IAIS Consultations

Print view of your comments on "Risk-based Global Insurance Capital Standard (ICS) version 1.0 Public Consultation Document" - Date: 19.10.2016, Time: 14:24

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Treat my comments as confidential	No

	Question
	Q1 Section 3 Should the IAIS further define the concept of an insurance-led financial conglomerate to give greater certainty to supervisors and IAIGs as to how the head of an IAIG will be identified in a complex conglomerate structure? If "yes", is the proposed definition a helpful start and if so what further specification is suggested?
Answer	Yes
	Q2 Section 3 Are there any instances of groups likely to be identified as IAIGs where it is likely supervisory judgement will need to be exercised in determining the level at which the group consolidated balance sheet should be prepared for ICS purposes? If "yes", what is the nature of the uncertainty in identifying the Head of the IAIG?
Answer	Yes
Answer Comment	An example would be a conglomerate where there is significant banking and/or asset management business in addition to insurance business.
	Q2.1 Section 3 If "yes" to Q2, is this uncertainty related to the insurance group or financial conglomerate forming part of a wider group? If "yes", please describe concerns with identifying the correct Head of the IAIG.
Answer	
	Q3 Section 3 Given the description of entities to be included in the consolidation for ICS purposes, are there uncertainties as to material entities that should be included within the perimeter of the ICS calculation? If "yes", for which types of entities are supervisors and IAIGs most likely to benefit from greater specification of the scope of the group?
Answer	
	Q4 Section 3 Are there any further comments on this section on the scope of group that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.
Answer	
	Q5 Section 4.1.1 Do the adjustments to GAAP specified in the 2016 Field Testing Technical Specifications for the construction of the MAV balance sheet succeed in providing a largely comparable picture of the financial situation of IAIGs and a consistent basis for the calculation of the ICS? Please explain.

Answer

Q6 Section 4.1.1 Are there any other material areas of divergence across existing GAAPs (or statutory accounts) that should be subject to adjustments when constructing the MAV balance sheet? If “yes”, please explain.

Answer

Q7 Section 4.1.3 Should MAV include a more economic approach to contract boundaries (eg renewal rate and stability of premiums) rather than focusing on contractual or legal aspects? If “yes”, why would this provide a better assessment of the solvency position of IAIGs?

Answer

Q8 Section 4.1.3 If an economic approach were adopted, would that make the determination of the contract boundaries more complicated? Please explain.

Answer

Q9 Section 4.1.3 If an economic approach were adopted, the calibration of some ICS risk charges would need to be revised to capture the different exposure to risks (eg Lapse risk). What areas of the ICS capital requirement would be affected and how? Please explain in terms of the defined risks in the ICS capital requirement.

Answer

Q10 Section 4.1.3 To ensure the overall consistency of the framework, the definition of MOCE would need to be reviewed following the adoption of an economic approach to contract boundaries. Would a change to an economic approach to contract boundaries impact the specification of MOCE? Please explain.

Answer

Q11 Section 4.1.3 If material amounts of future business were included in the valuation of insurance liabilities through the consideration of future expected renewals, would the resulting capital resources (future profits) continue to meet the criteria for inclusion in Tier 1 (eg regarding the criterion on availability)? Please explain.

Answer

Q12 Section 4.1.3 Would other components of the ICS, be affected by such change? If “yes”, please specify those components and provide an explanation.

Answer

Q13 Section 4.1.4.3 Is the current 3-segment approach to the definition of IAIS base yield curves a sound basis to determine the base yield curve? Please explain.

Answer

Yes

Answer Comment

The approach uses market yields as far as they are available and reliable, combined with an objective approach to fixing the far end of the yield curve.
The method of grading should be explained. From figure 2 it appears to be straight-line interpolation. This could give discontinuities depending on the shape and relative levels of the market yield curve and long-term anchor yield.

Q14 Section 4.1.4.3 The base yield curves are based on either swaps or government bonds, depending on the liquidity of the underlying markets. Are any of the IAIS’ choices of either swaps or government bonds as a basis for determining individual currency yield curves as set out in Table 4 inappropriate? If “yes”, for which currencies is the choice inappropriate? Please explain your answer.

Answer

Q15 Section 4.1.4.3 For each currency, the extrapolation period begins at the point where the market for the instruments used no longer fulfils the criteria for being considered deep, liquid and transparent. Is the starting point of Segment 2 inappropriate for any currency? If “yes”, for which currencies is the starting point inappropriate? Please explain.

Answer

Q16 Section 4.1.4.3 Currently, the IAIS has adopted the simplification that Segment 3 should start at maturity 60 for all currencies. Should the IAIS continue with this simplification? If “yes”, are there any necessary amendments to that approach? If “no”, should the IAIS seek to adopt a different approach to determining the start of Segment 3 based on one of the following options?

Answer

No

Answer Comment

Using 60 years in all situations may not be appropriate in the case of a long segment 1 (say 40 or 45 years), with a significant gap between the yield at the end of segment 1 and the long-term yield. There should be a minimum length of segment 2, say 30 or 40 years. In addition, many of the countries listed on page 39 of the consultation do not have bond or swaps of a 60 year term. Forcing a segment 3 of 60 years may lead to a distortion of the long term forward rate.

Q16.1 Section 4.1.4.3 Should the IAIS harmonise the length of Segment 2 at a set number of years? If “yes”, what should be the length of Segment 2?

Answer

No

Q16.2 Section 4.1.4.3 Should the IAIS consider determining a minimum convergence point as well as a consistent convergence time and take a maximum of the last point of Segment 1 plus the consistent convergence time and the minimum convergence point? If “yes”, what should be the consistent convergence time and minimum convergence point?

Answer

Yes

Answer Comment

This deals with both of the shortcomings above. For example, segment 3 starts at length of segment 1 + 40 years, subject to a minimum of starting at 60 years.

Q17 Section 4.1.4.3 The proposed LTFR is based on a macroeconomic approach using OECD information. Is this methodology appropriate? Please explain.

Answer

Yes

Answer Comment

The proposed LTFR derived is based on a macroeconomic approach using information based on long-term expectations of economic growth from the OECD. We believe that using global economic data from the OECD is appropriate given the level of detail available from this source.

Q17.1 Section 4.1.4.3 If “no” to Q17, should the IAIS develop an alternative methodology to derive the LTFR? Please provide an outline of such an alternative methodology.

Answer

Q18 Section 4.1.4.3 The discounting approach is based on a stable macro-economic long-term anchor while the methodology to derive it may show drifts or even steps over time. Should the IAIS also address the issue of frequency of assessment and ways to update the LTFR? If “yes”, please provide details of how the IAIS should address the issue of frequency of assessment and ways to update the LTFR.

Answer

Yes

Answer Comment

The long-term anchor rate affects the yield curve throughout segment 2, not just in segment 3. It is therefore very important to have (a) an objective process (as far as is possible) for deciding what the long-term anchor rate is and (b) a rule for how quickly changes in the long-term anchor rate are reflected in actual yield curves. For (b), one might have a maximum of (say) 20 basis points movement in the anchor rate per annum.

Q19 Section 4.1.4.3 Do you have any other proposals for refinement of the methodology to derive the base yield curves? If "yes", please provide a detailed rationale for your suggestions.

Answer

Q20 Section 4.1.4.4 Which approach to portfolio selection, as a basis for the calculation of the credit spread adjustment, is more appropriate for the MAV approach, taking into account the need to ensure a balance between complexity, comparability and basis risk? Please explain.

Answer

The basis for the spread adjustment could reflect the nature of the liabilities:
Where liabilities are predictable, a cash-flow matching investment strategy would largely immunise the insurer from market fluctuations not related to underlying credit risk (e.g. for annuities in payment). In such cases the spread adjustment could be based on the underlying asset spread in order to provide appropriate risk management incentives.

For liabilities with less predictable cash-flows, the insurer would be exposed to some market fluctuations, and the spread adjustment could reflect the greater uncertainty as well as the typical investment strategy.

