IAIS Consultations

Print view of your comments on "Public Consultation on Risk-based Global Insurance Capital Standard Version 2.0" - Date: 30.10.2018, Time: 16:49

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Treat my comments as confidential	No

	Question
	Q1 What are the incremental costs associated with the changes that would have to be made solely for the adoption of the ICS as a PCR?
Answer	The Global Federation of Insurance Associations (GFIA) welcomes the opportunity to comment on ICS version 2.0. From an operational point of view, incremental costs associated with adopting the ICS as a Prescribed Capital Requirement (PCR) will include increased costs relating to internal reviews of the process for determining capital requirements, costs of developing systems and providing staffing resources for the cash flow calculations and risk measurement, internal audit costs, as well as the costs of external audit. These costs will increase if the ICS is adopted as a PCR in addition to existing national requirements. Some firms may also be faced with the incremental cost of raising additional capital to be able to meet the ICS as PCR, particularly if the ICS is adopted by national authorities as a general capital standard for all solo entities, and not just a standard for IAIGs. As an example of an unintended consequence, ICS Version 2.0 as currently being consulted on would provide disincentives to insurers to invest in certain assets as it currently does not recognise the use of internal ratings of assets where there is no external credit rating (such as infrastructure) meaning that such assets would attract an inappropriate capital charge while at the same time not given appropriate recognition in setting the discount rate for the valuation of liabilities. This would be inconsistent with the G20 aims of improving the environment for infrastructure projects and results in sub-optimal outcomes for policyholders. For the Standard Method calculation, internal validation by the IAIGs themselves and validation by the supervisory authority should be sufficient. Additional costs from third party validation should not be imposed. While GFIA welcomes that the IAIS is now giving consideration to the degree of disruptive and costly change the ICS could create, particularly given the differences in capital regimes around the world, GFIA would encourage further work to understand the market impacts of ICS as PCR. GFIA would encourage the IAIS to share early its expectations on the frequency with which firms need to submit their ICS ratios, to enable firms to develop systems and allocate resources appropriately.
	Q2 Are there any other benefits of adopting the ICS as a PCR? Please explain.
Answer	No

Answer Comment

The ICS may allow insurers to compare the prudential soundness of each entity within an IAIG using consistent measures, and this may contribute to a more sophisticated approach to risk management. However, it should be noted that this can only be achieved if the ICS is appropriately designed to reflect the specific features of each jurisdiction.

GFIA does not consider there are any further benefits to adopting the ICS as a PCR, other than those noted in Paragraph 58 of the consultation paper. GFIA further notes that an incorrect formulation of ICS would result in the IAIS not being able to meet its stated objectives.

Q3 Is the role of the GWS during the monitoring period appropriate? Please provide feedback on how the role should be refined.

Answer

No

Answer Comment

The role of the GWS as described in section 3.1 is not sufficiently defined. The consideration the GWS should give to the effectiveness of the ICS during the monitoring period should be set out more clearly. While GFIA appreciates that there may be a need to change the participation in additional reporting during the monitoring period, there should be a process for this to happen, including discussion with the affected IAIGs.

Paragraph 65 indicates that the GWS should “provide a report of summary results to the supervisory college of the IAIG for discussion.” It is unclear as to what such a report would entail, or how it would be used in the College.

GFIA notes that the IAIS has sought to define feedback loops between group supervisors, local supervisors, Colleges and the IAIS (see also our responses to Q4-6). GFIA considers this to be a positive development.

Q4 Is the role of the Working Group within the IAIS during the monitoring period appropriate? Please provide feedback on how the role should be refined.

Answer

No

Answer Comment

GFIA encourages the IAIS and the Working Group to maintain the necessary resources and processes in place to ensure that necessary improvements in the ICS are identified and acted upon as early as possible during the monitoring period. In particular, GFIA would encourage the IAIS to prioritise definitions of insurance cash flows and group scope, since these are the key processes for firms preparing for ICS implementation.

To this end, the IAIS should begin to include within its long-term planning horizon how it will maintain the ICS and keep it responsive to emerging risks and trends over the long term, well beyond the end of the monitoring period. The working group’s role during the monitoring period should be expanded to look beyond 2024 and provide input to senior committees as to resource needs for the long term, in order to maintain the IAIS as a suitable global standard. GFIA agrees that potential improvements in ICS should be identified and implemented as early as possible during the monitoring period, and asks the IAIS to clarify that it will conduct future consultations on such improvements.

An important role of the CSFWG that is not listed in this section is to find a suitable way in which some ICS data – appropriately aggregated and anonymized – can be published to indicate to all stakeholders the impact of the ICS relative to existing jurisdictional baseline calculations, and how that changes over time throughout the monitoring period. There is already precedent for this in disclosures that were made following the initial field testing of the BCR; similar disclosures should be made in respect of the ICS, hopefully disclosures that will be even more granular than were made about the BCR, given there are now many more firms included in field testing and soon subject to the monitoring period. This should also include information relative to the various forms of additional reporting as well – not just the MAV-based Standard Method.

Section 3.2 includes only one reference to stakeholders, i.e., that one of the Working Group’s responsibilities will be to “engage with stakeholders.” While such engagement has occurred in the past, GFIA is mindful that the ICS will soon be transitioning from technical development to preparatory stages in anticipation of adoption and implementation. As such, the Working Group will need to pay more attention to the broader group of stakeholders – including legislators and other officials whose influence will be critical in implementation -- to garner the broader support necessary in jurisdictions for implementation to occur. The request to disclose anonymized results is just one way that stakeholder engagement can be made more robust, but more can and should be done.

GFIA further notes that an incorrect formulation of ICS would result in the IAIS not being able to meet its stated objectives. GFIA takes the view that the IAIS should maintain the same level of engagement with stakeholders (including insurance groups participating as interested Volunteer Groups) as during the field testing period. This engagement could take the form of regular workshops, global seminars and the IAIS annual conference.

Q5 Is the role of the forum of supervisors with the IAIS during the monitoring period appropriate? Please provide feedback on how the role should be refined.

Answer

No

Answer Comment

The role of the forum of supervisors is only very briefly described as “discussing the implementation of ICS Version 2.0 in the monitoring period.” More thought should be given as to the nature and extent of those discussions in terms of exactly what is needed to determine if V.2.0 is fit for purpose by the end of the monitoring period. Most line supervisors will likely not have had any involvement through the IAIS in the development of the ICS, so a foundational or baseline level of understanding of the ICS, and its forms of additional reporting, will have to be achieved as a precondition for meaningful discussions to occur. The IAIS, through the CSFWG, should develop a set of topics for discussion and a list of questions to help facilitate productive discussion. For example, a discussion topic could include how supervisors assess an IAIG’s ICS result and whether or to what degree that result has meaning, considering the totality of other information that is also available to the GWS and the College.

It is unclear if the “forum of supervisors” is intended to mean a particular supervisory college involved with an IAIG, representatives from a variety of supervisory colleges involved with IAIGs, or some other group. GFIA is of the view that all line supervisors involved with an IAIG should have a voice and their input should be considered without diminution because it may fall outside of majority views. While it would not likely be possible for all such supervisors to meet in a single physical forum, the IAIS should consider other means to solicit input from all such as through electronic surveys.

As to other forums such as the Supervisory Forum, it is likely that not all members would be involved with an IAIG. To the extent that members are so involved, their input would already be solicited through the aforementioned “forum of supervisors.” To the extent they are not, their input would seem to be less relevant. Therefore, use of the Supervisory Forum would seem to be redundant to, and less productive than, the forum of supervisors.

A key issue involved with such forums is confidentiality of IAIG information. GFIA acknowledge the existing field testing confidentiality protocols and processes, but are unclear as to how the IAIS intends to assure continued confidentiality involving a wider group – even though supervisors – who may be meeting “outside the data room” and communicating information across a variety of platforms and channels. Just as all IAIG data is now channelled through the group-wide supervisor to the IAIS, the IAIS should consider a similar strategy whereby feedback from line supervisors is similarly channelled through the GWS. For larger forums, other protocols will have to be proposed, consulted on, and implemented.

The IAIS should consider allowing industry representatives to participate in certain meetings with the forum of supervisors, to enable them to make their points to the IAIS directly.

Q6 Is the role of supervisory colleges during the monitoring period appropriate? Please provide feedback on how the role should be refined.

Answer

No

Answer Comment

GFIA agrees with the comment in Paragraph 73 that Supervisory Colleges should play a key role during the monitoring period; however, GFIA would note that there remains significant scope for improvement in supervisors’ approach to collective debate and decision making. GFIA recommends that the Colleges consider the need for transitional measures from the perspective of each IAIG and as input to the IAIS-level discussions anticipated by Paragraph 76.

Q7 Are there any practical difficulties foreseen (such as the identification of the Head of the IAIG) in calculating the ICS capital ratio on the basis of the consolidated balance sheet of the Head of the IAIG that should be addressed in the design of the ICS? Please explain.

Answer Yes

Answer Comment

This issue is more problematic for larger, complex and diverse enterprises. Not all insurers within a broad corporate group would necessarily be managed as a single insurance subgroup. There may be two or more insurance entities or subgroups that operate autonomously with their own line management, capital, governance, etc. The notion in ICP 23 to look high enough in the overall group to where a single entity controls all insurance operations can then result in also capturing many diverse non-insurance, non-financial businesses. Many of these pose little if any risk to insurers in the group, and supervisors would be remiss to rely upon them as potential sources of capital on a gone concern, much less a going concern, basis. GFIA supports the exclusion of companies that are immaterial to the group from the scope of the IAIG.

The more complex and diverse a firm is, the more supervisory judgment and room for supervisory discretion is needed. In some cases, it may make more sense to say that a broader conglomerate is viewed as comprising 2 or 3 separate insurance groups, rather than to force an outcome of only one group, with the result being that the Head of the IAIG is the ultimate parent and many unrelated (non-insurance, non-financial) businesses are also included.

Q8 With reference to the types of entities described in paragraph 82b, is full consolidation an appropriate approach to capture insurance and financial risks for ICS Version 2.0?

Answer Yes

Answer Comment

Paragraph 82 requires that SPVs "over which the Head of the IAIG has a dominant or significant influence should be fully consolidated". If an IAIG is compliant with GAAP or IFRS as a robust accounting framework and subject to robust enforcement by supervisors (either insurance supervisors or securities regulators) in all respects for SPVs, it should be able to report an ICS balance sheet on the same basis in that respect.

