



Public Consultation on Risk-based Global Insurance Capital Standard Version 1.0 Questions for Stakeholders

3 Scope of group: perimeter of ICS calculation

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?

Yes

GFIA supports efforts to define an insurance-led financial conglomerate. The IAIS should further define the concept to insurance-led financial conglomerate in order to facilitate group-wide supervision and the proposed definition is a good starting point. We suggest that the head of the insurance group should be the entity within the corporate structure that exercises the greatest control over the insurance business, and the scope of group should remain limited to top insurance and finance holding companies.

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?

Yes No

[Click here to enter text.](#)

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.

Yes No

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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?

Yes No

GFIA supports the language in paragraph 62 regarding the exclusion of non-financial entities from the group, if the last sentence is amended to exclude entities whose financial distress or bankruptcy would have no material financial or reputational effect on the financial entities, holding companies or ultimate holding company of the group.

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.

Yes No

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4 Valuation

4.1 Market-adjusted valuation (MAV) approach

4.1.1 MAV general approach

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.

Yes

Achieving the comparability of MAV and GAAP+ valuation bases is a long term project. For this reason we welcome the flexibility to use appropriate standards for each jurisdiction for the purposes of ICS 1.0.

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.

Yes No

[Click here to enter text.](#)

4.1.3 Contract boundaries

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?

GFIA recognises that the right balance needs to be struck between, on one side, the reflection of economic substance indicated in the ICS principles and, on the other side, the complexity of calculations. While some GFIA members believe that it's key for the valuation to reflect economic substance rather than to simply focus on the legal format, other GFIA members believe that contract boundaries should be considered of simplicity over complexity.

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

Yes No

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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.

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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.

Yes No

Please refer to our response on MOCE – we do not believe that its introduction is necessary for the attainment of IAIS objectives.

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.

Yes No

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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.

Yes No

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4.1.4 Discounting

4.1.4.3 IAIS’ response to stakeholder comments and Field Testing results

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.

Yes No

GFIA agrees with the three segment approach to the definition of IAIS base yield curves for life insurers.

Given the long-term nature of insurance business, excessive volatility in insurers’ balance sheets caused by short-term market fluctuation should be avoided.

If insurers are able to earn stable spreads through appropriate risk taking, reflecting management actions on the valuation of insurance liabilities is an effective approach.

Particularly regarding long-term contracts, valuation should be carried out carefully and we support an adjustment based on the long-term forward rate (LTFR).

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.

Yes No

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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.

Yes No

[Click here to enter text.](#)

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?

Yes No

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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?

Yes No

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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?

Yes No

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

Yes No

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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.

Yes No

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Q18 Section 4.1.4.3 The discounting approach is based on a stable macroeconomic 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.

Yes No

Considering its purpose, the LTFR should not change in the short term and, even if it changes, the change should take adequate time and be moderate.

Since there is a concern that the artificial alteration of assumptions caused by an update of the LTFR may influence insurers' investment behaviour, whether to update the LTFR should always be considered carefully. Even in the case an update, restrictive measures could be implemented such as setting a floor and ceiling to the fluctuation range of the LTFR or limiting the frequency of updates to every few years.

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.

Yes No

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4.1.4.4 Policy issues regarding the design of the adjustment

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.

The valuation of liabilities is of key importance to GFIA members. GFIA recognises that the right balance needs to be struck between, on one side, the ability of the valuation approach to capture the link between assets and liabilities in a way that avoids artificial balance sheet volatility and, on the other side, the complexity of calculations. While some GFIA members believe that it's key for the valuation to reflect the actual holdings of assets on the liabilities side, other GFIA members believe that a reference portfolio approach should be used to favour simplicity over complexity.

GFIA therefore believes that a valuation based on actual assets and liabilities should be proposed by the IAIS, but companies should be allowed, for simplicity reasons, to use a valuation based on a reference portfolio.

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

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

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?

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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.

Yes No

GFIA agrees that low quality investments should not be incentivised – in fact, incentivising or disincentivising investment into any specific asset classes should not be an objective of a capital framework - the choices of asset allocation should be left to individual IAIGs. A risk-based capital framework such as the ICS should instead include calibrations which reflect the risks that IAIGs are exposed. These risks are then covered by capital requirements, which is what ensures policyholder protection.

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.

Yes No

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Q22.2 Section 4.1.4.4 If “no” to Q22.1, what other approaches could the IAIS explore to achieve that objective?[Click here to enter text.](#)

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

Yes No

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

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

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

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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?