Q21 Section 4.1.4.4 Is it appropriate to have entity-specific elements in the valuation of insurance liabilities?

Answer

Yes

Q21.1 Section 4.1.4.4 If "yes" to Q21, to what extent is this appropriate?

Answer

It is appropriate to have some entity-specific elements if the liabilities are predictable (e.g. annuities in payment), to the extent that the insurer is immune from market fluctuations (e.g. through cash-flow matching). It is also appropriate to mitigate incentives to invest in risky assets.

Q21.2 Section 4.1.4.4 If "yes" to Q21, how can that be aligned with the market-based nature of the framework (evident in the approach used to value assets) and the need to protect all policyholders in an equal manner, independently of the individual choices made by each IAIG, as discussed above?

Answer

The entity-specific elements do not introduce idiosyncratic risk to policyholders when the liabilities are predictable and backed by assets with predictable cash-flows.

Q22 Section 4.1.4.4 Is it important for the valuation framework, together with the capital requirement framework, to not provide incentives for low quality investments undermining policyholder protection? Please explain.

Answer

Yes

Answer Comment

This could be achieved by limiting the benefit that could be achieved from lower quality investments, for instance by restricting the spread on which the adjustment will be based on.

Q22.1 Section 4.1.4.4 If "yes" to Q22, is the capping of the contribution to the Adjustment to that of a comparable BBB asset an effective way of achieving that objective? Please explain.

Answer

Q22.2 Section 4.1.4.4 If “no” to Q22.1, what other approaches could the IAIS explore to achieve that objective?

Answer

Q23 Section 4.1.4.4 Should insurance liabilities be segregated into buckets for the purpose of applying the credit spread adjustment?

Answer

Yes

Q23.1 Section 4.1.4.4 If “yes” to Q23, which criteria are appropriate to allocate liabilities to the different buckets?

Answer

The diverse nature of the insurance liabilities and in particular their varying degrees of predictability lead to varying exposures to market fluctuations. So it is reasonable to segregate liabilities into buckets based on their predictability. The differing spreads to be applied to the range of liability buckets could also consider the differing nature of the assets backing the liabilities (e.g. annuities backed by fixed income assets, versus participating products backed by a greater variety of assets).
The criteria should reflect ALM principles explicitly with a consideration to assets matching the liabilities.

Q23.2 Section 4.1.4.4 If “yes” to Q23, what is an appropriate number of buckets?

Answer

Q23.3 Section 4.1.4.4 If “yes” to Q23, what should be the application ratios associated with each bucket?

Answer

Q23.4 Section 4.1.4.4 If ”no” to Q23, as an alternative to a criterion for predictability of insurance liabilities, could partial risk transfer to policyholders (eg market value adjusted products) be a criterion for determining the credit spread adjustment?

Answer

Q24 Section 4.1.4.4 Does the ability of IAIGs to earn credit spreads above the risk-free interest rates in a risk-free manner depend on the IAIGs’ ability to match liability cash-flows with asset cash-flows? Please explain.

Answer

Yes

Answer Comment

The cash-flow matching of assets and liabilities largely immunises the insurer from market fluctuations.

Q25 Section 4.1.4.4 What level of granularity is more appropriate for the calculation of the credit spread adjustment? Please justify your answer.

Answer

The IAIG identifies different classes or combinations of assets backing specific classes of liabilities associated with each bucket, calculating different credit spread adjustments for each bucket on the basis of the groups of assets identified.

Answer Comment

The nature and in particular the predictability of the liabilities will be reflected in the combination of assets backing the liabilities.

Q26 Section 4.1.4.4 In the absence of requirements concerning asset-liability matching and ring-fencing, should supervisors require the proposed allocation be demonstrated and maintained throughout the lifetime of the corresponding insurance liabilities? Please explain and if “yes”, how could this be achieved?

Answer

Q27 Section 4.1.4.4 Is the proposed approach for calculating the adjustments for default reasonable? If “no”, please explain how it could be improved.

Answer

Q28 Section 4.1.4.4 Should the IAIS consider introducing an adjustment to the LTFR? If “yes”, what would be the technical rationale for an adjustment to the LTFR and which methodologies should the IAIS explore?

Answer

Q29 Section 4.1.4.4 Is there a way to avoid or mitigate the issue of “inverted risk profile” (as described in Section 4.1.4.4)? If “yes”, please explain.

Answer

Yes

Answer Comment

Such risk could be mitigated by the use of a (limited) number of buckets based on the nature of the liabilities (see Q23) together with the same level of granularity in the calculation of the spread adjustment (see Q25).

Q30 Section 4.1.4.4 Is the move to an adjustment defined as an absolute change (in bps) to the base yield curve appropriate, rather than a proportional movement? Please explain.

Answer

Yes

Answer Comment

This is appropriate as the spread is not proportionally related to the base yield curve.

Q31 Section 4.1.4.5 Which of the proposed options strikes a better balance between the different policy issues under consideration by the IAIS? Please explain.

Answer

The segregation of liabilities could be adopted to reflect the nature of the liabilities and in particular the varying degree of their predictability.

Q31.1 Section 4.1.4.5 Could the chosen option be modified to make it even more appropriate? If “yes”, please provide details of the suggested modifications to the chosen option.

Answer

Yes

Answer Comment

The proposed options could be modified to capture the difference in spread generated by the backing assets, reflecting the higher or lower degree of cash-flow matching.

Q32 Section 4.1.5 Are there any further comments on MAV that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Q33 Section 4.2.5 The AOCI adjustment is proposed to only apply to unrealised gains and losses related to debt securities backing long-term liabilities where it is more likely than not that the unrealised gains and losses would not be realised. Is this an appropriate way to segregate non-economic volatility from the fair value measurement of investments in debt securities? If “no”, what alternative would you propose, and why?

Answer

Q34 Section 4.2.5 Are there any refinements that should be made to identify assets backing long-term liabilities for purposes of the AOCI adjustment? For example, would a bucketing approach similar to that proposed for assets under MAV discounting option 3 (based on liquidity characteristics of the liabilities) be an appropriate way to identify assets backing long-term liabilities? Please explain.

Answer

Q35 Section 4.2.5 Is the “more likely than not” criterion to exclude certain unrealised gain/losses an appropriate element of the AOCI adjustment calculation? Please explain.

Answer

Q35.1 Section 4.2.5 Is this an appropriate way to segregate assets where unrealised gain/loss is more likely than not to be realised? If “no” what alternative would you propose and why?

Answer

Q36 Section 4.2.5 Are there specific asset classes that should be included in the “more likely than not” category? If “yes”, please explain.

Answer

Q37 Section 4.2.5 Is a default risk adjustment appropriate? Please explain.

Answer

Q38 Section 4.2.5 A possible method for calculating the default risk adjustment is to reference the credit rating at purchase (or previous write down) as compared to the current rating. The change in rating can be used to determine the portion of the credit spread related to default risk. Is this an appropriate method to estimate the unrealised loss related to default risk? Please explain. If “no”, please suggest an alternative method that could be used to calculate the default risk spread.

Answer

Q39 Section 4.2.5 It has been suggested by some Volunteer IAIGs that the default risk spread could be highly volatile in certain periods of stress. Are there methods to evaluate this volatility over historically relevant periods, and is appropriate data available to do so? Please explain.

Answer

Q40 Section 4.2.5 Do the GAAP Plus principles and guidelines constitute a sufficient basis for the specification of an ICS Valuation Approach that fulfils the ICS Principles as defined by the IAIS? Please explain.

Answer

Q41 Section 4.2.5 Are there any internal inconsistencies in the GAAP Plus jurisdictional examples as outlined in the 2016 Field Testing Technical Specifications, or any area which is not aligned with the stated GAAP Plus principles and guidelines? If “yes”, please explain what you would propose to amend in the examples.