Q9 With reference to the types of entities described in paragraph 82c, is a line-by-line proportional consolidation an appropriate approach to capture insurance and financial risks for ICS Version 2.0?

Answer No

Answer Comment

GFIA has concerns about the notion expressed in Paragraph 79c that would require proportional consolidation of non-majority owned insurance and financial entities. It is not clear that a "look-through" approach to individual risks on the balance sheets of such investees provides a better or more relevant outcome for the ICS, and seems to invite more complexity while implying a degree of precision that does not exist.

Q10 With reference to both paragraphs 82b and 82c, would another approach (for example, making line-by-line proportional consolidation a requirement where further specific conditions exist, or where required by the GWS) be more appropriate?

Answer Yes

Answer Comment

GFIA would support a limit to the available consolidation methodologies, and notes the IAIS's proposals for proportional consolidation contained in Paragraphs 79 and 82c of the consultation.

With regard to Paragraph 82b, if an IAIG is complying with GAAP or IFRS in all respects for SPVs, it should be able to report an ICS balance sheet on the same basis in that respect.

Q11 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 provide details.

Answer Yes

Answer Comment

Material areas of divergence are as follows:

(1) For ICS a top-down approach for deferred tax is applied, whereas for existing GAAP and statutory accounts, it is calculated bottom up.

(2) Similar to principles under Solvency II, fair value adjustments from IFRS in ICS should be subject to materiality and proportionality.

(3) Intangible assets are written off for ICS (with the exception of an allowance for software costs). GFIA recommends flexibility in allowing the inclusion of the value of intangible assets where they meet specific criteria agreed with the regulator.

(4) The unallocated surplus in participating funds is treated as an equity item in Solvency II. The treatment of unallocated surplus in Solvency II also does not have an associated tax balance as policyholder movements in the balance sheet have been taxed as they arise in the income statement.

Q12 Is the current specification of the treatment of expenses in the calculation of current estimate sufficiently detailed to ensure consistent calculations among IAIGs? If "no", please suggest which points could be further refined.

Answer

Q13 Are the non-life premium liability simplifications appropriate to provide an approximation of the current estimate liability? If "no", please provide details on how the simplifications could be improved.

Answer Yes

Answer Comment

For short-term contracts, GFIA is supportive of the simplification to set the premium liability equal to unearned premiums, i.e., a premium allocation approach. Moreover, rather than have that simplification be simply a convenience for the benefit of only a few IAIGs, GFIA recommends that the UPR method be used by all short-term contracts; it is a well-understood concept that can be easily and comparably determined in a transparent manner, certainly much more so than the full cash flow projection methodology.

Q14 Should the IAIS modify the treatment of premium receivables, as proposed? Please provide sufficient detail and rationale.

Answer

Q15 Are there any other further comments regarding the MAV approach (excluding the discounting component) that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

Answer Yes

Answer Comment

GFIA takes the view that the MAV approach can only be successful if the valuation of the liabilities appropriately reflects the insurer's ALM practices. GFIA recognises the efforts that the IAIS has taken to develop the Three Bucket Approach as an Adjustment to the prescribed risk-free rates, which provides recognition of firms' ALM practices. However, GFIA takes the view that further refinements to the Three Bucket Approach are necessary to achieve a successful implementation of the MAV approach. It proposes further investigation and refinement in the following two key areas:

(1) The methodology used to calculate the Adjustment within each bucket – A number of aspects of the methodology require further consideration, including the recognition of non-fixed income assets and recognition of internal credit ratings.

(2) The eligibility criteria for each bucket – A comprehensive review of the criteria is needed to ensure that the liabilities can be categorised in a manner reflecting their nature. Additional guidance from the IAIS on its intentions is required.

GFIA is concerned with the increasing complexity of the MAV approach for non-life IAIGs, and encourages the IAIS to simply calculate the premium liability by setting it equal to unearned premiums for short-term contracts. The current approach is inherently complex, invites a variety of assumptions by different IAIGs and is unlikely to provide any comparability across non-life firms just based on MAV – it will serve to exacerbate differences between MAV and other methods.

GFIA would also note that any proposed adjustment methodology needs to be tested, both in current market conditions as well as in stressed market environments. This is necessary to ensure that the proposal works as intended and any potentially unintended consequences can be avoided.

Q16 Is the set of criteria appropriate to support the choice of instrument for Segment 1 of the base yield curve? If “no”, please provide details.

Answer

Q17 Is the LOT defined for each of the 35 currencies appropriate? If “no”, please provide details.

Answer

Q18 Is the methodology to determine the convergence point (end of Segment 2) appropriate for ICS Version 2.0? If “no”, please provide details.

Answer

Q19 Is the revised methodology to determine the LTFR appropriate for ICS Version 2.0? If “no”, please provide details.

Answer

Q20 Is the methodology to reflect LTFR updates in the IAIS base yield curves appropriate for ICS Version 2.0? If “no”, please provide details.

Answer

No

Answer Comment

The LTFR is intended to be a stable long-term parameter used to derive the illiquid part of the risk-free curves. Annual changes to the LTFR are unnecessary and only serve to introduce spurious accuracy into the framework.

There is no evidence to suggest that annual changes to the LTFR will help the ICS meet its main objectives of policyholder protection and contributing to financial stability.

GFIA takes the view that updates to the LTFR should only be made after a sufficient period of time, e.g. 10 years, has passed.

Any changes required after the reassessment should be introduced incrementally, with a maximum annual change of 10 basis points to maintain the stability of this parameter.

Q21 Are there any further comments regarding the base yield curve methodology that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

Answer

No

Q22 Are any practical difficulties foreseen in the implementation of the proposed multi-bucket approach (eg issues with products that are close to the boundaries of the buckets)? If “yes”, please explain.

Answer

Yes

Answer Comment

The current eligibility criteria for the Middle Bucket in the 3-bucket option are difficult to evidence, especially the full cash flow testing requirement. Instead, a qualitative evidencing of ALM practices (subject to sound governance and controls) should be used to determine eligibility.

Q23 Are the eligibility criteria defined for the Top Bucket appropriate for ICS Version 2.0? If “no”, please explain.

Answer No

Answer Comment

In general terms, the eligibility criteria for the Top Bucket are appropriate to guarantee prudent asset-liability management. However, GFIA considers that some of the criteria should be relaxed – in particular, the asset eligibility criteria should permit the use of a wider range of long-term assets to back long-term liabilities.

It is also important that the MAV approaches recognise internal ratings in the calculation of the liability discount rate (subject to appropriate internal governance and regulatory oversight) for assets where external ratings do not exist (such as infrastructure assets). This will permit the additional liquidity premium on these assets to be recognised by insurers who are able to manage these against illiquid liabilities. Currently, this is not permitted in the ICS, which significantly disincentivises investment in socially important asset classes, and would have a highly detrimental impact on various markets for long-term liabilities.

Q24 Are the eligibility criteria defined for the Middle Bucket appropriate for ICS Version 2.0? If “no”, please explain.

Answer No

Answer Comment

The eligibility criteria for the Middle Bucket are too narrowly defined to the extent that barely any insurance liabilities fall into this bucket. Suggestions for making the Middle Bucket more inclusive include:

(1) Removal of Criterion (b) (taken from the 2018 Field Testing Technical Specifications), as optimal ALM practices dictate the management of assets on an aggregate level rather than an individual product level.

(2) Rather than requiring cash-flow matching as per Criterion (c), a better option would be the use of an easier to calculate metric of key rate duration matching.

The approach taken for the Middle Bucket needs to be consistent with economic reality and appropriately reflect assets held, as basis risk is introduced as soon as a firm moves away from own assets. It is essential that the approach adopted also recognises and incentivises prudent asset liability management. In doing so, IAIS should ensure that it does not create incentives that would deter insurers from investing in assets that are appropriate to hold within a portfolio to match the liabilities of business such as equity and infrastructure assets.

(3) GFIA would also note that the requirements on surrender options and quantifying lapse risk are not practical to evidence; there is also insufficient justification for these criteria.

Q25 Is it appropriate for the Top Bucket to consider the application of an adjustment based on own spreads until the run-off of the insurance liabilities, whereas the cash flow matching requirements are only assessed up to the LOT? If “no”, please explain.

Answer Yes

Q26 Is the application ratio considered for the Top Bucket appropriate for ICS Version 2.0? If “no”, please explain.

Answer Yes

Answer Comment

It is appropriate to apply an application ratio of 100%. The Top Bucket adjustment is based on own assets and own spreads – using entity specific elements in the valuation of insurance liabilities helps ensure that the valuation appropriately reflects the risk profile of an IAIG, and encourages effective asset-liability management. As IAIS states, this creates “some degree of assurance that the IAIG will actually be able to hold its own assets to maturity, therefore earning the spreads which are being used to discount insurance liabilities” (i.e. mitigating basis risk).

Q27 Are there any further comments regarding the Top Bucket methodology? Please explain with sufficient detail and rationale.

Answer Yes

Answer Comment

ICS Version 2.0 as included within the field testing exercise does not allow for the use of internal ratings where there is no external credit rating. This will act as a disincentive for insurers to invest in the real economy, including in infrastructure.

The use of internal ratings is permissible under other international frameworks, such as the Basel framework and IFRS. It is essential that insurers should be able to use internal ratings in both capital calculations and (where appropriate) the valuation of liabilities, to enable insurers to play their role as long-term investors in the economy and in particular to support infrastructure projects and sustainable growth.

GFIA notes that for many critical asset classes that support economic development (e.g. private debt and collateralised mortgage loans) and many emerging market jurisdictions, reliable Credit Rating Agency (CRA) ratings are not readily available. In this case, internal ratings subject to robust governance should be permitted, in line with the framework described under ICP 15.

This is also important to ensure that insurers can play their role in helping the G20 achieve its growth objective. In GFIA's view, IAIS policy proposals should be consistent with G20 aims.

Q28 Is the application ratio considered for the Middle Bucket appropriate for ICS Version 2.0? If "no", please explain.

Answer Yes

Answer Comment

A 90% application ratio is only appropriate for the Middle Bucket if it is clear that it actually reflects higher basis risk in the spread calculation resulting from the less strict nature of the eligibility criteria when compared with the Top Bucket.