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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.

Yes No

[Click here to enter text.](#)

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.

A single spread adjustment calculated and then applied to the different buckets (if more than one) using different application ratios. [Click here to enter text.](#)

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. [Click here to enter text.](#)

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?

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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?

Yes No

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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.

Yes No

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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.

Yes No

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4.1.4.5 Options for adjustments to base yield curves – 2016 Field Testing

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.

Click here to enter text.

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.

Yes No

Click here to enter text.

4.1.5 General comments

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.

Yes

We appreciate the effort that the IAIS has already invested into converging the disparate valuation regimes. Ongoing time and analysis is required to ensure the two valuation regimes produce more consistent outcomes.

4.2 GAAP with adjustments

4.2.5 2016 Field Testing

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?

Yes No

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.

Yes No

[Click here to enter text.](#)

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.

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?

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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

Yes No

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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.

Yes No

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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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

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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.

Yes No

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4.2.6 General comments

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.

Yes No

The GAAP+ principles and guidelines constitute a sufficient basis for the specifications of an ICS valuation approach that fulfils the ICS Principles as defined by the IAIS. Based on information from those in GAAP jurisdictions, we would not suggest any further reconciliations.

Nevertheless, it should be clarified in the ICS that discounting should not be required for firms domiciled in jurisdictions where the jurisdictional GAAP does not require discounting. Such discounting will produce unnecessary costs that will not be balanced by any benefits. This is an important clarification to be added in this section of the consultation draft.

4.3 Margin Over Current Estimate (MOCE)

4.3.5 Open issues for consultation

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.

Yes No

[Click here to enter text.](#)

4.3.5.1 Cost of capital approach

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.

Yes No

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

Fixed? If “yes”, how should it be determined? [Click here to enter text.](#)

Linked to another economic variable in order, in particular, to reflect different economic environments? If “yes”, which economic variable should be used (eg interest rate curve, spread level...)? .

Determined with reference to a minimum (hurdle) level that could be different from the average observed level? If “yes”, please explain why and how this should be reflected. [Click here to enter text.](#)

Based on a broad equity market or on insurance-specific measures? If “yes”, please explain

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.

No

[Click here to enter text.](#)

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.

Yes No

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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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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?

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

While GFIA does not support the inclusion of MOCE within the ICS, if it is included, it should be part of capital resources rather than insurance liabilities to reduce double counting.

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 explain.

Yes No

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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.

Yes No

[Click here to enter text.](#)

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.

Yes No

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4.3.5.2 P-MOCE approach

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.

Yes No

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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.

Yes No

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4.3.6 General comments

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.

Yes

While the consultation document sets out some rationale for the two approaches, it is still not clear why a MOCE is necessary to achieve the ICS's stated objectives. We are concerned that inclusion of margins for prudence would duplicate the allowance for uncertainty that will be included within the ICS capital requirements. We note that the development of a comparable and consistent MOCE is a very challenging task and the inclusion of MOCE is not a pre-condition for the development of the ICS, but rather a driver for further complication.

We understand a key reason the IAIS intends to include a MOCE is that it is already provided for in ICPs. However, given the extensive revision that the ICS already strives to bring to international prudential standard setting, we do not find this a compelling argument.

Nevertheless, if MOCE is introduced as part of the ICS, the entire amount in excess of the best estimate liability should be classified in Tier 1 capital resources without limits.

4.4 Reinsurance recognition

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

Yes No

[Click here to enter text.](#)

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.

Yes No

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4.4.1 General comments

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.

Yes No

[Click here to enter text.](#)

5 Capital resources

5.3 Open issues for consultation

5.3.1 Principal loss absorbency mechanism

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

Yes No

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.

Yes No

For example, it is possible to design products appropriately so that no refunds are required when loss occurs. Cancellation of distributions referred to in paragraphs 248 and 249 could also be considered to be a loss absorbency mechanism because it would decrease the IAIG's nominal amount of paying out. Additionally, the clause that allows an issuer to defer redemption of the principal amount would also contribute to the IAIG's loss absorbency.

5.3.2 Financial instruments issued by consolidated subsidiaries of the IAIG and held by third parties

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.

Yes No

[Click here to enter text.](#)

5.3.3 Treatment of items deducted from Tier 1 (DTAs, computer software intangibles, net defined benefit pension plan surplus asset)

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.

Yes No

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5.3.4 Structural vs contractual subordination (treatment of senior debt)

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

Yes No

We believe that structural subordination allows senior debt issued by non-operating insurance holding companies to meet the criterion the instrument is subordinated to policyholders.