Answer

Q42 Section 4.2.5 Under GAAP Plus there are differences between jurisdictions in the approach to valuing assets. Should all assets be valued under the same approach (whether that be fair value or a mix of cost and fair value) for all jurisdictions? Please explain.

Answer

Q43 Section 4.2.5 Under GAAP Plus there are differences between jurisdictions in the approach to valuing liabilities. Should all liabilities be valued under the same approach whether that be closer to book value or market value for all jurisdictions? Please explain.

Answer

Q44 Section 4.2.5 Are there any refinements that could be made to lead to a more comparable valuation outcome for insurance liabilities between jurisdictions? Please explain.

Answer

Q45 Section 4.2.5 A method for aggregating financial data for U.S. Statutory only filers has been developed for GAAP Plus (see section 7.3.2 of the 2016 Field Testing Technical Specifications). Does this method capture all material elements such that the resulting aggregated financial statements would be materially equivalent to U.S. GAAP consolidated statements? If "no", please provide details of other elements or adjustments that could address any material differences.

Answer

Q46 Section 4.2.5 Is there a way to evaluate the impacts of these proposed accounting standards on the ICS, and more specifically on GAAP Plus, in the absence of current data and prior to the implementation of the rules? Please explain.

Answer

Q47 Section 4.2.6 Are there any further comments on GAAP Plus that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

Answer

Q48 Section 4.3.5 With respect to the CC MOCE calculations (both prudence and cost of capital approaches), are there any particular issues with the way that GAAP Plus liabilities are calculated that would necessitate a difference in the calculation of a CC MOCE under GAAP Plus from the CC MOCE under MAV? If "yes", please explain.

Answer

Q49 Section 4.3.5.1 *Margin observed in actual market transactions* - Based on your experience or any data analysis, are you able to observe or estimate the value of market transactions of insurance liabilities in comparison with the current estimate as defined in the MAV? If "yes", what value do you observe or estimate related to the current estimates (to be differentiated by type of liabilities, if appropriate). Please provide evidence or references to support the response.

Answer

Q50 Section 4.3.5.1 *Cost of capital parameter* - Should the hurdle cost of capital parameter be:

Answer

Q51 Section 4.3.5.1 *Projection of capital requirement* - Are the risks to be included in the projected capital requirement appropriate? If "no", please explain which risks should be excluded/added and why.

Answer

Q52 Section 4.3.5.1 *Projection of capital requirement* - Is the calculation of the global projected capital requirement appropriate? If "no", please suggest amendment(s) with supporting rationale.

Answer

Q53 Section 4.3.5.1 *Projection of capital requirement* - Is the approach to project the future capital requirements as part of the standard method appropriate considering the trade-off between accuracy/risk sensitivity and simplicity (eg outgoing cash flows excluding maturity benefit for Mortality risk or sums a risk)? If "no", please suggest and justify any proposed amendment.

Answer

Q54 Section 4.3.5.1 *Projection of capital requirement* - Is an IAIG's ICS capital requirement (99.5% one-year VaR) the appropriate amount of capital on which to base the CoC MOCE? If "no", please provide an alternative suggestion with rationale.

Answer

	Q55 Section 4.3.5.1 *Projection of capital requirement* - Should the projected future capital requirements reflect minimal, average, or optimal diversification benefits (considering a willing buyer which is likely to achieve a conceivable synergy from the transaction)? If "yes", how can the diversification benefit be reflected in the CoC MOCE calculation?
Answer	
	Q56 Section 4.3.5.1 *Discount factor* - If Market risks and most of the Credit risk are excluded from the projection of the future capital requirements as per the 2016 Field Testing Technical Specifications, does this imply that such MOCE only allows a recapitalisation where no Market risk and only limited Credit risk could be supported (ie with not enough resources to take on market risks)? If "no", please explain.
Answer	
	Q57 Section 4.3.5.1 *Discount factor* - If no Market risk and only limited Credit risk could be supported by the level of recapitalisation allowed by the level of MOCE, then should the future return from invested assets free of Market risk and Credit risk be the risk free rate? If "no", please explain.
Answer	
	Q58 Section 4.3.5.1 *Discount factor* - Assuming that the answers to the two questions above are "yes" then is it consistent to discount the projected future capital requirement by the risk free rate? If "no", please provide an alternative suggestion with rationale.
Answer	
	Q59 Section 4.3.5.1 *Discount factor* - Should the discount factor be linked in some way to the hurdle rate (cost of capital parameter)? If "yes", please provide an alternative suggestion to discounting at risk free rate and the rationale.
Answer	
	Q60 Section 4.3.5.1 *Interaction with capital resources and capital requirement* - Should the CoC MOCE be part of the valuation of insurance liabilities and not included in capital resources? If "no", please explain.
Answer	
	Q61 Section 4.3.5.1 *Interaction with capital resources and capital requirement* - Is holding the CoC MOCE, in addition to a 99.5% VaR calibrated capital requirement, a condition to ensure that the IAIG remains prudentially viable with a 99.5% probability (by providing the cost to serve a level of capital meeting the supervisory capital requirement)? If "no", please explai
Answer	
	Q62 Section 4.3.5.1 *Interaction with capital resources and capital requirement* - If CoC MOCE is targeted to a level of prudential viability, is the current definition of capital resources appropriate? If "no", please explain, including details of what level of prudential viability should be maintained, and whether other forms of capital resources should be considered for that purpose.
Answer	
	Q63 Section 4.3.5.1 *Interaction with capital resources and capital requirement* - Is there any double counting between the CoC MOCE and the capital requirement? Please explain.
Answer	
	Q64 Section 4.3.5.2 Should the P-MOCE be loss absorbing? Please explain and if "yes", elaborate on the circumstance(s) in which this loss absorption may occur.
Answer	

Q65 Section 4.3.5.2 Should the P-MOCE be stressed along with other balance sheet items in the calculation of the ICS capital requirement? Please explain.

Answer

Q66 Section 4.3.6 Are there any further comments on MOCE that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

Answer

Q67 Section 4.4 Should all reinsurance contracts be identified using a consistent definition across all jurisdictions? If "yes", please propose a definition.

Answer

Q68 Section 4.4 Considering proportionality and the desire for pragmatism, would it be appropriate to limit a consistent approach across jurisdictions to only certain types of reinsurance contracts? If "yes", what kind of contracts? Please explain.

Answer

Q69 Section 4.4.1 Are there any further comments on reinsurance recognition that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

Answer

Q70 Section 5.3.1 Should Tier 1 Limited financial instruments be required to have a principal loss absorbency mechanism?

Answer

Yes

Q70.1 Section 5.3.1 If "no" to Q70, should the principal be considered to provide loss absorbency on a going concern basis? Please explain how the instrument demonstrates loss absorbency on a going concern basis.

Answer

Q71 Section 5.3.2 Is there an objective methodology that the IAIS could use to determine the amount of financial instruments issued by consolidated subsidiaries of the IAIG and held by third parties that is not available to the group for the protection of policyholders of the IAIG? Please explain.

Answer

Q72 Section 5.3.3 Is there an objective methodology that the IAIS could use to determine the amount that should be added back to Tier 2 for those items deducted from Tier 1? Please explain.

Answer

Q73 Section 5.3.4 Is structural subordination sufficient to guarantee that policyholders will be paid first in a winding up? Please explain.

Answer

Q74 Section 5.3.4 Does structural subordination produce the same outcomes as legal or contractual subordination? Please explain.

Answer

Q75 Section 5.3.5 Is a requirement for supervisory approval prior to the redemption of a financial instrument at contractual maturity sufficient for that instrument to be considered perpetual? Please explain.

Answer

Q76 Section 5.3.5 Is a requirement for supervisory approval of distributions prior to contractual maturity (eg interest payments, dividends) sufficient for the distributions to be considered non-cumulative? Please explain.

