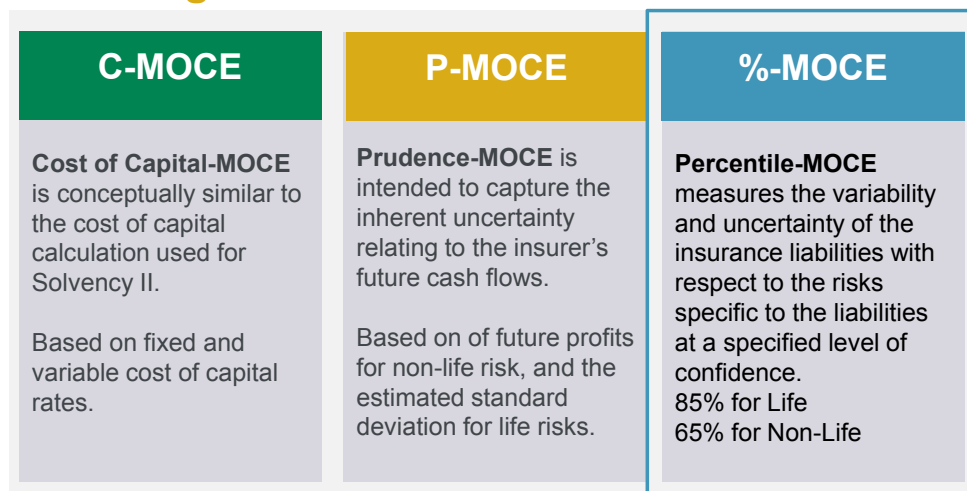
ICS: Discounting



ICS: Yield Curves

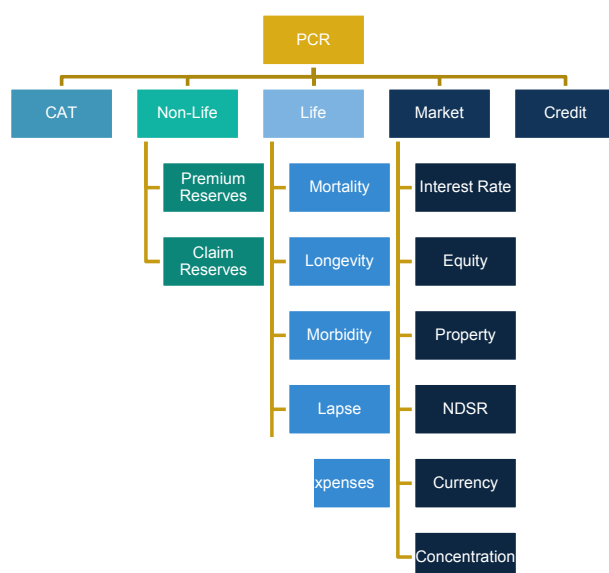


ICS: Margin Over Current Estimate



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ICS: Risk Charges

Compared to Solvency II:

- Risk charges vary by geography (but do not currently allow for geographical diversification)
- Morbidity risk charge has granularity for different product types
- Credit risk factors apply by type, rating category and maturity
- Interest rate risk follows dynamic Nelson-Siegel (DNS) model with mean reversion, level up/down and twist up/down scenarios
- NDSR is calculated as fixed bp addition by rating category
- Equity risk charges by equity type are aggregated via correlation matrix and equity volatility is added separately
- Property risk charge includes mortgage insurance risk charge
- CAT risk covers natural catastrophe scenario and prescribed terrorist, pandemic and credit / surety
- Operational risk charge slightly less onerous for non-life, but not much different for life business
- Correlation between credit and non-life lower, but others are the same

Risk Type	ICS 2019 Field Testing	Solvency II Standard Formula
Mortality	12.5%	15%
Longevity	17.5%	20%
Lapse	40%	50%
Mass Lapse (Retail)	30%	40%
Expense Level and Inflation	6% & 1% pa	10% & 1% pa
Equity Level (Listed Developed)	35%	39%*
Equity Level (Listed Emerging)	48%	49%*
Equity Volatility	Surface shock	-
Property	25%	25%
Currency (GBP:EUR)	30%	25%



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Pillars 2 and 3 / Internal Models



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Views of local and international stakeholders



Stakeholder commentary from ICS / ComFrame consultations

“ The MAV approach does not work well for property/casualty companies ”
- NAMIC

“ Some requirements provided in ComFrame are equally relevant to non-IAIGs ”

“ A clear articulation of the purpose of the MOCE itself is required, as the CoC-MOCE serves a completely different purpose from the P-MOCE ”
- GFIA

“ The longevity stress is a composite stress combining level, trend and volatility. The optimal way to address these would be to look at each of these individually ”
- NAIC

“ A market-adjusted valuation approach is supported, but only if the discount rates for liabilities reflect the long-term nature of the insurance business model ”
- Insurance Europe

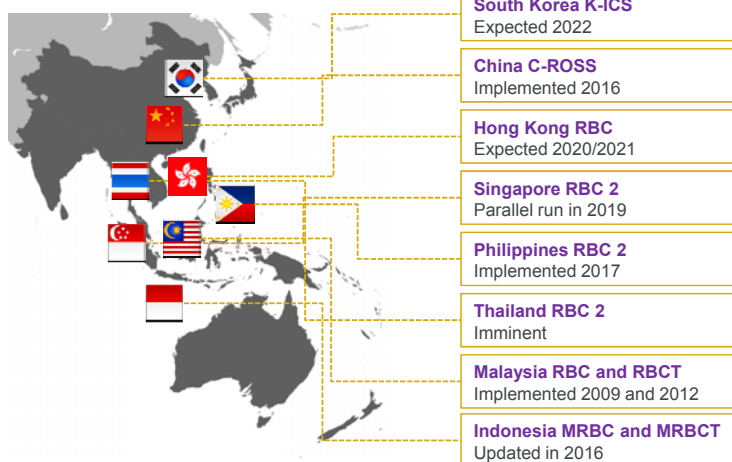
“ We feel that the current DNS model is already a very sophisticated and hence a relative complex approach...we doubt whether it's appropriate to include a mean reversion element ”
- EIOPA

Feedback from the ICS v2.0 and ComFrame public consultations in 2018



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ICS and the ICPs are driving moves to RBC



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Key messages and what the future looks like

Integrating ICS, Revising Solvency II, Brexit



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Again: what that means for insurers

Internationally developed standards are...

...influencing **local regulatory requirements**

So prepare for new reporting requirements and potentially wider regulatory interaction

...driving insurance market **investor behaviours**

So there may be work to help investors understand metrics beyond Solvency II and IFRS 17

...becoming **worldwide standards**

So for some firms ICS could become the biting constraint instead of Solvency II

...unabated by **project fatigue**

So even more need to improve reporting processes and streamline working day timetables

...an **alternative in the Post-Brexit world!**



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Questions?



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Thank you