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

Yes No

[Click here to enter text.](#)

5.3.5 Mutual IAIGs

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.

Yes No

We believe it is sufficient, because the redemption can be prevented through supervisory disapproval, in cases where there are concerns the redemption would have an impact on the insurer's solvency.

Subsection c) in paragraph 333 of the 2016 Field Testing Technical Specifications is overly prescriptive in this context and is not consistent with the ICP 17. We would suggest the IAIS to remove the wording "i.e. it does not have a maturity date" from the criterion c) and suggest that the IAIS refers to the ICP 17.11.22 instead

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.

Yes No

The regulatory regime that governs the issuance of surplus notes must be taken into consideration when evaluating surplus notes.

When a payment is not approved, insurance laws and regulations also specify how that payment will be treated while it remains outstanding. Typically, when a payment is disapproved, interest will stop accumulating on the unpaid amount. Although the regulator retains the discretion to later allow the payment, approval can be withheld for as long as the

regulator deems it necessary to preserve the insurer's financial strength. In this sense, the regulator effectively has the power to render distributions non-cumulative.

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.

Yes

The definition of qualifying capital resources in ICS Version 1.0 needs to recognise and accommodate the unique needs of mutual insurance companies. We appreciate the IAIS' willingness to consider whether surplus notes and foundation funds (Kikin) should qualify as Tier 1 capital. Because mutual companies are unable to issue common shares, surplus notes and Kikin remain the most readily available source of capital to meet a mutual insurer's near-term capital needs.

Surplus notes have unique equity-like features, they are deeply subordinated to all policyholders and non-regulatory capital creditors and require supervisory approval prior to issuance, redemption or distribution. These features ensure that surplus notes provide loss-absorption on a going concern basis. Kikin can offset losses as a net asset item on balance sheets. Therefore, Kikin also provide loss-absorption on a going concern basis. In light of a mutual company's inability to issue common shares – the major source of unrestricted Tier 1 capital in the ICS, we believe it is necessary to recognize surplus notes and Kikin as Tier 1 capital in order to preserve a level playing field with non-mutual insurance companies.

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.

Yes

Setting the Tier 1 criteria is effective when differences in approaches for capital raising between mutual companies and stock companies are taken into consideration. Therefore, we strongly support "another approach" in paragraph 261 of the CD, i.e., to consider more broadly the supervisory regime and the requirements/restrictions applicable to the mutual companies' approach for capital raising. We strongly support the example in paragraph 264 of the CD as well.

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.

The primary capital resource for IAIGs is equity (share capital), which mutual IAIGs are unable to issue. Mutual IAIGs are owned by their policy holders and not shareholders. They are not publicly owned and are legally prohibited from issuing shares. Accordingly, mutual IAIGs are in a unique position of being unable to issue the Tier 1 capital resources as currently defined by the IAIS.

5.3.6 Non-paid-up capital

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

Yes No

Non-paid up capital should form part of capital resources, subject to safeguards already part of existing regulatory regimes. We note that non-paid up capital is an existing source of funding for certain insurers and a form of Tier 2 capital in some regulatory regimes.

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.

Yes No

[Click here to enter text.](#)

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?

Yes No

[Click here to enter text.](#)

5.3.7 Capital composition limits

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

[Click here to enter text.](#)

5.3.8 Prior supervisory approval for redemption of financial instruments

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

At its effective maturity date.

At its contractual maturity date.

Otherwise. Please explain. [Click here to enter text.](#)

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

Yes No

[Click here to enter text.](#)

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.

Yes No

We think that supervisory approval provides substantially the same economic effect as a contractual lock-in clause.

Tier 2 capital resources absorb losses at gone-concern basis, and need not meet the ICS capital requirement for its repayment or redemption. We believe that meeting the MCR in each jurisdiction is enough for the repayment or redemption to assure its loss absorbance ability.

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.

Yes No

[Click here to enter text.](#)

5.3.9 Treatment of Accumulated Other Comprehensive Income (AOCI)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

5.3.10 Treatment of insurance liability/reinsurance adjustment offset

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

Yes No

[Click here to enter text.](#)

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

Yes No

[Click here to enter text.](#)

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?

Yes No

[Click here to enter text.](#)

5.4 General comments

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.