Answer

Q77 Section 5.3.5 Do existing financial instruments issued by mutual IAIGs (for example, but not limited to surplus notes, Kikin and other forms of subordinated financial instruments) absorb losses on a going concern basis? Please identify which instrument and explain.

Answer

Q78 Section 5.3.5 Should the Tier 1 criteria (unlimited or limited) be changed in some way to better classify the financial instruments of mutual IAIGs? Please explain.

Answer

Q79 Section 5.3.5 What would prevent mutual IAIGs from issuing other financial instruments that meet the qualifying criteria for Tier 1 capital resources as set out in the 2016 Field Testing Technical Specifications? Please explain.

Answer

Q80 Section 5.3.6 Should non-paid-up items be included in ICS qualifying capital resources? Please explain.

Answer

Yes

Answer Comment

These should be included provided there is a firm contractual liability to pay up capital when required.

Q80.1 Section 5.3.6 If “yes” to Q80, do the qualifying criteria set out in the 2016 Technical Specifications capture all the requirements that should be applied to the assessment of non-paid up items? Please explain.

Answer

Yes

Q81 Section 5.3.6 If non-paid-up capital items are permitted, is the capital composition limit proposed in 2016 Technical Specifications appropriate? If “no”, how should the limit be set?

Answer

Q82 Section 5.3.7 What theoretical basis could the IAIS use to determine appropriate capital composition limits?

Answer

Q83 Section 5.3.8 When should prior supervisory approval of the redemption of a financial instrument issued by an IAIG be required?

Answer

Q83.1 Section 5.3.8 Should any other factors (eg lock-in and amortisation) be taken into consideration? Please explain.

Answer

Q84 Section 5.3.8 Does a lock-in feature provide the same safeguard as supervisory approval prior to redemption of a financial instrument? Please explain.

Answer

Q84.1 Section 5.3.8 If “yes” to Q84, should the ICS qualifying criteria be amended to remove the requirement for prior supervisory approval where a financial instrument possesses a lock-in feature? Please explain.

Answer

Q85 Section 5.3.9 Do any of the above AOCI elements provide loss absorbing capacity on a going concern basis? Please provide an explanation as to how the element(s) absorbs losses.

Answer

Q86 Section 5.3.9 Are there any additional elements that are included in AOCI under specific jurisdictional GAAPs that could be considered to be loss absorbing on a going concern basis, and therefore should be included in capital resources? Please explain.

Answer

Q87 Section 5.3.10 Is the definition of insurance liability/reinsurance adjustment offset as described appropriate? Please explain.

Answer

Q88 Section 5.3.10 Are there any valuation adjustment amounts that should be included or excluded? Please explain.

Answer

Q89 Section 5.3.10 Would the inclusion of insurance liability/reinsurance adjustment offset generate significant volatility in capital resources? If “yes”, how should the volatility be addressed?

Answer Yes

Answer Comment The volatility would depend upon the nature of the liabilities and the valuation basis.

Q90 Section 5.4 Are there any further comments on capital resources that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Q91 Section 6.3.4.1 Is the principle of allowing for the effect of risk mitigation techniques in the ICS capital requirement only on the basis of assets and liabilities existing at the reference date of the ICS calculation appropriate? Please explain.

Answer Yes

Answer Comment To do otherwise would, for example, require subjective assumptions on the additional risk mitigating assets purchased and at what price. Selecting appropriate assumptions would be further complicated by the trades taking place in a market in the 99.5th percentile stressed scenario.
It will however be necessary to permit IAIGs to make allowance for the future purchase of reinsurance to cover future liabilities.

Q92 Section 6.3.4.1 Should dynamic hedging arrangements be included in the scope of recognised risk mitigation techniques for ICS Version 2.0? Please explain.

Answer Yes

Answer Comment

Dynamic hedging is a fundamental part of some business models and should be reflected in the capital calculation, albeit with capital being held for the risks associated with the hedging itself. In practice this is more easily calculated when using an internal model.

Q92.1 Section 6.3.4.1 If "yes" to Q92, please comment on dynamic hedging programs that should be recognised in the ICS.

Answer

In principle any dynamic hedging programme currently or recently in used could be recognised. Any such programme should reflect the costs of operating it in a stressed market).

Q92.2 Section 6.3.4.1 If "yes" to Q92, please comment on how the principle of allowing for the effect of risk mitigation techniques in the ICS capital requirement only on the basis of assets and liabilities existing at the reference date of the ICS calculation could be amended in a manner appropriate to the ICS and the way it is currently constructed (ie the use of instantaneous shocks for market risk).

Answer

Ideally an internal model will be used in such cases where there is dynamic hedging; in which case the instantaneous shock assumption is no longer needed. An alternative is to replace the instantaneous shock with a shock (or combination of shocks) at the most onerous point(s) of the one-year horizon over which capital is calculated. For example, a shock just before the hedging must be rebalanced, followed by a further shock.

Q92.3 Section 6.3.4.1 If "yes" to Q92, please comment on what criteria should be met to allow the effect of dynamic hedging arrangements to be recognised in the ICS capital requirement.

Answer

See answer to Q92.1.

Q93 Section 6.3.4.2 Is the general treatment given for risk-mitigation techniques that are in force for less than the next 12 months appropriate for the ICS standard method? Please explain. If "no", please provide details of a practical alternative that would be appropriate for the ICS standard method.

Answer

Yes

Answer Comment

This is a reasonable approximation.

Q94 Section 6.3.4.3 Are the criteria for recognising the renewal of Non-life risk mitigation arrangements appropriate for the ICS standard method? Please explain. If "no", please detail which criteria should be amended, including rationale and suggested amended wording.

Answer

Q95 Section 6.3.4.4 With regard to risks arising from the balance sheet as at the reference date, should renewal of risk mitigation arrangements other than those relating to non-life insurance risks also be recognised? Please explain.

Answer

Q95.1 Section 6.3.4.4 If "yes" to Q95, please provide specific suggestions for criteria that can be applied to the recognition of such renewals.

Answer

Q95.2 Section 6.3.4.4 If "yes" to Q95, please provide specific examples of risk mitigation arrangements that would qualify as such, including details of the risks addressed and the materiality of these arrangements.

Answer

Q95.3 Section 6.3.4.4 If “yes” to Q95, please provide suggestions on how the issues such as future availability, future cost and uncertainty of the decision should be addressed.

Answer

Q96 Section 6.3.4.5 Should a materiality threshold for basis risk arising from any risk mitigation techniques be defined? If “yes”, please provide a detailed suggestion of a definition that would be appropriate for the ICS and your rationale.

Answer

Q97 Section 6.3.4.5 Are you aware of organisations that account for basis risk arising from risk mitigation techniques? If “yes”, please provide details on how this is done in practice.

Answer

Q98 Section 6.3.5 Are there any further comments on risk mitigation that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Q99 Section 6.4.1 Are there any comments on look-through that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Q100 Section 6.5.2 Is this extension of the definition of management actions to include limited premium increases for health business appropriate? Please explain.

Answer

Q101 Section 6.5.3.1 Are there examples of other instances for which an extension of management actions to allow for the recognition of premium adjustments may be appropriate? Please explain.

Answer

Q102 Section 6.5.3.2 Is the method to determine the effect of management actions in a stress scenario inconsistent with the recognition of future premium increases in stress scenarios? If “yes”, please suggest a solution.

Answer

Q103 Section 6.5.4 Are there any further comments on management actions that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Q104 Section 6.6.2 Should the trend component be explicitly considered within Mortality risk? Please explain.

Answer

Q105 Section 6.6.2 Are the stress levels for Mortality risk appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

Answer

Q106 Section 6.6.2 Should the trend component be explicitly considered within Longevity risk? Please explain.