Q29 Is the list of eligible Assets specified for the Middle Bucket (which also applies to the Top and General Buckets) appropriate for ICS Version 2.0, taking into consideration the objective of the MAV spread adjustment? If "no", please provide sufficient detail and rationale.

Answer No

Answer Comment

The current list of eligible assets specified for the Middle Bucket is very narrow and does not encourage appropriate ALM practices. It should be expanded to include equity investment and internally rated credit holdings, especially those held to support long-term liabilities. Also, see earlier comments under Q24.

Q30 Are there any other comments regarding the Middle Bucket methodology? Please explain with sufficient detail and rationale.

Answer Yes

Answer Comment

GFIA considers that all medium and long-term insurance liabilities should be eligible for the Middle Bucket.

Cashflow matching: GFIA recognises that liabilities outside the Top Bucket will have some kind of mis-match; however, GFIA does not take the view that strict cash flow matching is necessary to be able to earn a liquidity premium, and therefore this should not be an explicit criterion. Instead, GFIA suggests that a more qualitative check should be performed on strength of firms' ALM practices and policies.

Managing individual portfolios: The requirements to manage the Middle Bucket portfolio separately from other lines of business results in sub-optimal ALM methodology, as it ignores synergies and natural hedges across various lines of business.

GFIA would also note that the requirements on surrender options and quantifying lapse risk are not practical to evidence; there is also insufficient justification for these criteria.

	Q31 Is the design of the shared currency basis risk mitigation mechanism appropriate for ICS Version 2.0? If "no", please explain.
Answer	
	Q32 Is the design of the foreign assets basis risk mitigation mechanism appropriate for ICS Version 2.0? If "no", please explain.
Answer	
	Q33 Is the application ratio considered for the General Bucket appropriate for ICS Version 2.0? If "no", please explain.
Answer	
	Q34 Are there any further comments regarding the General Bucket methodology? Please explain with sufficient detail and rationale.
Answer	
	Q35 Should the ICS include an adjustment above the base yield curve at the LTFR maturity? If "yes", how should it be calibrated? Please provide sufficient detail and rationale.
Answer	Yes
Answer Comment	GFIA supports the proposed adjustment to the LTFR. This would enable life insurers to more accurately reflect the true economics and future investment returns that they will be able to earn. GFIA takes the view that the valuation of liabilities should reflect the true economics of the (life) insurance business model. Requiring life insurers to discount at a risk-free discount rate does not appropriately reflect the asset-liability management techniques which insurers use to manage their liabilities. The recognition of an illiquidity premium which reflects the level of returns insurers are able to generate is vital for the viability of long-term guarantee products.
	Q36 What is the most appropriate technical approach to address the issue identified? Please provide sufficient detail and rationale.
Answer	
	Q37 Are there any other comments on the MAV discounting methodology, taking into account, for example, the data collection on additional methods for the base yield curve adjustments, which the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.
Answer	Yes
Answer Comment	GFIA is concerned about proposals to apply a discount rate to short-duration liabilities that adds complexity, considerable expense, and would prove meaningless after the application of a P-MOCE.
	Q38 Are there any further comments on MAV that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.
Answer	Yes
Answer Comment	See response to Q15
	Q39 Is the treatment of Premium and Catastrophe risk in C-MOCE appropriate? If "no", please provide justification and specific recommendations.

Answer	No
Answer Comment	In the event that a CoC-MOCE is implemented, non-hedgeable risks should be reflected in it.

	Q40 Are there any modifications or simplifications to the methodology for the C-MOCE that would make it more appropriate for the intended purpose? If “yes”, please explain with sufficient detail and rationale.
Answer	Yes
Answer Comment	IAIS needs to clearly articulate the role and purpose of the ICS at group level. A clear articulation of the purpose of the MOCE itself is also required, as the CoC-MOCE serves a completely different purpose from the P-MOCE. Currently, it is unclear whether the MOCE results in double counting of risk.

	Q41 Is the current design of the non-life P-MOCE consistent with ICP 14.9? Please explain.
Answer	No
Answer Comment	See response to Q40

	Q42 Are there any modifications or simplifications to the methodology for the P-MOCE that would make it more appropriate for the intended purpose? If “yes”, please explain with sufficient detail and rationale.
Answer	Yes
Answer Comment	See response to Q40

	Q43 Is the treatment of the P-MOCE, as defined in the Technical Specifications with full deduction from the capital requirement, appropriate? If “no”, please explain with sufficient detail and rationale.
Answer	Yes
Answer Comment	GFIA notes the improvement of the design of the P-MOCE in ICS version 2.0. As described in ICP 14.9, the MOCE reflects the inherent uncertainty related to future cash flows. Consideration of such uncertainty may be appropriate when valuing liabilities for accounting purposes; however, for capital requirements, this approach may be excessive. Therefore, the MOCE should not be identified as a liability, or should be categorised as a part of capital resources. GFIA also takes the view that risks should be reflected in regulatory capital requirements, not the MOCE. In this respect, GFIA welcomes the improvement to the design of the P-MOCE in ICS v2.0. With regard to the P-MOCE on non-life obligations as described in Paragraph 153, GFIA would encourage the IAIS to consider alternative approaches based on premium and claims reserve risks and non-life catastrophe risks. GFIA considers that these changes would better align the non-life P-MOCE with the life P-MOCE.

	Q44 Is the treatment of the C-MOCE, as defined in the Technical Specifications with no deduction from the capital requirement, appropriate? If “no”, please explain with sufficient detail and rationale.
Answer	

	Q45 Are there any other methodologies that would be better suited to calculating a CC-MOCE in the ICS? If “yes”, please explain with sufficient detail and rationale.
Answer	Yes

Answer Comment

As GFIA has set out in Q40-42 above, IAIS needs to clearly articulate the role and purpose of the ICS at group level. A clear articulation of the purpose of the MOCE itself is also required, as the CoC-MOCE serves a completely different purpose from the P-MOCE. Currently, it is unclear whether the MOCE results in double counting of risk.

Once this critical first step is taken, GFIA would be happy to engage with the IAIS on alternative methodologies for calculating a CoC-MOCE, such as that set out below.

The current approach for calculating the MOCE treats all future capital funding requirements as independent payments (i.e. based on future unconditional capital requirements) and does not take into account any dependency over time. However, any economic approach to valuing risky payments would have to take into account the dependence of risks over time to avoid inappropriate conclusions – such as, in the case of annuity products, implausibly low mortality rates and the implication that more capital is at risk than the worst-case scenario of policyholders living forever, or in the case of lapses total lapse rates of more than 100%.

Consider a simple illustrative example concerning a five-year product with constant exposure. Applying the Standard Method ICS retail stress of 30% each year implies that the MOCE should fund enough capital corresponding to a total lapse rate of 150%, or every policyholder lapsing more than once.

In fact, the worst possible case for the provider of capital (i.e. the maximum possible loss) corresponds to a 1-in-200 shock in each and every year – which corresponds to a total lapse rate of 83% over five years (i.e. 1 - (1 – 0.3)^5). Therefore, any capital raised above this level the investor will receive back with certainty – and hence will not charge a premium above risk-free for it (i.e. this component of the total capital raised requires a corresponding MOCE of zero).

Given this, it is clear that the MOCE calculation should allow for risk dependence over time. Where risk dependence exists that lowers the ultimate risk, the MOCE should be lower in accordance with this reduction in ultimate risk, as represented by a reduction in the maximum possible loss.

The use of a time scaling factor would be the simplest way to achieve this, and would be applied as follows : MOCE=CoC [Σ_(t≥0) [(λ^t×Expected Capital Required(t))/(1+discount rate)^t]]

In this context, ¿ represents the degree to which the ultimate risk reduces relative to a series of independent risks, and is linked to the reduction in size of future 1-in-200 risks following a 1-in-200 loss in previous periods. This could be set at different levels for each line of business following a calibration exercise, or a single ¿ could be applied to all lines of business to take account of risk dependence over time.

The key benefit of this approach is that it addresses the severe issues with the current cost of capital approach with respect to long-term business – namely excessive levels and high sensitivity to interest rate changes – without distorting the MOCE on short-term products (e.g. this would have no impact on one-year policies).

Q46 Are there any other policy measures or supervisory tools that may serve a similar purpose to the CC-MOCE and resolve perceived issues relating to the purpose, construct of the CC-MOCE or its interactions with the capital requirement? If “yes”, please explain with sufficient detail and rationale.

Answer

Q47 Are there any further comments on MOCE that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Yes

Answer Comment

GFIA does not consider that the inclusion of a MOCE has been justified to date, because the IAIS has not clearly articulated the purpose of the ICS at group level.

The ICS is intended to be a consolidated group capital requirement, and not a replacement for capital requirements for individual insurance entities at a jurisdictional level. As a consolidated group capital requirement there appears to be no coherent rationale for the role of the MOCE to be available in case of transfer.

It is important that the ICS focuses on the financial strength of the group as a whole, and does not duplicate areas already addressed at an entity level by existing regulation.

However, while a MOCE can make sense at legal entity level, it does not necessarily have a valid role to play at group level, and risks merely introducing a new layer of conservatism.

Paragraph 137 notes that there can be different possible objectives for the MOCE; however, as a first step the role and purpose of the ICS should be clearly articulated at group level. A clear articulation of the purpose of the MOCE itself is also required, as the CoC-MOCE serves a completely different purpose from the P-MOCE. GFIA would note that using a prudence based P-MOCE would result in double counting unless the offset against capital requirements is retained. GFIA would also note that the CoC-MOCE is consistent and comparable between life and non-life insurance, whereas the P-MOCE is not.

From a general insurance perspective, there are arguments for a Cost of Capital MOCE being part of a firms' liabilities. However, the proposed design for the CoC-MOCE is inappropriate for life insurers, as it treats all future capital funding requirements as independent payments (i.e. based on future unconditional capital requirements) and does not take into account any dependency over time. See also our response to Q45. Conversely, the proposed design of the P-MOCE is inappropriate for P&C insurers as it eliminates the effect of discounting.

Not including a MOCE in ICS would have no bearing on the level of policyholder protection, and in the absence of an adequate justification for the MOCE, GFIA recommends that this requirement is removed. Any potential unexpected losses can be adequately covered by capital requirements and the associated ladders of regulatory intervention deemed useful by individual jurisdictions.