Yes

GFIA would like to make the following comments in relation to capital resources:

- *It is not appropriate to compare the net assets under MAV or GAAP+ balance sheets with net assets under accounting balance sheets as these are two distinct valuation bases;*
- *The treatment of assets should be consistent: currently, the proposals treat Tier 1 and 2 debt instruments at market value as a liability on the balance sheet, but at book value as capital;*
- *Capital resources should include Legal, contractual and structural subordinated debt;*
- *The setting of limitations (such as the ratio of Tier 1 Limited capital to Tier 1 Unlimited) could lead to procyclicality concerns;*
- *Transitional measures should be considered sooner rather than later, as uncertainty would create difficulties in making management decisions;*

- *We appreciate the IAIS' consideration of the unique characteristics of mutual insurers' capital resource requirements. Surplus notes and Kikin are the most readily available sources of capital for mutual insurers.*
- *We think that one possible way may be the introduction of principle-based approach which would enable IAIGs to determine their shock absorbing capacity considering the economic reality and the practical implementation aspect of capital funding methods in each jurisdiction, so that the IAIGs' shock absorbing capacity using those methods would be appropriately evaluated at going-concern basis.*
- *From the view of ensuring fairness in regulatory/supervisory practices, the requirements/restrictions on the applicable supervisory regime should be broadly considered. Regarding capital requirements, if new capital-raising financial instruments appear in the future, it should be allowed that equivalent Tier would be given to those instruments, considering their similarities to other existing financial instruments.*

6 ICS capital requirement: the standard method

6.3 Risk Mitigation

6.3.4 Open issues for consultation

6.3.4.1 Allowance 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

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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

[Click here to enter text.](#)

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).

[Click here to enter text.](#)

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.

[Click here to enter text.](#)

[6.3.4.2 General treatment for risk-mitigation techniques that are in force for less than the next 12 months](#)

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.

Yes No

The ICS is based on the assumptions that an IAIG will carry out only existing business within the one year time horizon, that risk events occur at the date immediately following the measurement date, and that life insurers activities’ such as new business or sales of assets are not considered for the 12 months after the date of measuring risk. This treatment has already been adopted in some local capital regimes, for example in the EU Solvency II Directive.

In the above case, regarding risk mitigation, the IAIG will need to take into account only the risk mitigation techniques that are in force at the date of measurement, without considering the situation for the next 12 months after the date of measuring risk. Thus, we think determining whether renewal of risk mitigation arrangements is realistic or not will conflict with the general treatment.

Where the IAIG takes into account risk mitigation techniques over the 12 months following the date of measurement, we think it is reasonable for the IAIG to take into account the probability of renewal of risk mitigation arrangements, in the light of the ICS principle of “substance over form”. The IAIG would be able to easily estimate the probability by referring to historical data on the renewal of risk mitigation arrangements.

[6.3.4.3 Criteria for recognising the renewal of Non-life risk mitigation arrangements](#)

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.

Yes No

[Click here to enter text.](#)

6.3.4.4 Renewal of risk mitigation arrangements for risks other than non-life (eg Currency risk) arising out of assets and liabilities existing at the reference date of the ICS calculation

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.

Yes No

[Click here to enter text.](#)

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.

[Click here to enter text.](#)

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.

[Click here to enter text.](#)

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.

[Click here to enter text.](#)

6.3.4.5 Basis risk

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.3.5 General comments

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.

Yes

It is important for risk mitigation measures to be adequately recognised in ICS, as these lie at the heart of the insurance business model.

The currently proposed constraints for the non-renewal of hedges are made more stringent than a 1 in 200 scenario through the assumption that it would not be possible to renew any hedges or adopt other risk mitigation strategies – we would suggest that a more realistic approach is required.

6.4 Look-through

6.4.1 General comments

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.

Yes No

[Click here to enter text.](#)

6.5 Management actions

6.5.2 2016 Field Testing

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.

Yes No

[Click here to enter text.](#)

6.5.3 Open issues for consultation

6.5.3.1 Further extension of management actions

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.

Yes No

[Click here to enter text.](#)

6.5.3.2 Cap on management actions

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.

Yes No

[Click here to enter text.](#)

6.5.4 General comments

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.

Yes No

[Click here to enter text.](#)

6.6 Mortality and Longevity risk

6.6.2 2016 Field Testing

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

Yes No

[Click here to enter text.](#)

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.

Yes No

We are concerned that the stress levels are overly high in some jurisdictions.

We would like the IAIS to consider defining appropriate stress levels, with reference to the input from stakeholders including historical data of Volunteer IAIGs obtained from the results of Phase 2 + of 2016 Field testing.

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

Yes No

[Click here to enter text.](#)

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.