Answer

	Q107 Section 6.6.2 Are the stress levels for Longevity risk appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.
Answer	
	Q108 Section 6.6.3 Is there evidence to support the use of stresses for Mortality and Longevity risk that vary by geographical region? Please explain and provide supporting evidence.
Answer	
	Q109 Section 6.6.3 Is there a specific methodology and reference data that the IAIS should use to determine appropriate mortality and longevity stress levels by geographic region? Please explain.
Answer	
	Q110 Section 6.6.4 Are there any further comments on Mortality and Longevity risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.
Answer	
	Q111 Section 6.7.2.1 Is the proposed segmentation for health business appropriate? Please explain.
Answer	
	Q112 Section 6.7.2.1 Are the stress levels for the health segments appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.
Answer	
	Q113 Section 6.7.2.1 Is the shock for Health lapse risk appropriate? Please explain.
Answer	
	Q114 Section 6.7.2.2 Are the two product segments as defined appropriate? Please explain.
Answer	
	Q115 Section 6.7.2.2 Are the stress levels appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.
Answer	
	Q116 Section 6.7.3.1 Is there evidence that the volatility of health claims (Option 1) varies by geographical region, thereby justifying a more refined granularity? Please explain.
Answer	
	Q117 Section 6.7.3.1 Is there a specific methodology and reference data that the IAIS should use to determine appropriate Health stress levels by geographic region? Please explain.
Answer	
	Q118 Section 6.7.3.1 Is there evidence to support the use of stresses for Morbidity/Disability risk (Option 2) that vary by geographical region? Please explain and provide supporting evidence.
Answer	
	Q119 Section 6.7.3.1 Is there a specific methodology and reference data that the IAIS should use to determine appropriate Morbidity/Disability stress levels by geographic region? Please explain.

Answer	
	Q120 Section 6.7.3.2 Is Option 1 (Health risk) or Option 2 (Morbidity/Disability risk) the most appropriate to adopt within ICS Version 1.0? Please explain.
Answer	
	Q121 Section 6.7.3.2 Should any revisions or modifications be made to the approach selected in Q120 to make it more appropriate for ICS Version 1.0? Please explain.
Answer	
	Q122 Section 6.7.4 Are there any further comments on Health or Morbidity/Disability risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.
Answer	
	Q123 Section 6.8.2 Is the stress level for the level and trend component appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.
Answer	
	Q124 Section 6.8.2 Is the stress level for Mass Lapse risk appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.
Answer	
	Q125 Section 6.8.2 Is the treatment of dynamic lapses appropriate? Please explain. If “no”, please suggest an alternative treatment.
Answer	
	Q126 Section 6.8.2 Is the approach of taking the maximum of the level and trend components and the mass lapse component appropriate? Please explain.
Answer	
	Q127 Section 6.8.3.1 Is there evidence to support the use of stresses for Lapse risk that vary by geographical region? Please explain and provide supporting evidence.
Answer	
	Q128 Section 6.8.3.1 Is there a specific methodology and reference data that the IAIS should use to determine appropriate lapse stress levels by geographic region? Please explain.
Answer	
	Q129 Section 6.8.3.2 Should the mass lapse stress be applied to all surrenderable policies, regardless of surrender strain? Please explain.
Answer	
	Q130 Section 6.8.3.2 Should the mass lapse stress be applied only to surrenderable policies with positive surrender strain? Please explain.
Answer	
	Q131 Section 6.8.4 Are there any further comments on Lapse risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.
Answer	

	Q132 Section 6.9.2 Is the stress level for Expense risk appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.
Answer	
	Q133 Section 6.9.3.1 Is there evidence to support the use of stresses for Expense risk that vary by geographical region? Please explain and provide supporting evidence.
Answer	
	Q134 Section 6.9.3.1 Is there a specific methodology and reference data that the IAIS should use to determine appropriate expense stress levels by geographic region? Please explain.
Answer	
	Q135 Section 6.9.3.1 Is there evidence that the volatility of expense inflation experience for insurance companies varies from that of general inflation? Please explain.
Answer	
	Q136 Section 6.9.3.2 Should the IAIS assume 100% correlation between unit expense and expense inflation? Please explain. If “no”, how could correlation be built into the assumptions
Answer	
	Q137 Section 6.9.3.2 Are there data sources available that could be used to calibrate the correlation between unit expense and expense inflation? If “yes”, please provide information on the source.
Answer	
	Q138 Section 6.9.3.3 Should the IAIS consider introducing a cap to moderate the compounding effect of expense inflation? If “yes”, what would be a reasonable level for the cap? Please provide rationale for the proposed level of the cap.
Answer	
	Q139 Section 6.9.4 Are there any further comments on Expense risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.
Answer	
	Q140 Section 6.10.4.1 Non-life exposures should be reported based on the location of risks to ensure consistency across IAIGs. Regarding the reporting segment, which of the following should be used:
Answer	A more compact standardised segmentation? If “yes”, please explain the rationale.
Answer Comment	There is a potential for inconsistencies here caused by differences in IAIGs systems and data.
	Q141 Section 6.10.4.1 Should projected net earned premiums be used as the exposure base for Premium risk? If “no”, please specify what other measure should be used and why.
Answer	Yes
	Q142 Section 6.10.4.1 Should net current claims estimates be used as the exposure base for Claims Reserve risk? If “no”, please specify what other measure should be used and why.
Answer	Yes

Q143 Section 6.10.4.2 For the purposes of the ICS standard method, is the approach taken in 2015 and 2016 Field Testing adequate to account for diversification effects in Premium and Claims Reserve risks? If “no”, please provide a more appropriate alternative suggestion including rationale, keeping in mind the need to apply a consistent methodology across all jurisdictions, and to balance practicality and materiality with risk sensitivity in a standard method.

Answer

Q144 Section 6.10.4.2 Are the correlation factors appropriate for the ICS standard method? If “no”, please provide rationale and alternative suggestions supported by evidence.

Answer

No

Answer Comment

It seems strange that ‘Other’ and ‘NT Other’ both have a 50% factor – i.e. a medium rating – whereas ‘Property’ has a factor of 25%. The ‘other’ segments almost by definition should be considered to have little direct relationship with the remaining segments. These factors are also erring on the side of prudence: with half of the segments using a high factor but just one with a low factor does not suggest there has been an appropriate spread of selections.

Q145 Section 6.10.4.2 Is the 50% correlation factor between categories appropriate for the ICS standard method? If “no”, please provide rationale and alternative suggestions supported by evidence.

Answer

Q146 Section 6.10.4.2 Is the 25% correlation factor between regions appropriate for the ICS standard method? If “no”, please provide rationale and alternative suggestions supported by evidence.

Answer

Q147 Section 6.10.4.3 Is there a methodology that the IAIS could use for the calibration of Premium and Claims Reserve risk factors that can be easily and consistently applied across jurisdictional lines of business using the supplementary data requested in 2016 Field Testing? If “yes”, please provide specific details, technical references and rationale. Please indicate if some methods are more appropriate for particular segments or particular types of data.

Answer

Q148 Section 6.10.4.3 In the absence of adequate data, is there a way that the IAIS could determine appropriate Premium and Claims Reserve risk factors for lines of business. If “yes”, please explain.

Answer

Q149 Section 6.10.4.3 Is there a methodology that the IAIS could use to determine the appropriate number of buckets and factors, taking into consideration the context of the ICS standard method and the aim to achieve comparable results across comparable risks? Please explain.

Answer

Q150 Section 6.10.4.4 Are there practical methods for determining these adjustments in the context of the ICS standard method (considering, in particular, the trade-off between materiality of the impact and complexity of the method)? If “yes”, please provide details. If necessary please differentiate by risk and reporting segments.

Answer

Q151 Section 6.10.5 Are there any further comments on Premium and Claims Reserve risks that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Yes

Answer Comment

The document could make clear that the percentages provided are factors used as inputs into a calculation, and are not (nor are intended to be) representative of correlation coefficients. Ideally, they should be renamed, for instance as ‘diversification factors’. This will mitigate the risk that Boards confuse the factors with correlation coefficients used in other models.
Given the judgement required to calibrate correlation factors, it would be useful to understand the implied quantitative differences between the ICS and the Solvency II Standard Formula framework approaches to diversification. Notwithstanding the differences in methodology, it should still be possible to map the ICS factors to provide some quantitative insight on the proposed factor selection against the Standard Formula approach, and highlight material differences for further investigation.