If despite these arguments, the IAIS retains MOCE within the ICS, then it should only be included as a measure of capital rather than an addition to technical provisions. This could then provide a minimum bound below which no insurer would be regarded as viable, therefore equivalent to the minimum capital requirement in ICP 17 (ICP 17.4).

Q48 Are the changes to the Tier 1 Unlimited capital resources criteria appropriate for ICS Version 2.0? Please explain.

Answer

Q49 Are the criteria for Tier 1 Unlimited capital resources, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? Please explain.

Answer

Q50 Are the changes to the Tier 1 Limited capital resources criteria appropriate for ICS Version 2.0? Please explain.

Answer

Q51 Are the criteria for Tier 1 Limited capital resources, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? Please explain.

Answer No

Answer Comment

GFIA takes the view that the criteria to qualify for Tier 1 are too restrictive.

GFIA acknowledges the refined Tier 1 Limited criterion that recognise surplus notes and Foundation Funds (Kikin) for mutual companies. However, the requirements make it very difficult for mutual companies to raise such capital, as the instruments are required to have an initial maturity of at least ten years. GFIA takes the view that the IAIS should allow local supervisors flexibility in determining maturity requirements.

Q52 Is a PLAM an appropriate requirement for Tier 1 Limited financial instruments? Please explain any advantages and disadvantages of requiring a PLAM.

Answer

Q53 If a PLAM requirement is not introduced, what amount should be included in ICS capital resources for instruments that qualify as Tier 1 Limited, to reflect going concern loss absorbency? Please explain.

Answer

The full amount that qualifies based on the other Tier 1 Limited criteria, subject to the composition limits described in Section 6.6 of the consultation document.

Q54 Are there other criteria that could be added to enhance the ability of financial instruments to absorb losses on a going concern and / or on a gone concern basis? Please explain.

Answer

Q55 If the proposed approach for the recognition of structurally subordinated financial instruments is adopted for ICS Version 2.0, are there any practical difficulties that the IAIG and its GWS may encounter in implementing this approach? Please explain.

Answer

Yes

Answer Comment

GFIA recognises that senior debt used by holding companies would be treated as Tier 2 capital under certain circumstances; however, it would be required to obtain advanced permission from the supervisory authority when the subsidiary company makes dividends to the holding company. GFIA takes the view that such pre-permission is unnecessary.

Q56 If ICS Version 2.0 Tier 2 Paid-Up capital resources includes financial instruments with acceleration clauses that may be triggered outside of a winding up, please explain how policyholder protection is maintained and how other Tier 2 criteria can still be met (eg subordination, priority of claims, etc.).

Answer

Q57 Are the changes to the Tier 2 Paid-Up capital resources criteria appropriate for ICS Version 2.0? Please explain.

Answer

Q58 Are the criteria for Tier 2 Paid-Up capital resources, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? Please explain.

Answer

Q59 Is the proposal to restrict the recognition of Tier 2 non-paid-up capital resources to mutual IAIGs appropriate for ICS Version 2.0? Please explain.

Answer

No

Answer Comment

Paragraph 182 of the consultation paper justifies this restriction by stating that “mutual IAIGs are currently the only insurers that have access to non-paid-up capital that is external to the group”. This is not correct – other, non-mutual insurers also have access to external non-paid-up capital.

GFIA agrees with the IAIS that non-paid-up capital should be included in Tier 2 capital resources provided they meet qualifying criteria; however, restricting this to mutual IAIGs is based on a false premise and makes no sense.

Hence GFIA does not accept that the recognition of Tier 2 non-paid-up capital resources should be restricted to mutuals only. They should form a part of Tier 2 capital resources, and should be subject to the normal capital composition limits.

Q60 Are the changes to Tier 1 and Tier 2 capital elements other than financial instruments appropriate for ICS Version 2.0? Please explain.

Answer

Q61 Are the Tier 1 and Tier 2 capital elements other than financial instruments, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? Please explain.

Answer

Q62 Is the proposal to limit third party capital appropriate for ICS Version 2.0? Please explain.

Answer No

Answer Comment GFIA does not consider that any limits should apply to third-party capital, since it will be available to support the Group's capital requirements.

Q63 In relation to the proposed limit on third party capital within ICS capital resources, what approach should the IAIS take if the information required to calculate and apply the limit is not available? Please explain.

Answer

Q64 Are the proposed capital composition limits appropriate for ICS Version 2.0? Please explain.

Answer No

Answer Comment GFIA does not accept there should be different limits for mutual and non-mutual IAIGs. The consultation does not provide a clear rationale of why the particular limits have been proposed, nor for the differentiation between mutual and non-mutual IAIGs. As noted in the response to Q59, GFIA does not agree that recognition of Tier 2 non-paid-up capital resources should be restricted to mutual IAIGs.

The proposed capital composition limit that Tier 1 Limited capital resources (for non-mutual IAIGs only) will be limited to 10% of the ICS capital requirement is too onerous. GFIA considers that Tier 1 Limited capital resources for non-mutuals should be limited to 30% of total unlimited capital resources (the same as the proposed limit for mutual IAIGs).

Q65 Are there any further comments on capital resources that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

Answer Yes

Answer Comment GFIA notes the IAIS has indicated in Paragraph 76 that it will consider transitional arrangements (for example in respect of qualifying capital resources) that may help jurisdictions with implementation of the ICS as a PCR, following the end of the monitoring period. As the ICS may result in capital resource requirements that differ from existing national requirements, it will be essential that the implementation is subject to an appropriate transitional period, permitting instruments that comply with the relevant national level requirements to qualify as ICS capital during this time. The transitional period would ideally be for 10 years but, as a minimum, should be effective until the end of 2025. GFIA welcomes consultation on this in the future.

Q66 Should the effect of the renewal be recognised for any other risk mitigation arrangements? If "yes", please also provide specific examples of such arrangements that should qualify.

Answer

Q67 Should any changes be made to the criteria for recognition? Please explain. If "yes", please also provide:
• Suggestions for how the criteria could be amended; and
• Specific examples of risk mitigation arrangements that would qualify if these changes were made.

Answer

Q68 Should there be any change to the calibration and application of the limitation of value? If "yes", please also provide suggestions on how else the future costs and uncertainty could be adequately captured in the ICS.

Answer

Q69 How should the associated expenses and other aspects of the reinsurance contracts be accounted for within the ICS?

Answer

Q70 With regard to non-life premium and natural catastrophe risk, are there any changes that should be made to the criteria used for the recognition of renewal of risk mitigation arrangements?

Answer

Q71 Should dynamic hedging arrangements be included in the scope of recognised market risk mitigation techniques for ICS Version 2.0? If “yes”, please also comment on:
• The approaches currently used in local jurisdictions or internally within insurance groups to assess the risk mitigation properties of dynamic hedging programmes for the purposes of regulatory or economic capital.
• How these could be incorporated into the ICS as an other method for calculating the ICS capital requirement; and
• The criteria required to be met to allow the use of these other methods.

Answer

Yes

Answer Comment

GFIA welcomes the IAIS’ consideration of dynamic hedging arrangements within the scope of recognised market risk mitigation techniques, as hedging is an appropriate risk mitigation technique.

As dynamic hedging cannot be addressed in the Standard Method, this points to the need for recognition through internal model approaches.

Q72 Are there any further comments on risk mitigation that the IAIS should consider in the development ahead of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale

Answer

Yes

Answer Comment

Where clearly defined hedging strategies exist, artificial constraints relating to non-renewal of hedges should not be applied.

While the current approach would provide some conservatism in the capital requirement calculation, it is inconsistent with ICS principle 6 of promoting “sound risk management” and including “an explicit recognition of appropriate and effective risk mitigation techniques”.

GFIA also notes that applying an arbitrary haircut creates inappropriate risk management incentives. For example, it creates incentives to use hedges that are of longer term – these would be less liquid, more expensive and can create more counterparty risk relative to using exchange-traded derivatives that are of shorter tenor.

Applying haircuts does not recognise the full economic benefit of the hedges in place and creates poor risk-management incentives.

A distinction should be made between developing futures markets where there may be a cost associated with renewing the hedging instruments, and a developed futures market with high liquidity and minimal trading cost.

Therefore, GFIA takes the view that the current restrictions, particularly the 20% haircut, do not appropriately reflect the risks typically associated with hedging programmes. Market hedges and on-going market hedging programs are core to risk management, and therefore any restriction must appropriately reflect the risks associated with these programmes and promote sound risk management.

Q73 Are there any comments on the look-through approach that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

Answer

No

Q74 Are there examples of other instances for which an extension of management actions to allow for the recognition of premium adjustments may be appropriate? Please explain.

Answer

Yes

Answer Comment

There should be an appropriate recognition of the economic value of premium increase management actions for life reinsurance business capital requirements.

For reinsurance, premium increases have the same economic impact as a reduction in discretionary benefits, on the basis that premiums and claims are paid simultaneously on a reinsurance treaty. In other words, the reinsurance premium increase has the same impact on net cash flow as a reduction in benefits paid. Under the terms of the reinsurance treaty, the reinsurance claim payments will be met on the basis that reinsurance premiums (increased as appropriate in line with treaty conditions) are paid.

Q75 How should the cap on management actions be applied across risks?

Answer

Q76 Are there any further comments on management actions that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Yes

Answer Comment

Actions such as repricing, dynamic investment strategies and changes to the market value adjustor (MVA) should be permitted within ICS, provided they reflect product features and current practice. In this way, undue prudence can be avoided and actual business realities can be taken into account.

Additionally, GFIA takes the view that discretionary changes in benefits implemented as part of an IAIG’s risk management processes should be recognised as a management action.

Q77 The design for Longevity risk in 2017 Field testing balances the need for a risk-sensitive approach and a practical design of the risk charge. Are there any changes to the current design and calibration of the Longevity stress that would significantly improve the reflection of the underlying risk in the ICS? If “yes”, please explain and provide examples and/or rationale to support the proposal.

Answer

No

Q78 Are there any further comments on Mortality and Longevity risk that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

Answer

No

Q79 Is the simplified segmentation by contract term for Morbidity/Disability risk appropriate? Please explain.

Answer

Q80 Should any other modifications be made to the design? Please describe.