Yes No

We are concerned that the stress levels are overly high in some jurisdictions, particularly where there is significant experience in managing longevity risk. Further, the requirement to model longevity trend and longevity levels simultaneously implicitly assumes a 100% correlation, when there would be no to low correlation between these two risks.

We would like the IAIS to consider defining appropriate stress levels, with reference to the input from stakeholders including historical data of Volunteer IAIGs obtained from the results of Phase 2 + of 2016 Field testing.

6.6.3 Open issues for consultation

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.6.4 General comments

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.

Yes No

[Click here to enter text.](#)

6.7 Morbidity/Disability risk

6.7.2 2016 Field Testing

6.7.2.1 Option 1 - Health risk

Q111 Section 6.7.2.1 Is the proposed segmentation for health business appropriate? Please explain.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

Q113 Section 6.7.2.1 Is the shock for Health lapse risk appropriate? Please explain.

Yes No

[Click here to enter text.](#)

6.7.2.2 Option 2 - Morbidity/Disability risk

Q114 Section 6.7.2.2 Are the two product segments as defined appropriate? Please explain.

Yes No

[Click here to enter text.](#)

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.

Yes No

We are concerned that the stress levels are overly high in some jurisdictions.

We would like the IAIS to consider defining appropriate stress levels, with reference to the input from stakeholders including historical data of Volunteer IAIGs obtained from the results of Phase 2 + of 2016 Field testing.

6.7.3 Open issues for consultation

6.7.3.1 Calibration of stresses and geographic differentiation

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.7.3.2 Single approach to Morbidity/Disability for ICS Version 1.0

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.

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.7.4 General comments

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.

Yes No

[Click here to enter text.](#)

6.8 Lapse risk

6.8.2 2016 Field Testing

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.

Yes No

We are concerned that the stress levels are overly high in some jurisdictions.

We would like the IAIS to consider defining appropriate stress levels, with reference to the input from stakeholders including historical data of Volunteer IAIGs obtained from the results of Phase 2 + of 2016 Field testing.

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.

Yes No

Q125 Section 6.8.2 Is the treatment of dynamic lapses appropriate? Please explain. If “no”, please suggest an alternative treatment.

Yes No

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.

Yes No

[Click here to enter text.](#)

6.8.3 Open issues for consultation

6.8.3.1 Calibration of stresses and geographic differentiation

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.8.3.2 Treatment of surrender strain for determining mass lapse component

Q129 Section 6.8.3.2 Should the mass lapse stress be applied to all surrenderable policies, regardless of surrender strain? Please explain.

Yes No

[Click here to enter text.](#)

Q130 Section 6.8.3.2 Should the mass lapse stress be applied only to surrenderable policies with positive surrender strain? Please explain.

Yes No

[Click here to enter text.](#)

6.8.4 General comments

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.

Yes No

[Click here to enter text.](#)

6.9 Expense risk

6.9.2 2016 Field Testing

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.

Yes No

[Click here to enter text.](#)

6.9.3 Open issues for consultation

6.9.3.1 Calibration of stresses and geographic differentiation

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.9.3.2 Aggregation of unit expense and expense inflation

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?

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.9.3.3 Compounding effect of inflation expense

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.

Yes No

[Click here to enter text.](#)

6.9.4 General comments

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.

Yes No

[Click here to enter text.](#)

6.10 Premium and Claims Reserve Risks

6.10.4 Open issues for consultation

6.10.4.1 Use of jurisdictional reporting segments

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:

A more compact standardised segmentation? If “yes”, please explain the rationale. [Click here to enter text.](#)

A more detailed reporting segmentation based on existing jurisdictional reporting segments? If “yes”, please explain how consistent treatment across segments could be ensured. [Click here to enter text.](#)

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.

Yes No

GFIA members believe that “projected net earned premium” is an incorrect exposure base to use in the calculations for premium risk. Historical data will be far more consistent. Net written premiums for the most recent year in which complete year-end data is available is the best measure of premium risk available. Attempting to estimate future premiums adds an unnecessary level of uncertainty.

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.

Yes No

[Click here to enter text.](#)

6.10.4.2 Diversification within Non-Life risks

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.10.4.3 Calibration Approach

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.10.4.4 Adjustments Needed When Calibrating Data

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.

Yes No

[Click here to enter text.](#)

6.10.5 General comments

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.