Q152 Section 6.11.2.2 Is the new specification of “latent liability risk” appropriate? Please explain.

Answer

No

Answer Comment

Such a scenario could easily spill over into other market segments than those set out here. In addition, the specification does not allow for diversification between geographies/ lines of business. Higher factors combined with a (limited) allowance for such diversification would create a more realistic loss profile: with diversified insurers more likely to benefit from differing legal / societal responses in different areas.

Q153 Section 6.11.2.2 Should the mass tort scenario be used to represent latent liability risk in the ICS? Please explain.

Answer

Yes

Answer Comment

It is difficult to know what a latent liability risk would look like, so the approach suggested here is pragmatic.

Q154 Section 6.11.2.2 Are any other scenarios/refinements needed for the latent liability scenario? If “yes”, please specify and provide rationale.

Answer

Yes

Answer Comment

As described above (Q152), allowing for larger losses in individual segments and capturing ‘spill over’ into other segments would be better, so long as the relevant diversification effects were also captured to mitigate the overall impact on a well-diversified insurer.

Q155 Section 6.11.3.1 In addition to the perils covered in 2016 Field Testing (listed above), are there other material Catastrophe perils to which IAIGs may be materially exposed for which a scenario should be defined in the ICS standard method ? If “yes”, please provide a list, including a definition of the peril and any other specific details to support the suggestion(s).

Answer

Yes

Answer Comment

A cyber scenario should be included. The exact details of such a scenario would be difficult to parameterise, but there are some benchmarks available (e.g. Lloyd’s cyber Realistic Disaster Scenarios (RDS).

Q156 Section 6.11.3.1 Are there scenarios used in 2015 and 2016 Field Testing (listed above) which, for materiality or other reasons, should not be included in the Catastrophe risk component? If “yes”, please provide a list, including the rationale.

Answer

Q157 Section 6.11.3.2 Should the IAIS allow the use of catastrophe models for ICS Version 1.0? Please explain.

Answer

Yes

Answer Comment

As set out in the consultation document, use of standard factors / scenarios is difficult, so this approach is more pragmatic, and should not be too onerous for firms. However, there are some concerns with this approach:
1. What should be the contingency plan if the supervisor does not feel that the IAIG's use of catastrophe models is appropriate? 2. For some region/ perils, the catastrophe models are generally accurate and reliable, but for others they are not. IAIGs with material exposures in the latter will have considerable uncertainty in their capital requirements. 3. The approach essentially requires all IAIGs to use one of a small number of commercial catastrophe models, potentially at the expense of undertaking their own analysis of the relevant risks. It is important that IAIGs should not be dissuaded from adjusting or discarding the results of the catastrophe models if they have reason to believe they are inappropriate. 4. As a follow-up to the above, additional systemic risk is potentially introduced. If a catastrophe model understates the risk in particular areas, it could lead a number of IAIGs to be over-exposed in those areas, with potential systemic difficulties. On the other hand, if the cat model overstates the risk in particular areas, this could lead to IAIGs taking business decisions to reduce carrying capacity, potentially resulting in a lack of insurance availability in certain regions. This could be detrimental to the impacted markets. 5. This effectively creates a 'partial internal model' regime for all IAIGs, which may make benchmarking comparisons more difficult and increases the time/ resource required from a supervisory perspective.

Q158 Section 6.11.3.2 If the IAIS allows the use of catastrophe models in ICS Version 1.0, should there be requirements to ensure that the use of catastrophe models results in a fair and comparable assessment of the natural catastrophe risk? If "yes", please comment on requirements that should be included.

Answer

Yes

Answer Comment

IAIGs should justify clearly why particular catastrophe model(s) have been chosen, and demonstrate the quality and coverage of their data capture.

Q159 Section 6.11.3.2 Is there information about catastrophe models and their use by the IAIG that should be reported to the group-wide supervisor? If "yes", please provide specific examples.

Answer

Yes

Answer Comment

• Which model has been used, including justification • Which version of the model has been used, • Which options (e.g. secondary uncertainty) have been turned on / off in the model • Any adjustments that have been made outside the model (e.g. non-modelled elements included, adjustment for data limitations) • Impact on mean figures and 1/200 figures • Data limitations to feed data into the model – e.g. limitations in exposure data • Summary of main regions / perils covered by the cat model and whether any areas / regions are not covered by the model and why.

Q160 Section 6.11.3.2 Are there additional conditions or restrictions about catastrophe models or their use by IAIGs that should form part of ICS Version 1.0? Please explain.

Answer

Yes

Answer Comment

See above: It is important that IAIGs are able to present their own view of the risk (and to justify that against the modelled view of the risk), rather than purely relying on the commercial catastrophe models.

Q161 Section 6.11.3.2 If an IAIG were unable to meet the requirements that were set out in the specifications of the ICS, are there measures that the group supervisor should take in order to correct the weaknesses? If "yes", please provide details of suggested measures and the rationale.

Answer

Yes

Answer Comment

The usual supervisory controls should suffice: initially, a capital loading would seem to be the obvious choice to mitigate the key risks while the IAIG works to meet the relevant requirements. If an IAIG has significant exposure in an area which simply is not covered by available catastrophe models, the supervisor should agree a pragmatic approach in line with that IAIG's risk management process.

Q162 Section 6.11.3.3 Is the man-made catastrophe scenario (as defined in the 2016 Technical Specifications) appropriate for the ICS standard method? If "no", please provide specific suggestions supported by reference or evidence to amend the scenario(s).

Answer

No

Answer Comment

As above, a cyber scenario should be included in the man-made catastrophe scenarios. The terror scenario could be considered too small at a 1-in-200 level – the damage, fatality and disability rates would be optimistic in particular scenarios. For instance, a terror attack on a refinery / combustible warehouse could have much higher damage ratios. Compared to the attacks in New York on 11 September 2001 for instance, this does not seem extreme enough; nor does it appear to reflect a Nuclear/ Chemical/ Biological/ Radiological (NCBR)-type attack.

The marine scenario is a single loss, whereas the aviation scenario is a two plane collision; is it unclear why there are differing approaches here. In addition, the losses do not appear to include any relating to contingent business interruption cover.

Q163 Section 6.11.3.4 Is the approach to calculate the contingent Credit risk associated with reinsurance recovery appropriate for the purposes of ICS Version 1.0? Please explain. If "no", please provide details of an alternative approach that would be more appropriate for the ICS standard method.

Answer

Yes

Answer Comment

This is a simplified but pragmatic approach to allocating reinsurance recoveries to reinsurers. Short of using a full stochastic model, some allocation approach has to be assumed and the choice of allocation methodology is unlikely to be material to the overall calculation.

Q164 Section 6.11.4 Are there any further comments on Catastrophe risk that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

Answer

Q165 Section 6.12.1.4 Are there any calibration methodologies for stressed yield curves that work in both the current negative and low interest rate environment in developed countries and where base yield curves are as they have been in the past with higher rates observed at all maturities? If "yes", please provide details.

Answer

Q166 Section 6.12.1.4 Is the IAIS approach to calibrate Interest Rate risk stresses using six years of historical data appropriate? If "no", please comment on the appropriate length of data to calibrate Interest Rate risk stresses to a target level of VaR 99.5% over a one-year time horizon. If a shorter time series is preferred, please comment on how to deal with changing market conditions and the frequency of recalibrating the ICS Interest Rate risk stresses.

Answer

Q167 Section 6.12.1.4 Should the ICS only assess the principal observed driver in yield curve evolutions (upward and downward movements), or should twists (flattening or steepening) be included in the risk assessment? Specifically, which of the following should be used? Please explain your answer.