Answer

Q81 Are the stress levels appropriate for the Long-Term contract segment? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

Answer

No

Answer Comment

GFIA considers that the level of calibration is too conservative.

Q82 Are the stress levels appropriate for the Short-Term contract segment? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

Answer

Q83 Are there any further comments on Morbidity/Disability risk, which the IAIS should consider in the development of ICS Version 2.0? If “yes”, please elaborate with sufficient detail and rationale.

Answer Yes

Answer Comment See response to Q81

Q84 Are there any comments on Lapse risk that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

Answer Yes

Answer Comment GFIA would ask the IAIS to share its lapse risk calibrations with stakeholders; this will better enable them to propose specific solutions to lapse risk issues.

Policyholder options are included in the lapse risk definition under the current ICS specification. Policyholders may exercise different kinds of options based on product features including partial withdrawals. Therefore, there is a risk of expected changes to the rate at which policyholders exercise their option and the extent to which such withdrawals are taken at the optimal level. However, the current technical specification is not clear on the strength of the shock required to assess the risk of unexpected utilisation or partial withdrawal rates, because the level lapse stresses are not designed to reflect risks associated with utilisation and partial withdrawals.

The application of homogenous risk groups within the mass lapse stress is too onerous. It is unreasonable to assume that all policyholders can assess the money-ness of their individual contracts (using a valuation basis such as ICS) from the insurers’ perspective, and always act in ways that are most onerous to the insurer, rather than considering their own needs and circumstances.

Q85 The Field Testing Technical Specifications specify expense inflation stresses that grade down to 1% for China, Emerging Markets and Other Developed Markets. Is this appropriate? If “no”, please provide suggestions on the appropriate stresses and grading period together with the supporting rationale. Please explain with sufficient detail and rationale. If “yes”, please comment whether this design is consistent with the approach used to determine the LTFR, where differentiated long-term inflation assumptions are used between jurisdictions, without any convergence.

Answer

Q86 Are there any further comments on Expense risk that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

Answer Yes

Answer Comment The discount rate should change according to the prevailing inflation rate.

Q87 Do the changes described above in the ICS jurisdictional segments and categories properly reflect business specificities within each region? If “no”, please provide rationale and alternative suggestions supported by evidence.

Answer

Q88 Is the aggregation approach described above appropriate for the determining the non-life risk charge for ICS Version 2.0? If “no”, please provide evidence, rationale, such as studies or impact assessments that could support an alternative approach.

Answer No

Answer Comment Diversification and interactions between risks are difficult to capture using a standard approach when applied to IAIGs with different exposure profiles to jurisdictions, products, and investments.

The proposed diversification benefits under the proposed approach are quite limited. A particular concern is that there is no allowance for geographical diversification within the EU, or within different regions of the USA.

Q89 Do the factors applied to Premium and Claims Reserve exposures properly capture the unexpected loss, at a 99.5% VaR over a one-year time horizon, for each segment? If “no”, please provide rationale, evidence and materiality assessment of the potential impact on the non-life risk charge.

Answer

Q90 Are there some assumptions, such as those aforementioned, which should be reviewed in the coming calibration exercise? If “yes”, please provide details, rationale and detailed methodology to apply.

Answer

Q91 More specifically, is the simplification of assuming a combined ratio of 100% for Premium risk appropriate? If “no”, please comment on whether it is materially different from internal assumptions. Further, please suggest a methodology to refine the calibration and the information needed to do so. If deemed material, but without a methodology suggestion, are there other ways to address the difference?

Answer

Q92 Are the assumptions above consistent with the valuation on the balance sheet? Please provide details, rationale and detailed methodology to apply.

Answer

Q93 Is it necessary to make “profitability adjustments” to the design of Premium risk to better align it with the ICS balance sheet? If “yes”, please provide details and rationale that support the response. If “no”, explain how the current design aligns with the Premium risk on the ICS balance sheet as measured using a total balance sheet approach and a one-year time horizon.

Answer

Q94 If there were to be a “profitability adjustment” included, how could it be designed? Please provide details, rationale and an example of a possible design for this adjustment.

Answer

Q95 Are there any additional amendments to the latent liability design or calibration that are necessary to make it more suitable for the ICS standard? In particular, please address whether the latent liability component better reflects the underlying risks when situated within the Claims Reserve risk component. If “no”, please provide rationale and alternative suggestions supported by evidence.

Answer

Q96 Are the prerequisites for the reporting of ISFs during the monitoring period appropriate? Please explain with sufficient detail and rationale, including any other prerequisites that should be considered.

Answer

Q97 Are there specific examples of prescribed methodologies that could be used for the determination of ISF for Premium and/or Claims Reserve risk? Please explain with sufficient detail of the methodology, including the data that would be needed and the formulae that would be used.

Answer

Q98 Are there any further comments on Premium and Claims Reserve risks that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

Answer

Q99 Is the list of perils for Catastrophe risk appropriate for ICS Version 2.0? If "no", please provide a list of amendments, including a definition of the peril to include or exclude and any other specific details to support the suggestion(s).

Answer

Q100 Are the catastrophe scenarios, as defined in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? If "no", please provide specific suggestions supported by rationale and evidence to amend the scenario(s).

Answer

Q101 What should be the safeguards for using natural catastrophe models as part of ICS Version 2.0? In particular, please address the extent to which the aforementioned list should be expanded. Please also comment on the requirements that should be included, as well as any alternative approach that could be taken if an IAIG were unable to meet the requirements.

Answer

GFIA strongly supports the use of natural catastrophe risk models to capture this risk and takes the view that it is a practical way to adequately quantify such risk exposures.

Supervisory concerns about the use of these models can be addressed through the provision of fit-for-purpose information and model governance, as proposed in the consultation.

GFIA does not agree that it is necessary to set restrictions on the use of the models. This could inhibit appropriate model development and may result in reduced risk sensitivity. It is also unclear who would set such restrictions and how these would be consistently implemented across the IAIGs.

GFIA also notes that insurers typically carry out a wide range of assumption testing, validation and impact assessment as part of their model choice and development. A specific provision for self-assessment may therefore be unnecessary.

Q102 For the purposes of the ICS standard method, is the approach taken in 2018 Field Testing adequate to account for diversification effects between Catastrophe risks? If "no", please provide a more appropriate alternative suggestion including rationale, keeping in mind the need to apply a consistent methodology across all jurisdictions, and to balance practicality and materiality with risk sensitivity in a standard method.

Answer

No

Answer Comment

The lack of geographic diversification within a geographic region means the approach taken is not adequate to account for diversification effects between catastrophe risks.

Q103 Are there any further comments on Catastrophe risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

Answer

Q104 Should the IAIS consider employing the AFNS model for ICS Version 2.0? Please explain. If "no", please indicate if the IAIS should continue using the DNS model or suggest an alternative model to the DNS.

Answer No

Answer Comment GFIA takes the view that the Dynamic Nelson-Siegel (DNS) model should be used.

Q105 Should the IAIS apply the AFNS model to countries where the AFNS model is applicable, and apply the DNS model to the rest of countries? Please explain.

Answer No

Answer Comment GFIA takes the view that the Dynamic Nelson-Siegel (DNS) model should be used.

Q106 Should the IRR stress on LTFR and the maximum LTFR annual change for current estimate valuation purposes continue to be independently determined by the IAIS, or should both be subject to the same cap? Please explain with sufficient detail and rationale.

Answer

Q107 Is the method used to aggregating the Interest Rate risk in multiple currencies appropriate? If "no", please suggest an alternative methodology.

Answer No

Answer Comment The interest rate risk charges for each currency are aggregated using a correlation matrix, using a 75% correlation between each pair of currencies that have net long or net short duration in both currencies, and a negative 75% correlation in each pair of currencies for which one of the durations is net long and the other is net short. GFIA takes the view that this method is not appropriate, as correlations between interest rate risks in different economies will not be dependent on any insurance groups' net long or short position in that currency. Any correlation should be based on observed market data, independent of insurance groups' exposures.

The correlation factor is also too onerous. Market data suggests that the correlation for interest rate risks between currencies is low.

Q108 Is the treatment of management actions and the current choice of scenarios based on impact before the management actions within the Interest Rate risk charge appropriate? If "no", please explain with sufficient detail and rationale.

Answer

Q109 Are there any further comments on Interest Rate risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

Answer Yes

Answer Comment Changing interest rates constitutes a single risk. This risk may be modelled in a more simple and robust way with only one risk factor or in a more sophisticated way with two risk factors (1st and 2nd Principal Components if PCA is applied) within the same scenario. However, in both cases, there should be only one downward scenario (respectively one combined downward and flattening scenario).

The current derivation of interest rate shocks is overly complex. Moreover, according to the technical specification, the interest rate shocks look to be derived using a normal distribution, which may not be appropriate. It assumes symmetry between the level up and down shock, which is not consistent with the observed market data. Compared to work performed using market data, the current ICS approach significantly understates the upward stress and significantly overstates the downward stress for a number of key currencies, such as USD. GFIA would encourage IAIS to consider an alternative.

Q110 Is the definition of Non-Default Spread risk appropriate for ICS Version 2.0? If "no", please provide rationale and details.

Answer

Q111 Is the current approach selected to capture Non-Default Spread risk appropriate (the third option, as defined above) for ICS Version 2.0? If “no”, please provide details supporting another option.

Answer Yes

Q112 From a conceptual perspective, which design is more appropriate, an asset only spread upward shock or a bi-directional shock applied on assets and liabilities? Please explain.

Answer

Q113 Is the 2018 Field Testing design of the Non-Default Spread risk charge appropriate for ICS Version 2.0? If “no”, please explain.

Answer Yes

Q114 Is the calibration of the Non-Default Spread risk charge appropriate for ICS Version 2.0? If “no”, please explain.

Answer Yes

Q115 Are there publicly available data sources which the IAIS could use to calibrate Non-Default Spread risk? If “yes”, please provide details.

Answer No

Q116 Is the design of the Non-Default Spread risk charge for GAAP Plus appropriate for ICS Version 2.0? If “no”, please explain.

Answer

Q117 Is the approach used in 2018 Field Testing to determine the overall Non-Default Spread risk charge for GAAP Plus, where different GAAP Plus specifications are applied to different parts of the business, appropriate for ICS Version 2.0? If “no”, please explain.