Yes No

Although we support a factor-based approach to calculating Premium and Claims Reserve risks, we believe the risk factors for a number of jurisdictions are higher than would be expected under the ICS target criteria (i.e. VaR 99.5% confidence level). While we appreciate that the factors will be further refined based on the results of the 2016 Field Testing, we recommend that the IAIS provide a reconciliation between the final risk factors and those currently in place in IAIS members’ respective jurisdictions.

6.11 Catastrophe Risk

6.11.2 2016 Field Testing

6.11.2.2 Latent liability scenario

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

No

If latent risk is added to the analysis, this will create complications and be based on additional estimates and guesswork.

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

Yes No

[Click here to enter text.](#)

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

Yes No

[Click here to enter text.](#)

6.11.3 Open issues for consultation

6.11.3.1 List of perils

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).

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.11.3.2 Use of natural catastrophe models as part of the standard method

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

Yes

GFIA is strongly supportive of the use of models for catastrophe risk. We do not believe that it would be possible to adequately reflect the diversity of cat risk through a standard formula.

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.

No

While we support the objective that catastrophe models result in a fair assessment of natural catastrophe risk, we do not think that this assurance should be sought in the form of a requirement within the ICS. If catastrophe models are allowed in the IAIG's jurisdiction, these should be also be allowed for the ICS. The key ingredient in achieving a fair assessment of nat cat risk is in fact the allowance of the use of catastrophe models in itself, as this ensures that the ICS reflects an IAIG's actual exposure to nat cat risk.

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.11.3.3 Man-made catastrophe scenario

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).

Yes No

[Click here to enter text.](#)

6.11.3.4 Calculation of the recoverable amount to be used for the calculation of the contingent Credit risk

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.

Yes No

[Click here to enter text.](#)

6.11.4 General comments

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.

Yes No

[Click here to enter text.](#)

6.12 Market risk

6.12.1 Interest Rate risk

6.12.1.4 Open issues for consultation

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

- Only upward and downward movements [Click here to enter text.](#)
- Upward, downward and flattening [Click here to enter text.](#)
- Upward, downward and steepening [Click here to enter text.](#)
- Upward, downward, steepening and flattening [Click here to enter text.](#)

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.

- Yes No

[Click here to enter text.](#)

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.

- Yes No

[Click here to enter text.](#)

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.

[Click here to enter text.](#)

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.

- Yes No

[Click here to enter text.](#)

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.

- Yes No

[Click here to enter text.](#)

6.12.1.5 General comments

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.

Yes

The time period used to calibrate the interest rate stress is very short, and would result in procyclicality. This could be addressed by lengthening the time period used to calibrate the stress i.e., cover multiple economic cycles, and introducing mechanisms to reduce the stress in falling or low interest rate environments.

6.12.2 Equity risk

6.12.2.1 Background

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.

Yes No

[Click here to enter text.](#)

6.12.2.3 Open issues for consultation

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

Yes No

Calibration levels used for equity prices stress are supposed to take into account also the volatility stress, or they should do so. This is the case in other prudential regimes like solvency II in Europe with the same calibrations which had tested the option to distinguish between prices and volatility and proved limits of this method. Indeed, requiring for the ICS calculation in the equity module 2 different stresses making a distinction between prices and volatility is not founded and could lead to exaggerated capital requirement by double counting the targeted risk to be covered in this risk module.

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.

Yes No

Volatility stress should be removed. Beyond economic side, that would lead to unintended complex implementation.

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).

No

The equity volatility stress in the field testing (72% multiplicative) is too high, and an additive approach should be used instead to reduce procyclicality.

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).

Yes No

Long-term equity investments should have appropriate treatment with adapted calibration. The long term holding of these assets and the liabilities should be considered with a more specific calibration depending on the duration and the minor volatility of these assets. The standard equity calibration cannot be adapted to long-term investments with specific characteristics (higher quality, lower volatility, long term holding and strategic feature) that should be recognised and taken into account.

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

A symmetric adjustment taking into account the market volatility under the equity cycle should be introduced as a countercyclical measure to reduce pro-cyclical behaviour during stressed periods. Methodologies from Solvency II could be taken as examples to build this adjustment.

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

Yes No

[Click here to enter text.](#)

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

Yes No

[Click here to enter text.](#)

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

Yes No

[Click here to enter text.](#)

6.12.2.4 General comments

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.

Yes No

[Click here to enter text.](#)

6.12.3 Real Estate risk

6.12.3.2 2016 Field Testing

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.

Yes No

Click here to enter text.

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.

Yes No

Click here to enter text.

6.12.3.3 General comments

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.

Yes No

Click here to enter text.