Answer

Q168 Section 6.12.1.4 Is the methodology used by the IAIS to determine Interest Rate risk post-diversification appropriate? If “no”, please suggest an alternative methodology.

Answer

Q169 Section 6.12.1.4 Should the IAIS recognise diversification of Interest Rate risk between currencies? Please explain and provide details of how this could be done.

Answer

Q170 Section 6.12.1.4 Which of the alternative methods for GAAP Plus (1 or 2) is a better measure of Interest Rate risk? Please explain. If neither are considered suitable, please suggest an alternative method or refinements to the current method.

Answer

Q171 Section 6.12.1.4 Method 2 is based on the assumption that certain assets backing liabilities are intended to be held to maturity, and consequently are only exposed to reinvestment risk. Should the IAIS consider developing criteria to identify such assets? If “yes” please explain and provide suggestions for such criteria.

Answer

Q171.1 Alternatively, should method 2 make allowance for the fact that some of these assets may in fact not be held to maturity? If “yes”, please explain and suggest how this may be done.

Answer

Q172 Section 6.12.1.5 Are there any further comments on Interest Rate risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Q173 6.12.2.1 Is the four-bucket approach to the segmentation of equities appropriate? Please explain. If “no”, please provide an alternative suggestion and rationale.

Answer

Q174 Section 6.12.2.3 Should an equity volatility stress be included in the ICS standard method? Please explain.

Answer

Q175 Section 6.12.2.3 Is the design of the equity volatility stress in 2016 Field Testing appropriate? If “no”, please provide specific suggestions, as well as supporting rationale and evidence.

Answer

Q176 Section 6.12.2.3 Is the multiplicative approach suitable for the ICS standard method? Please explain. If “no”, please highlight the key design and data considerations for developing an alternative approach (eg additive volatility stress).

Answer

Q177 Section 6.12.2.3 Is the treatment of long-term equity investments appropriate? Please explain. If “no”, how should they be treated differently and what criteria should be used to define long-term equity investments? Please highlight key design features and provide supporting evidence (including data).

Answer

Q178 Section 6.12.2.3 Is there evidence that supports the application of a correlation matrix for determining the Equity risk charge? If “yes”, please provide evidence supporting suggested correlations.

Answer

Q179 Section 6.12.2.3 Should the Equity risk charge include a countercyclical measure to reduce pro-cyclical behaviour? Please explain. If “yes”, how should such a measure be designed and calibrated? Please highlight key data considerations where relevant.

Answer

Q180 Section 6.12.2.3 Are the current approaches in the ICS appropriate for products with path dependent valuations? Please explain.

Answer

Q181 Section 6.12.2.3 Does the ICS capture all of the material risks for these types of contracts? Please explain.

Answer

Q182 Section 6.12.2.3 Are there alternative approaches that would capture path dependent Equity and Interest Rate risk? Please explain.

Answer

Q183 Section 6.12.2.4 Are there any further comments on Equity risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Q184 Section 6.12.3.2 Is the approach adopted for Real Estate risk in 2016 Field Testing appropriate for the ICS standard method under MAV? Please explain. If “no”, please provide specific proposals to amend the approach as well as supporting rationale and evidence.

Answer

Q185 Section 6.12.3.2 Is the approach adopted for Real Estate risk in 2016 Field Testing appropriate for the ICS standard method under GAAP Plus? Please explain. If “no”, please provide specific proposals to amend the approach as well as supporting rationale and evidence.

Answer

Q186 Section 6.12.3.3 Are there any further comments on Real Estate risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Q187 Section 6.12.4.2 Is the methodology used to determine the level of the Currency risks stresses appropriate? Please explain.

Answer

Q188 Section 6.12.4.2 Is the assumption of a single correlation factor of 50% for all currencies appropriate in a time of stress? Please explain. If “no”, what methodology could the IAIS use to determine an appropriate correlation matrix for Currency risk?

Answer

Q189 Section 6.12.4.2 Is the treatment of currency pegs appropriate? Please explain.

Answer

Q190 Section 6.12.4.2 Should the IAIS allow for a partial exemption for investments in foreign subsidiaries? Please explain.

Answer

Q191 Section 6.12.4.2 Is the exemption for investments in foreign subsidiaries appropriate? Please explain.

Answer

Q192 Section 6.12.4.2 Is there a better proxy of the subsidiary's contribution to the ICS? Please explain.

Answer

Q193 Section 6.12.4.2 Are there any further comments on the approach described for 2016 Field Testing? Please explain.

Answer

Q194 Section 6.12.4.2 Is the treatment of currency exposures with a maturity of less than one year appropriate? Please explain.

Answer

Q195 Section 6.12.4.3 Are there any further comments on Currency risk that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

Answer

Q196 Section 6.12.5.2 Is the approach adopted for Asset Concentration risk in 2016 Field Testing appropriate for the ICS standard method? Please explain. If "no", please provide specific proposals to amend the approach as well as supporting rationale and evidence.

Answer

Q197 Section 6.12.5.3 Are there any further comments on Asset Concentration risk that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

Answer

Q198 Section 6.13.3.1 Do you support the approach used for 2016 Field Testing with respect to allowing the use of external credit ratings for ICS Credit risk purposes? Why or why not?

Answer

Q199 Section 6.13.3.1 Does any alternative to the use of ratings issued by credit rating agencies exist in the regulatory framework of your jurisdiction (eg supervisory-owned processes)? Please provide details.

Answer

Q200 Section 6.13.3.1 Should the IAIS allow the use of ratings and/or designations that are not issued by credit rating agencies, for example, ratings and/or designations that are issued by a supervisory-owned process (eg, the NAIC Securities Valuation Office)? Please explain.

Answer No

Answer Comment The use of credit ratings that are not generally available such as those issued by the NAIC Securities Valuation Office could put insurers in other jurisdictions at a disadvantage.

Q200.1 Section 6.13.3.1 If “yes” to Q200, should the IAIS consider modifying the criteria for the recognition of rating providers, taking account of the specific features of the supervisory-owned process? Please explain.

Answer

Q200.2 Section 6.13.3.1 If “yes” to Q200, are the criteria for credit rating agencies appropriate for alternatives to the use of credit rating agencies? Please explain.

Answer

Q201 Section 6.13.3.1 Are there any additional factors the IAIS should consider when deciding on whether to allow in the ICS the use of credit assessments (eg ratings or designations) from sources other than credit rating agencies? If “yes”, please explain and provide details.

Answer

Q202 Section 6.13.3.2 Is the approach adopted for 2016 Field Testing for commercial and residential mortgage Credit risk charges appropriate for the ICS standard method? Please explain. If “no”, please provide specific proposals for how it should be changed as well as supporting rationale and evidence.

Answer

Q203 Section 6.13.3.3 Should the IAIS continue to explore a different approach for Credit risk from reinsurance exposures, and in particular, for collateralised reinsurance? Why or why not? If “yes”, please provide specific proposals, rationale and evidence to support the proposals.

Answer

Q204 Section 6.13.4 Are there any further comments on Credit risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Q205 Section 6.14.3 Should the IAIS use exposures that are reported before the impact of ceded reinsurance for determining the Operational risk charge? Please explain.

Answer

Yes

Answer Comment

Gross exposure better reflects the volume of activity of a company and also reinsurance would not typically cover operational risks.

Q206 Section 6.14.3 Are the proposed Operational risk exposures appropriate for the ICS standard method? Please explain.

Answer

Yes

Answer Comment

We agree that in relation to exposures for non-life, both premiums and claims need to be used as depending on the line of business one may be the better carrier than the other. For example, with catastrophe cover, claims would not be a good indicator and premiums do not reflect the risk which may exist around handling and managing long-tail claims.
For life, gross liabilities could be used, but an alternative is expenses, as more complex business would typically have greater expenses associated with it (often expenses will be incurred in advance of liabilities in a growth phase). This would not capture the increased risk associated with expense-cutting initiatives, but it is not possible to capture all the different types of operational risk in a simplistic factor based approach.