Answer

Q118 Should the liquidity component of spreads be excluded when designing and calibrating Non-Default Spread risk? Please explain. If “yes”, please also provide suggestions about the practical approach to perform the split of the total spread.

Answer

Q119 If the liquidity component of spreads would be excluded from Non-Default Spread risk, should the IAIS modify (ie reduce) the MAV discounting adjustments which are considered for discounting of insurance liabilities (the Three-Bucket Approach) to ensure consistency in the ICS? If “no”, please explain, in particular, the issue of consistency across different ICS elements. If “yes”, please explain with sufficient detail.

Answer

Q120 Should the design of Non-Default spread risk be modified to address the issue identified in this section? If “yes”, please provide details about the technical solution to be adopted (which could be the proposed approach or an alternative one).

Answer No

Answer Comment

GFIA takes the view that the current method of aggregation for NDSR is appropriate. Credit spreads are highly correlated between currencies, and therefore IAIS's proposal in Paragraph 397 of the consultation to allow an offset between currencies exposed to the stress in opposing directions is appropriate. Additionally, GFIA takes the view that an aggregation approach similar to interest rates would not be consistent with economic realities.

Q121 Are there any further comments on Non-Default Spread risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

Answer

No

Q122 Is the four-bucket approach to the segmentation of equities appropriate? Please explain. If "no", please provide an alternative suggestion and rationale.

Answer

Yes

Answer Comment

Infrastructure investments should be independent of other equity.

Q123 Is the approach taken to calculate the aggregation and diversification for Equity risk appropriate? Please explain. If "no", please provide an alternative suggestion and rationale.

Answer

No

Answer Comment

Intra-risk diversification and interaction should be taken into consideration when calibrating the overall risk charge; this includes capturing the interaction between the level and volatility drivers when calculating the stress impact. An alternative to the current approach would be to allow the combined stress impact allowing for both risks, rather than summing up individual impacts.

Q124 Is the treatment of long-term equity investments (such as strategic and infrastructure investments) appropriate? Please explain. If "no", how should they be treated differently, and what criteria should be used to define long-term equity investments? Please highlight key design features and provide supporting evidence (including data).

Answer

No

Answer Comment

Long-term equity investments should have a more tailored capital treatment, reflecting the cases where insurers can hold these assets for the long term.

An insurer's ability to adopt and maintain a long-term view in the management of their assets is a direct consequence of the long duration of their liabilities. Insurers managing their assets with a long-term view are not exposed to forced sales on a short-term basis, and the short-term volatility of assets is 'hedged' by the duration of the holdings, including in the case of common stocks. Such asset management strategies allow for enhanced diversification of the asset portfolio, improving key indicators such as profitability, liquidity and solvency. They also lead to a countercyclical investment behaviour, whereby insurers can buy when everyone else is selling. Therefore, the calibration of capital requirements should reflect the true level of risks for insurers with long term holdings. Typically, the volatility of common stocks is much lower if assessed with a long-term perspective. Such an approach would in fact lead to a much lower calibration of equity held long-term.

Q125 Is the current method of adding the shock to the current volatility appropriate? If "no", please provide an alternative suggestion with rationale.

Answer

No

Answer Comment

A permanent change assumed under stress to equity volatility is not an appropriate treatment. A permanent stress implies sustained high levels of cost of capital and equity risk premium, which is not realistic. Additionally, the additive volatility levels are unjustifiably high compared to calibrations based on market data. Therefore, GFIA proposes that the calibration be reduced to reflect market consistent levels.

Q126 Are there any further comments on Equity risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

Answer

Yes

Answer Comment

GFIA considers the current stress to equity implied volatility to be unjustifiably high compared to calibrations based on market data. The current calibration also fails to recognise that in practice volatility, both implied and realised, exhibits strong mean reversion characteristics – i.e., the ICS volatility shock is treated as being permanent in nature, which is not realistic. Using data from the 2008 financial crisis as an example, the VIX peaked on 20 November 2008; however, the implied volatility was back to the pre-crisis range of 20%-30% by the end of June 2009.

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

Answer

No

Q128 Is the approach to Currency risk (eg level of the stresses, correlation factor, treatment of currency pegs, partial exemption for investments in foreign subsidiaries) appropriate for ICS Version 2.0? Please explain.

Answer

No

Answer Comment

GFIA takes the view that the current approach is not appropriate in determining the currency risk charge. Currency risk must separately consider:

(1) Currency mismatch: e.g. where a liability is supported by an asset denominated in a different currency.

(2) Currency translation: e.g. due to aggregation and translation of assets and liabilities from foreign currencies to the domestic currency.

The IAIS should exempt the portion of the currency risk charge relating to currency translation risk, which forms the majority of the currency risk captured in the Standard Method. Currency translation risk does not materially impact upon an IAIG's ability to meet policyholder obligations and is therefore unnecessary to meet ICS Principle 2 (the main objective of the ICS is policyholder protection). In addition, if modelled accurately, the risk diversifies very significantly even from a shareholder perspective, as the currency exposures will reduce when a subsidiary sustains losses and increase when a subsidiary makes gains.

Requiring capital to be held against this risk could incentivise behaviour that would be detrimental to policyholder interests, such as inappropriate risk management practices. In particular, it could encourage all the surplus capital resources to be held in the reporting currency, rather than maintaining a buffer in the currency of individual business units.

As well as contradicting ICS Principle 6 (promoting sound risk management), the current approach reduces comparability across IAIGs, as the capital requirement will depend on each IAIG's reporting currency, contrary to ICS Principle 1 (capital required to be held "irrespective of the location of its headquarters"). GFIA notes that this is partially recognised by the IAIS introducing a 10% proxy exemption for investments in foreign subsidiaries.

Requiring capital for translation risk will reduce comparability across IAIGs, as the capital requirement will depend on each Group's reporting currency; i.e. two IAIGs with exactly the same business and balance sheet would have different ICS requirements, depending on their reporting currency.

GFIA proposes that the currency risk charge should be redesigned to remove the charges for currency translation risk.

	Q129 Due to the difficulties of designing an approach that can take into account those asset concentrations that arise from developing asset markets where investment opportunities may be limited, is there an alternative methodology for evaluating Asset Concentration risk? Please explain.
Answer	

	Q130 Under the current ICS Credit risk design, short-term obligations at regulated banks (including demand deposits and other short term obligations) receive a stress factor of 0.4%, reflecting the low default risk of such investments. In order to address the potentially significant impact generated by the concentration of such investments in developing asset markets, would it be appropriate to similarly allow for a single low risk charge under the Asset Concentration risk framework? If "no", please provide details.
Answer	

	Q131 Should any modifications be made to the current approach for assessing Asset Concentration risk within the ICS? If "yes", please elaborate.
Answer	

	Q132 Would this proposed approach be an improvement over the current Asset Concentration risk requirement? Please explain.
Answer	

	Q133 Are the current incremental risk charge factors appropriate for ICS Version 2.0? If "no", please clarify.
Answer	

	Q134 Are there any further comments on Asset Concentration risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please elaborate.
Answer	

	Q135 Is the current design of Credit risk appropriate for ICS Version 2.0? If "no", please explain with sufficient detail and rationale.
Answer	No
Answer Comment	External ratings are not always available; the current treatment (which considers these as unrated) is overly punitive. See also response to Q136.

	Q136 Should any modifications be made to the approach for assessing Credit risk within the ICS? If "yes", Please describe.
Answer	Yes
Answer Comment	The IAIS should permit the use of internal ratings, providing the internal rating process is well governed. This will serve to reduce reliance on external rating agencies (which reduces the potential for systemic risk), support the development of robust internal risk management processes, and promote investment in emerging economies and other sectors (e.g. infrastructure projects) where Credit Rating Agency (CRA) ratings are not available. GFIA endorses the use of supervisor-owned and controlled credit assessment (SOCCA) processes described in Paragraphs 453-455 of the consultation.

	Q137 Is the treatment of collateralised reinsurance (ie the substitution approach) reasonable from a Credit risk perspective? If "no", please discuss and propose ways to address concerns.
Answer	

Q138 Does the haircut approach capture the underlying risk of collateralised reinsurance exposures more accurately? Please explain with sufficient detail and rationale.

Answer

Q139 Is the current approach adopted for mortgage credit risk appropriate for ICS Version 2.0? If “no”, please explain with sufficient detail and rationale.

Answer

Q140 Alternatively, would it be more appropriate for the Credit risk charge to be based on local calibrations of mortgage loans, if reliable local data were available to support geographical differentiation of calibrations? Please explain with sufficient detail and rationale, including potential data sources to enable the calibration.

Answer

Q141 Is the inclusion of supervisor-owned and controlled credit assessment processes as a national discretion in the standard method appropriate? Please explain, including any rationale.

Answer

Q142 As 2018 Field Testing involved the collection of data with and without the application of NAIC Designations, are the criteria for supervisor-owned and controlled credit assessment processes appropriate for ICS Version 2.0? Please explain with sufficient detail and rationale.

Answer

Q143 Is the current segmentation and definitions of infrastructure investments, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? If “no”, please explain with sufficient detail and rationale.

Answer

Q144 Are the calibrations for infrastructure investments, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? If “no”, please explain with sufficient detail and rationale.

Answer

Q145 Are there any further comments on Credit risk, which the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

Answer

Q146 Are the proposed Operational risk exposures appropriate for ICS Version 2.0? Please explain. If “no”, please provide specific suggestions for alternatives and the practicality of their application in a standard method.

Answer

Q147 Should the IAIS introduce changes to the design of the Operational risk charge to address these issues? Please provide sufficient detail and rationale.

Answer

Yes

Answer Comment

Given that the measurement of operational risk is extremely subjective, GFIA supports a factor-based approach as currently envisaged by the IAIS.

GFIA supports further investigation into the issues raised by the IAIS, and in particular, the alignment of the operational risk charge with the most reflective exposure base for each class of business.

Q148 Are the proposed Operational risk factors appropriate for ICS Version 2.0, both in terms of size and relativity? If "no", please propose evidence for alternative factors and their practicality for implementation in a standard method.

Answer

Q149 Are there any further comments on Operational risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

Answer

Q150 Is the correlation matrix being used for Market risk aggregation appropriate for ICS Version 2.0? If "no", please provide rationale and alternative suggestions supported by evidence.