6.12.4 Currency risk

6.12.4.2 2016 Field Testing

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

Yes

The majority of the currency risk currently captured relates to currency translation risk. It is doubtful as to whether this could have a material impact on policyholder protections. Further, this reduces comparability between insurers, which is against ICS Principle 1, which requires that the amount of capital required to be held should be “irrespective of the location of its headquarters”.

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?

Yes No

Click here to enter text.

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

Yes No

[Click here to enter text.](#)

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

Yes No

[Click here to enter text.](#)

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

Yes No

[Click here to enter text.](#)

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

Yes No

[Click here to enter text.](#)

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

Yes No

[Click here to enter text.](#)

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

Yes No

[Click here to enter text.](#)

[6.12.4.3 General comments](#)

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.

Yes No

[Click here to enter text.](#)

6.12.5 Asset Concentration risk

6.12.5.2 2016 Field Testing

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.

Yes No

[Click here to enter text.](#)

6.12.5.3 General comments

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.

Yes No

[Click here to enter text.](#)

6.13 Credit risk

6.13.3 Open issues for consultation

6.13.3.1 Reliance on the use of external credit ratings

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?

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.13.3.2 Granularity of commercial and residential mortgage factors

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.

Yes No

[Click here to enter text.](#)

6.13.3.3 Treatment of reinsurance exposures

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.

Yes No

The IAIS should continue to explore other approaches, however, the method adopted should allow for a reduction in capital required for excess collateral.

6.13.4 General comments

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.

Yes No

[Click here to enter text.](#)

6.14 Operational Risk

6.14.3 Open issues for consultation

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.

Yes No

[Click here to enter text.](#)

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

Yes No

The overall calibration is too high, particularly on single premium business. Premiums not directly related to insurance risks should be excluded from the operational risk premium charge calculation, but still be captured under the current estimate charge.

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.

Yes No

[Click here to enter text.](#)

6.14.4 General comments

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.

Yes No

[Click here to enter text.](#)

6.15 Aggregation/Diversification

6.15.3 Open issues for consultation

6.15.3.1 Structure of the aggregation calculation

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.

Yes No

[Click here to enter text.](#)

6.15.3.2 Calibration of correlation parameters

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.

Yes No

[Click here to enter text.](#)

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

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

6.15.4 General comments

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.

Yes No

The proposed diversification benefits are quite limited. For example, there is no allowance for geographical diversification within the EU or the US. Similarly on lines of business, these are grouped at quite a high level, and a more granular approach would more appropriately reflect the economic reality of a diversified portfolio.

7 Holistic approach to tax within the ICS

7.2 Open issues for consultation

7.2.1 Valuation

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

[Click here to enter text.](#)

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

Yes No

[Click here to enter text.](#)

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.

The consideration of taxes is important, in fact critical, to many members. However, given early stages of discussion of how tax should be treated as part of the ICS, its inclusion in ICS 1.0 may be premature.

GFIA welcomes the IAIS' indication that the consideration of tax will be subject to further stakeholder discussions as part of the ICS development.

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.

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

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.

Yes No

[Click here to enter text.](#)

7.2.2 Margin over current estimate

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.

Yes No

[Click here to enter text.](#)

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

Yes No

[Click here to enter text.](#)

7.2.3 Capital resources

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

[Click here to enter text.](#)

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.

[Click here to enter text.](#)

7.2.4 ICS capital requirement

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.

Yes No

[Click here to enter text.](#)

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.

Should the tax impact be included in the individual ICS risk charge calculations pre-diversification? [Click here to enter text.](#)

Should the IAIS ignore the tax impact on the ICS capital requirement, and instead reflect that impact in the calibration of the ICS capital requirement through the calibration of individual ICS risk charge calculations pre-diversification? (Please provide any suggestions as to how the individual ICS risk charges could be recalibrated to reflect this.) [Click here to enter text.](#)

Should the ICS capital requirement be calculated in a similar fashion to the current Field Testing approach, where each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a global effective tax rate? [Click here to enter text.](#)

Should any other approach be used? (Please provide details) [Click here to enter text.](#)

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?

Yes No

[Click here to enter text.](#)

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).

Yes No

[Click here to enter text.](#)

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?

Yes No

[Click here to enter text.](#)

7.3 General comments

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.

Yes No

8 Additional comments

Q236 Additional 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.

Yes

GFIA appreciates the opportunity to comment on the IAIS version of ICS 1.0.