Q207 Section 6.14.3 Are the proposed Operational risk factors appropriate for the ICS standard method, both in terms of size and relativity? Please explain.

Answer No

Answer Comment It is difficult to judge the calibration relativity as a percentage of gross premiums, as the underlying shape of the operational risks relating to the different lines of business are varied. As noted above, other metrics might be better suited to longer tail business (both life and non-life), for example many investment products are single premium and liabilities or expenses might better reflect ongoing operational risk in relation to managing and investing these products over their lifetime.

Q208 Section 6.14.4 Are there any further comments on Operational risk that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

Answer

Q209 Section 6.15.3.1 Is the structure of the correlation matrices used for 2016 Field Testing appropriate? If "no", please provide specific alternative suggestions and evidence on why this approach would be more appropriate.

Answer

Q210 Section 6.15.3.2 Should the calibration of the correlation parameters for the ICS standard method include a material degree of judgement since relevant and available data are limited? Please explain. If "no", please provide rationale, specific suggestions and evidence or references to support an alternative approach.

Answer

Q211 Section 6.15.3.2 How could the IAIS combine data and judgement in the calibration of correlation parameters for aggregation and diversification?

Answer

Q212 Section 6.15.3.2 Are there available data that would be relevant for the calibration of the correlation parameters of the ICS standard method? Please explain.

Answer

Q213 Section 6.15.3.2 Are the correlation factors being used between ICS risks appropriate for the ICS standard method? Please explain. If "no", please provide rationale and alternative suggestions supported by evidence.

Answer No

Answer Comment There are some inconsistencies in the factors selected: Catastrophe risk, for instance, has a 25% correlation factor with all other risks. But it could be argued that this would be more strongly related to credit risk (both from an exposure and a probability-of-default perspective), than non-catastrophe insurance risk (health, life and non-catastrophe). Arguably, catastrophe risk should have a 0% factor with all categories except credit risk (50% or perhaps 75% factor). Similarly, it could be argued that market risk has a stronger relationship with life insurance risk than non-life insurance risk. Potentially market risk should have a 0% factor with non-life and catastrophe risk, but 50% with life risk.

Q214 Section 6.15.3.2 Are the correlation factors being used for Life risks appropriate for the ICS standard method? If "no", please provide rationale and alternative suggestions supported by evidence.

Answer

Q215 Section 6.15.3.2 Are the correlation factors being used for Market risks appropriate for the ICS standard method? If "no", please provide rationale and alternative suggestions supported by evidence.

Answer

Q216 Section 6.15.4 Are there any further comments on Aggregation and Diversification that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

Answer

Yes

Answer Comment

The table in the ICS guidance is labelled as 'Correlation matrix': These are factors used in a calculation, not correlation coefficients. The text should be amended to reflect this to avoid giving the impression that these values represent correlation coefficients.

Q217 Section 7.2.1 What would be an appropriate level of granularity that would strike a balance between accuracy and operational feasibility/complexity?

Answer

The allowance for tax should reflect the company specific tax position and rates. Global or country specific rates are unlikely to provide sufficiently representative impacts on capital position/requirements.

Q218 Section 7.2.1 Would an approach that utilises an effective tax rate at the country level be appropriate? Please explain.

Answer

No

Q219 Section 7.2.1 Please provide any commentary on what would be considered an appropriate method to derive a global effective tax rate. Please support any proposed method with a short list of pros and cons.

Answer

Q220 Section 7.2.1 If post valuation adjustment DTAs would be included as a component of capital, a method to determine realisability or a partial deduction would also likely be an element of the calculation. Do you have any suggestions for an appropriate method to determine realisability of DTAs given a top-down approach? Would you prefer a partial deduction method? Please provide a rationale for your answer.

Answer

Q221 Section 7.2.1 Should the IAIS pursue a more bottom up approach to determining deferred taxes post valuation adjustment? If "yes", please provide any commentary to support this view.

Answer

Q222 Section 7.2.1 Please provide any other options that should be considered by the IAIS with respect to reflecting the impact of revaluation under GAAP Plus and MAV on deferred taxes.

Answer

Q223 Section 7.2.1 Should DTAs and DTLs be adjusted in both the MAV and GAAP Plus approaches to take into account the effect of discounting to ensure they are valued consistently with other material balance sheet items? Please explain.

Answer

Q224 Section 7.2.1 If the answer to the above question is "yes", should a restriction be applied to the discounting of only one type of DTA or DTL, eg long-dated item? Please explain

Answer

Q225 Section 7.2.1 Should an approximation of the discounting effect on a post-stress DTA be taken into account in any tax adjustment to the ICS capital requirement? Please explain.

Answer

Q226 Section 7.2.2 Should MOCE be tax effected? If “yes”, what effective tax rate should be applied, and why? Please answer for both prudence and cost of capital MOCE.

Answer

Yes

Answer Comment

This was an issue that generated a significant amount of discussion within the industry when the EU Solvency II regime was being developed, and the outcome was that a DTA could be set up in respect of the risk margin. It may be worth revisiting the development process here for the ICS.

Q227 Section 7.2.2 Should deferred tax assumptions be incorporated into the cost of capital MOCE calculation? If “yes”, please specify.

Answer

Q228 Section 7.2.3 Please provide any specific recommendations for an appropriate realisability methodology.

Answer

Q229 Section 7.2.3 Please provide any input or feedback on the consideration to limit the DTA in capital resources either through a partial deduction and/or an overall limit.

Answer

Q230 Section 7.2.4 Is there an appropriate methodology for evaluating the realisability of DTAs under stress which would lead to an appropriate treatment of deferred tax in the ICS capital requirement? If “yes”, please explain.

Answer

Yes

Answer Comment

The base DTA recoverability from the balance sheet could be adjusted to reflect the difference under stress in the capital resources for a "critical scenario" resulting in the capital requirement.

Q231 Section 7.2.4 Which of the following approach should the IAIS consider for including the impact of taxes in the calculation of the ICS capital requirement? Please explain, including providing a list of pros and cons.

Answer

Should the tax impact be included in the individual ICS risk charge calculations pre-diversification?

Answer Comment

The overall tax impact should be allowed for under stress. Whether this is allowed for at an aggregate level or in individual stresses is less of an issue.

Q232 Section 7.2.4 Should tax strategies/management actions and diversification impacts be reflected/allocated to tax jurisdictions if the deferred tax impact is calculated using a bottom-up approach? If “yes”, how should this be reflected/allocated?

Answer

Q233 Section 7.2.4 Should the IAIS address the substantiation of the realisability of DTAs? If “yes”, please explain, taking into account issues related to a stress DTA (including defining future tax profits, reflecting the shock on future profits and avoiding double counting).

Answer

Q234 Section 7.2.4 Should groups be able to assume they can obtain value for the tax effects of the stress loss by selling tax losses to unregulated group companies which have taxable profits? If “yes”, how would they assess whether these group companies would still be profitable in stress?

Answer

	Q235 Section 7.3 Are there any further comments on the approach to tax within the ICS that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.
Answer	Yes
Answer Comment	Deferred tax is an accounting concept and the ICS does not align with a particular accounting regime (for example, Solvency II is linked to IFRS and so the tax standard which is used as a benchmark is IAS 12). Without the linkage to accounting standards there will likely be many variations in the approach adopted by groups in calculating deferred tax.

	Q236 Additional comments on any section Are there any additional comments that the IAIS should consider in the development of ICS version 1.0 that have not been addressed in any of the previous questions? If “yes”, please explain with sufficient detail and rationale.
Answer	Yes
Answer Comment	Permitting the two different valuation bases, MAV and GAAP plus will make it difficult to make comparisons between groups with headquarters in different jurisdictions. The two different approaches to calculating the MOCE, i.e. Cost of Capital and Prudence will also make comparisons between different groups difficult.