Answer

No

Answer Comment

GFIA does not consider the overall diversification allowance in ICS to be sufficient.

The interest rate risk charges for each currency are aggregated using a correlation matrix, using a 75% correlation between each pair of currencies that have net long or net short duration in both currencies, and a negative 75% correlation in each pair of currencies for which one of the durations is net long and the other is net short. GFIA takes the view that this method is not appropriate, as correlations between interest rate risks in different economies will not be dependent on any insurance group's net long or short position in that currency. Any correlation should be based on observed market data, independent of insurance groups' exposures. The correlation factor is also too onerous. Market data suggests that the correlation for interest rate risk between currencies is low.

The current design of equity risk is the sum of level and volatility stress; however, this is significantly more onerous than the combined stress run of level and volatility. The simple sum ignores the interaction effects between the level and volatility impacts.

The application of homogenous risk groups within the mass lapse stress for aggregation is too onerous. It is not realistic to assume that all policyholders can assess the money-ness of their individual contracts (using a valuation basis such as ICS) from the insurers' perspective and always act in ways that are most onerous to the insurer, rather than addressing their own needs or circumstances.

Q151 Are there any further comments on Aggregation and Diversification that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

Answer

Q152 Should all IAIGs apply the same utilisation criteria for starting GAAP DTAs (eg greater than 50% probability) regardless of whether their GAAP applies a more stringent utilisation assessment approach? If "yes" please explain how IAIGs, that apply a more stringent assessment, could re-perform a utilisation analysis using a common approach given the complexity of the assessment.

Answer

No

Answer Comment

Common utilisation criteria would require additional work to be performed by some of the IAIGs. Using the utilisation criteria as applied in the consolidated financial statements has the benefit of being widely understood and consistently applied. Application at the GAAP level is subject to independent verification by way of an audit.

Q153 Regarding Question 152, if an IAIG is able to re-perform their GAAP DTA utilisation assessment for the ICS, there is a concern that the estimate would be very difficult to rely on or validate if it was not subject to external audit. Please provide any views on how this calculation could be sufficiently transparent and verifiable by supervisors.

Answer

Q154 The utilisation assessment of the DTA resulting from the ICS adjustment and the ICS tax effect on the capital requirement is based on a top-down approach. Is this a reasonable way for determining the ICS tax treatment? If “no”, please provide, in sufficient detail, any alternate approach that would consider data limitations, prudence, practicality, and comparability between insurance groups.

Answer

No

Answer Comment

Tax capping should be based on the amount that may be reasonably recovered, rather than the balance sheet DTL. Firms should be permitted the option of a bottom up tax calculation, which will be more reflective of actual recoverability.

Q155 When the Top-Down approach is applied, is the limitation of the utilisation assessment of the DTA recognised through the ICS adjustment using the net DTL, which is defined in paragraph 492, appropriate? If “no”, please provide in sufficient detail any approach that would consider data limitations, prudence, practicality, and comparability between insurance groups.

Answer

No

Answer Comment

Tax capping should be based on the amount that may be reasonably recovered, rather than the balance sheet DTL. See also answer to Q156.

Q156 When the Top-Down approach is applied, is the utilisation assessment of the tax effect on the capital requirement using the remaining net DTL, which is defined in paragraph 494, appropriate? If “no”, please provide, in sufficient detail, any approach that would consider data limitations, prudence, practicality, and comparability between insurance groups.

Answer

No

Answer Comment

GFIA takes the view that limiting the utilisation assessment to the use of the remaining net DTL for the capital requirement is overly prudent. In the UK and Ireland, tax losses can be carried back one year. In Canada, tax losses can be carried back 3 years. In these territories, it is possible to assume that a part of the capital requirement could be carried back and would give rise to repayment of tax paid on past profits.

In addition, the limitation does not recognise the expectation that an insurance group that holds sufficient capital will be able to continue in business, and generate profits either through new business or investment return generated on capital. The latter would still arise if a business closes to new business and goes into run-off. Both of these items would give rise to tax relief on the capital requirement.

Q157 Is the 2018 Field Testing group effective tax rate calculation based on the jurisdictional audited GAAP consolidated financial statements a reasonable approach for ICS Version 2.0? If “no”, please provide any other proposed method for calculating a group effective tax rate with a rationale for the methodology.

Answer

No

Answer Comment

The group effective tax rate is calculated on the aggregation of different businesses, potentially in different jurisdictions, with different tax profiles. GFIA notes that some IAIGs may have a preference for the top-down approach, and therefore would suggest IAIGs could be given the alternative of a top-down or bottom-up approach.

Q158 Should an adjustment for non-recurring items be included in the group effective tax rate calculation? If “yes”, please provide the following information:
• Details on the proposed methodology
• Rationale for the methodology
• A definition and listing of non-recurring items.

Answer

Yes

Answer Comment

The ICS is intended to be a globally comparable risk-based measure of capital adequacy (ICS Principle 1). Its main objectives are the protection of policyholders and the maintenance of financial stability (ICS Principle 2).

The tax position under ICS should therefore be adjusted for tax items that do not reflect tax on profit or non-recurring items that will distort the effective tax rate, and therefore the long-term rate of tax expected to be experienced by the insurance group. This will serve to reduce year-on-year volatility in the tax rate.

For example:

(1) In the UK, tax for life insurance includes tax payable on policyholder investment returns. This tax is borne by the policyholders and therefore typically has no impact on the capital position of the insurance group. Policyholder tax will however lead to a very volatile group effective tax rate. There are similar regimes in Ireland and Singapore.

(2) Profits or losses arising on the sale of businesses are commonly taxed at a lower rate (or not taxed at all if there is a participation exemption). In the year of sale, this will commonly distort the group effective tax rate.

An alternative would be to apply the group effective tax rate on operating profit, which should remove distortions due to items such as UK policyholder tax or non-recurring, non-operating items. Operating profit is a non-GAAP measure, but is commonly used by insurance groups as the measure of sustainable profits generated from insurance operations.

In order for the impact of these adjustments to be considered properly by GWSs and host supervisors, GFIA would suggest that the insurance group should be required to produce a reconciliation between the group effective tax based on the group accounts and the group effective rate used in the ICS.

GFIA would expect that over the 5-year monitoring period, a common understanding of the impact of such items will be reached between supervisors and insurance groups.

Q159 How should issues like newly announced statutory tax rates, negative tax rates and volatile tax rates be addressed in the group effective tax rate calculation? Please provide the following information:
• Details on the proposed methodology
• Rationale for the methodology

Answer

GFIA considers that issues should be dealt with in accordance with the requirements of IAS 12 (the international accounting standard on Income Taxes). This requires tax to be calculated based on rates and legislation which have been substantively enacted. Under IAS 12, disclosure is also required of the effect of any tax changes that have been announced but not yet enacted. Group accounts prepared in accordance with IAS 12 will therefore already include disclosure on these issues (if material). The ICS should not therefore impose additional requirements.

Q160 Regardless of the determined MOCE design, should any DTA arising from MOCE be considered for the ICS calculation? Please explain.

Answer

Yes

Answer Comment

Irrespective of the way in which the MOCE is calculated, it represents an adjustment to the valuation of liabilities that are deductible for tax purposes and hence is also tax deductible. It therefore represents a temporary difference on which deferred tax should be recognised.

If MOCE is to be part of the ICS framework, its DTA impact should also be taken into account. The MOCE is an add-on to the current/best estimate in the balance sheet. It is not part of the current/best estimate cash flows, but is established as an additional provision for uncertainty; thus, by definition it is expected to reverse over time and is not expected to impact taxable income. As such, in the balance sheet a loss is recognised and a DTA is created for the MOCE. This loss, and the related DTA, is expected to recover itself. If the DTA were not to be taken into account, there would be an inconsistent treatment between assets and liabilities.

Q161 Should any DTA arising from MOCE be added to capital resources for the ICS ratio calculation? Please explain.

Answer Yes

Answer Comment If the MOCE is included in the ICS ratio calculation, then the tax relief on the MOCE should also be included.

Q162 Would the response to Question 161 differ depending on classification on the balance sheet and defined purpose of MOCE? Please explain.

Answer No

Answer Comment See answer to Q160. Irrespective of the way in which the MOCE is calculated, it represents an adjustment to the valuation of liabilities that are deductible for tax purposes and hence is also tax deductible. It therefore represents a temporary difference on which deferred tax should be recognised.

Q163 Should the ICS tax effect on the capital requirement be offset against the gross capital requirement? If “no”, please describe how the capital requirement should be classified including sufficient detail and rationale.

Answer Yes

Q164 Are there any further comments on the ICS tax treatment that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

Answer Yes

Answer Comment GFIA supports a simple approach to ICS tax treatment. Insurance groups will already have detailed approaches and information regarding tax included in GAAP and existing regulatory reporting. The ICS tax treatment should build as far as possible on these existing approaches and information.

GFIA takes the view that a bottom-up assessment should be allowed where groups have the ability to perform such an assessment, or already perform such an assessment. The top down approach should be an approximation in cases where the bottom-up assessment is not performed.

GFIA also takes the view that a common understanding of the tax position can be achieved during the 5-year monitoring period.

The tax design change in the technical specifications should be amended. The proposed treatment is too conservative, and future returns obtained from holding assets should be taken into consideration.

Q165 Should all assets under GAAP Plus be restated to market value in order to maximise comparability or should assets be reported unadjusted, as per audited financial statements? Please provide any supporting comments including thoughts on valuation in the context of comparability, business strategy associated with an asset, symmetry in accounting between assets and insurance liabilities, and potential cost of implementation.

Answer Reported unadjusted, as per audited financial statements

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Q166 Would the Japanese GAAP Held for Reserves ALM criteria be appropriate for use under GAAP Plus for portfolios included in the AOCI adjustment? Please include a rationale for the response. If ‘no’, please provide any suggestions for improvement or alternate language.

Answer

Q167 Would a mechanism adapted from the U.S. SAP Interest Maintenance Reserve or Japanese GAAP to defer gains on the sale of assets that were included under the AOCI adjustment be appropriate for ICS Version 2.0? Please provide a rationale to support the response. Also provide any additional design considerations or suggestions to improve the proposal.