The development of the ICS is the single most important development in international insurance prudential regulation and, as such, requires a thoroughly considered approach. We appreciate that given the size of the ICS project it would be unrealistic to expect for all issues to be addressed in one iteration. In fact, GFIA has been a strong and long standing proponent of a measured approach to ICS development, working with the grain of local regulatory environments – which implies a number of iterations and a longer gestation period than currently envisaged. We therefore appreciate that the IAIS consultation document recognises that the ICS will be an iterative process.

Nevertheless, we are disappointed by the removal of a number of crucial issues from the scope of the comments. Many of these are central to the discussion of the technical issues, which limits the ability of stakeholders to provide responses that are as full as they could

otherwise be. While we appreciate the difficulty of addressing questions about comparability and the interaction between legal entities and group, these are at the core of how the ICS should look and what it would mean in practice. We urge the IAIS to consult on these fully, and allow sufficient time for dialogue with stakeholders, and to consider the implications of the choices made.

For similar reasons, while we are very appreciative of the ICS stakeholder sessions and find these very valuable, these would be even more useful if, alongside the technical detail, the IAIS could provide greater insight into the drafters' philosophy that was guiding the decision to adopt a particular approach in the first place. This would allow stakeholders to more deeply engage with the IAIS process, and provide more tailored input.

GFIA's view on is that, as expressed on previous occasions, local regimes which are consistent with the ICS framework should be recognised as a suitable implementation of the ICS framework, to avoid unnecessary costs and having potentially conflicting requirements. We understand the IAIS view is that the ICS is a group-wide capital regime with no impact on the regulation of legal entities. However, in practice, unless further thought is given to the relationship between global and local regimes, there is a risk of inadvertent overlap in purpose and coverage. In this light, and consistent with IAIS' statement that the ICS is a minimum standard that jurisdictions can build on or adjust, ICS Principle 10 should be amended to reflect that the levels of capital should be set at jurisdictional level, rather than by the ICS.

While not covered in this consultation, GFIA proposes that internal models (partial and full) should be allowed to determine solvency, where permitted by local regulatory regimes. The option to use internal models is very important to ensure the ICS avoids becoming hugely complex while still ensuring that solvency requirements will be aligned to the real risks across all the companies applying the ICS. Internal models provide insurance companies and supervisors with better insights into the firm's idiosyncratic risks and therefore promote sound risk management, in line with ICS Principle 6.

The valuation of liabilities is of key importance to GFIA members. GFIA recognises that the right balance needs to be struck between, on one side, the ability of the valuation approach to capture the link between assets and liabilities in a way that avoids artificial balance sheet volatility and, on the other side, the complexity of calculations. While some GFIA members believe that it's key for the valuation to reflect the actual holdings of assets on the liabilities side, other GFIA members believe that a reference portfolio approach should be used to favour simplicity over complexity.

GFIA therefore believes that a valuation based on actual assets and liabilities should be proposed by the IAIS, but companies should be allowed, for simplicity reasons, to use a valuation based on a reference portfolio.

Another central feature of the insurance business model that needs to be explicitly and appropriately recognised in any capital framework is the use of diversification and risk-mitigation techniques, including re-insurance, profit sharing and hedging. These elements are key to achieving the envisaged risk-sensitivity feature of the ICS framework. Diversification and risk mitigation are fundamental aspects of the insurance business and are also closely linked to ICS Principle 6 on promoting sound risk management by IAIGs.

GFIA also recommends that grandfathering transitional measures, particularly in respect of capital resources, should be considered as soon as possible. ICS proposals on capital instruments differ from arrangements currently in place, and assurance in this area is needed.

In addition, GFIA members felt that some risks are calibrated at an unnecessarily high level for some jurisdictions. This includes currency, equity, interest, mortality, longevity, premium and claims risk, operational and lapse risks. Given this, we would like the IAIS to set an appropriate stress level through referring to input from stakeholders including the collection of historical data of Volunteer IAIGs during Phase 2+ of Field Testing.

Finally, GFIA notes that when the IAIS has included the ICS confidence level in its previous consultation, it was explicit its request for comments only referred to the confidence level to be used during field testing, and not to the ultimate confidence level to be used in the ICS. Paragraph 31 of the CD states, however, that the ICS confidence level will be 99.5% VaR, without asking for comment or making any reference to field testing. GFIA asks that, if the IAIS proposes to decide now on the ultimate confidence level for the ICS, that it asks for stakeholder comment on the issue before making any decision.

We would like to thank the IAIS for considering GFIA comments, and we look forward to ongoing engagement with the IAIS.