Answer	

	Q168 To ensure that discounting falls within a range of practice that is not overly aggressive under GAAP Plus, guardrails and/or guidelines are being considered to narrow potential ranges of practice and put reasonable constraints on discounting methodologies under jurisdictional GAAP Plus approaches. Specifications would need to strike a balance between prudential concerns and being overly prescriptive. There would also be a need to maintain an alignment with current GAAP practices. Are guardrails and/or constraints necessary under GAAP Plus? Under what specific circumstances might guardrails or additional guidance be necessary? Are there elements of MAV that might be used as a starting point? Please support the answer with discussion and any examples on possible risks or wide range in practice that may exist and how guardrails may minimise those risks or narrow the range of practice appropriately.
Answer	These comments relate primarily to Q165 and are included here due to a technical issue with the submission. Restating all assets under GAAP Plus to market value for the sake of consistency or otherwise defeats the very principles underlying the GAAP Plus approach and their intended benefits. Inherent benefits of GAAP Plus include reliance on the work of accounting standard-setters; an annual independent audit including reporting on financial statements as well as internal controls; and ongoing work undertaken by internal auditors and supervisors through on- and off-site examination processes. Thus, from a cost perspective, GAAP Plus has the additional benefit in that its maintenance is “outsourced” to accounting standard setters focused on global convergence where and when achievable. Moreover, users of GAAP Plus – IAIGs and supervisors – benefit from a valuation basis that is grounded in an accounting methodology that they understand; hence they will be able to better interpret an IAIG’s ICS results over time.

	Q169 Should the IAIS consider harmonising the definitions of contract recognition and contract boundaries across all valuation approaches (jurisdictional GAAP Plus approaches) possibly in alignment with the IFRS accounting standard on Insurance Contracts (IFRS 17)? Please comment on how this would impact jurisdictional GAAP Plus approaches (such as Japanese GAAP Plus and U.S. GAAP Plus) in terms of feasibility and cost and whether the IFRS 17 definitions are generally applicable in all jurisdictions. If no, please explain the difficulties and/or issues associated with conforming to one single definition.
Answer	No
Answer Comment	Requiring all IAIGs to use common definitions for contract recognition and contract boundaries would impose on many the onus of maintaining duplicative systems and methodologies, one for their domestic supervisory and public/investor reporting, and one simply to accommodate the ICS. Moreover, it would require very fundamental changes to processes across any entity, business unit or location of an IAIG that has responsibilities for processing new and renewal business, as well as endorsements and other policy-related activities. The institutional costs to implement such changes would far outweigh any benefits. Contract boundaries should be determined based on economic realities. What is realistically achievable is an ICS that recognizes that, while some differences exist across jurisdictions and IAIGs, for a given IAIG the ICS produces a result that is comparably calculated for each respective IAIG over time. That will provide the IAIG and its group-wide supervisor with a stable ICS, and a resulting metric that they can analyse and understand.

	Q170 Should Japanese GAAP contracts that are measured under a book value approach in GAAP Plus include time value of options and guarantees (TVOG) or would this result in measurement inconsistencies, mixing book value and market value concepts? Please explain.
Answer	

	Q171 Would a liability measured without TVOGs under GAAP Plus still conform to the definition of a current estimate as per ICP 14.11? Please provide rationale to support the answer.
Answer	

	Q172 As a general practice of the Japanese GAAP statutory cash flow test, the LTFR is not taken into consideration for (re)investment assumptions. Should Japanese GAAP Plus (re)investment assumptions reflect the LTFR? If “yes”, please explain why Japanese GAAP Plus should differ from the practice of the Japanese GAAP statutory cash flow test.
Answer	

	Q173 Are there any other suggested refinements to the Japanese GAAP Plus specifications (eg discounting) where there may be judgment or interpretation that could lead to a wide range of practice or potential need for guardrails to restrict overly aggressive practices? If “yes”, please describe any suggested refinement and the concern that it is expected to address.
Answer	

	Q174 Are there elements of the MAV Three-Bucket Approach that could be considered in the further development of the Japanese GAAP Plus discounting methodology to improve the alignment of the two methodologies? Please explain.
Answer	

	Q175 Are there any other suggested refinements to the Japanese GAAP Plus approach or elements of the specifications that remain unclear that would need to be incorporated prior to the release of ICS Version 2.0? Please explain.
Answer	

	Q176 Should the IAIS develop additional guidelines and criteria for elements where there is significant judgment and potential for abuse in the calculation of a discount rate derived from a blend of book yield and a reinvestment assumption or dividend fund crediting rate? • If ‘no’, please describe the mitigating controls that would serve to limit abuse or aggressive actions and ensure that valuation results are comparable across IAIGs. • If ‘yes’, please describe the elements where there may be a need for additional guidelines or criteria. Include in the response whether there may be opportunity to align this criteria with the MAV approach or whether criteria should be specific to U.S. GAAP Plus and why.
Answer	No
Answer Comment	For non-life IAIGs that would apply GAAP Plus using U.S. GAAP, the issue is moot as claim reserve liabilities are not discounted.

	Q177 Short term, non-life liabilities under U.S. GAAP Plus are not adjusted and are reported undiscounted. This design is predicated on the assumption that the undiscounted liabilities would approximate a current estimate plus a MOCE and that the cost would outweigh the benefit of discounting these short term, non-life liabilities. With the understanding that there are still options being considered for the MOCE design, please provide any comments or observations regarding this design element under U.S. GAAP Plus.
Answer	The design element under U.S. GAAP Plus described above – reporting of undiscounted reserves – is entirely appropriate. It is consistent with the principles that the IAIS adopted for GAAP Plus.

	Q178 Are there any other suggested refinements to the U.S. GAAP Plus approach or elements of the specifications that remain unclear that would need to be incorporated prior to the release of ICS Version 2.0?
Answer	

	Q179 If a wide range of practice is observed, in particular for discounting, should the IAIS seek to narrow that range? Why or why not?
Answer	

Q180 Should gain at issue be recognised or deferred? This question can be thought about in the context of whether the contractual service margin should be reversed or not.

Answer

Q181 Are there elements of MAV that would not be aligned with IFRS 17 (for example, MOCE or Three-Bucket Approach)? If "yes", please describe the rationale for why these elements would not be aligned with IFRS 17.

Answer

Q182 Should the IAIS do more to align discounting under jurisdictional GAAP Plus approaches? If "yes", please provide a rationale and any suggestions for how this might be achieved. If "no", please provide context and support for the response.

Answer

Q183 Under certain jurisdictional GAAP Plus approaches, some risk charge calculations depend on whether balances are measured on a market or book value basis. This is particularly relevant for the Interest Rate risk and Non-Default Spread risk calculations. Thus, the capital requirement result can depend on the accounting regime applied by a Group. Should the IAIS seek to reduce or eliminate these jurisdictional differences in risk charge calculations? If "yes", please provide any suggestions for revising the noted risk charge calculations. Please also provide context and support for the answer provided.

Answer

Q184 Are there any further comments on GAAP Plus that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

Answer

Q185 Is the current approach, to use ICP 17 as a foundation of prerequisites, appropriate for developing the additional reporting of internal models during the monitoring period? If "no", please explain and describe any changes that could enhance the additional reporting of internal models during the monitoring period.

Answer

Yes

Answer Comment

As noted in ICP 17.12.7, effective use of internal models by insurers for regulatory capital purposes can provide a better alignment of risk and capital management. This may provide incentives for insurers to adopt better risk management procedures, which can produce regulatory capital requirements that are more risk sensitive, better reflect the supervisors' target criteria, and assist the integration of the internal model fully into the insurer's strategic, operational and governance processes, systems and controls.

GFIA considers that firms should have the option of using internal models and other alternative calculation methodologies such as an aggregation approach as part of the ICS.

Q186 Is prerequisite 1 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Answer

Yes

Q187 Is prerequisite 2 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Answer

Yes

Answer Comment

GFIA considers that a firm's independent internal validation processes should be sufficient.

Q188 Is prerequisite 3 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Answer	Yes

	Q189 Is prerequisite 4 appropriate for additional reporting of internal model results during the monitoring period? Please explain.
Answer	Yes

	Q190 Is prerequisite 5 appropriate for additional reporting of internal model results during the monitoring period? Please explain.
Answer	Yes

	Q191 Is prerequisite 6 appropriate for additional reporting of internal model results during the monitoring period? Please explain.
Answer	Yes

	Q192 Is prerequisite 7 appropriate for additional reporting of internal model results during the monitoring period? Please explain.
Answer	Yes

	Q193 Is prerequisite 8 appropriate for additional reporting of internal model results during the monitoring period? Please explain.
Answer	Yes

	Q194 Is prerequisite 9 appropriate for additional reporting of internal model results during the monitoring period? Please explain.
Answer	Yes

	Q195 Is prerequisite 10 appropriate for additional reporting of internal model results during the monitoring period? Please explain.
Answer	Yes

	Q196 Are there other prerequisites that should be met for additional reporting of internal model results during the monitoring period? Please explain.
Answer	No
Answer Comment	GFIA considers that the prerequisites listed in Paragraphs 573-608 of the consultation are sufficient for additional reporting of full internal model results during the monitoring period.

	Q197 Are there other prerequisites that should be met for additional reporting of partial internal model results during the monitoring period? Please explain.
Answer	No
Answer Comment	GFIA considers that the prerequisites listed in Paragraphs 573-608 of the consultation are sufficient for additional reporting of partial internal model results during the monitoring period.

	Q198 Are there any further comments on the additional reporting of internal models during the monitoring period, which the IAIS should consider? If “yes”, please explain with sufficient detail and rationale.
Answer	Yes

Answer Comment	GFIA considers that the ICS requires a sophisticated Standard Method. However, the one-size-fits-all assumptions that have to be made when deriving a standardised approach by definition do not take specificities of companies into account, and might therefore give a misleading view of their capital needs. Internal models and an aggregation approach to calculating group capital can provide the flexibility needed for different (re)insurers having various risk profiles. As noted in ICP 17.12.7, and in our response to Q185 above, effective use of internal models by insurers for regulatory capital purposes can lead to a better alignment of risk and capital management. This may provide incentives for insurers to adopt better risk management procedures, which can produce regulatory capital requirements that are more risk sensitive, better reflect the supervisors' target criteria, and assist the integration of the internal model fully into the insurer's strategic, operational and governance processes, systems and controls. GFIA considers that firms should have the option of using internal models and an aggregation approach as part of the ICS.