IAIS Risk-based Global Insurance Capital Standards

IRSG response

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Presentation , 10 February 2015

Section 1 - Introduction

On 9 October 2013, the IAIS announced its plan to develop a risk-based global insurance capital standard (ICS) by 2016. This was in response to the FSB's request that the IAIS produce a work plan to create "a comprehensive group-wide supervisory and regulatory framework for Internationally Active Insurance Groups.

Date	Activity
December 2014 onwards	Preparation of technical specifications for the second quantitative field testing
16 February 2015	Consultation period for this Consultation Document closes
End-April 2015	Launch of second quantitative field testing
End-June 2015	Second quantitative field testing information submitted to IAIS
July/August 2015	Analyses of second quantitative field testing submissions
December 2015	Consultation on ComFrame, including ICS, revised after second quantitative field testing
End-April 2016	Launch of third quantitative field testing
End-June 2016	Third quantitative field testing information submitted to IAIS
July/August 2016	Analyses of third quantitative field testing submissions
December 2016	Finalisation of the ICS
From 2017	Start of ICS confidential reporting to supervisors
December 2017	Consultation on ComFrame, including ICS, adopted in December 2016 and refined after first year of reporting to supervisors
Fourth quarter 2018	ComFrame, including ICS, adopted by IAIS Members at General Meeting

IRSG response

- Supports the development of the global capital standards
- Recommend a step-by-step approach
- Recommend to take account of lesson learned other regimes development
- Highlights that ICS will have real impacts on companies, products, consumers, markets, and economies
- Important that IAIS confirms early in the development process that local regimes that are consistent (or above) the ICS minimum standard would be acknowledged as being a suitable implementation of the ICS framework

Section 3 – Insurance Capital Standards

Table 1. ICS Principles

ICS Principle 1 – The ICS is a consolidated group-wide standard with a globally comparable risk-based measure of capital adequacy for IAIGs and G-SIIs. The standard incorporates consistent valuation principles for assets and liabilities, a definition of qualifying capital resources and a risk-based capital requirement. The amount of capital required to be held and the definition of capital resources are based on the characteristics of risks held by the IAIG irrespective of the location of its headquarters. **ICS Principle 2 - The main objectives of the ICS are protection of policyholders and to contribute to financial stability.** The ICS is being developed in the context of the IAIS Mission, which is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability. **ICS Principle 3 – ICS is the foundation for HLA for G-SIIs.** Initially, the BCR is the foundation for HLA for G-SIIs. **ICS Principle 4 – The ICS reflects all material risks to which an IAIG is exposed.** The ICS reflects all material risks of IAIGs' portfolios of activities taking into account assets, liabilities, non-insurance risks and off-balance sheet activities. To the extent that risks are not quantified in the ICS they are addressed in ComFrame.	**ICS Principle 5 – The ICS aims at comparability of outcomes across jurisdictions and therefore provides increased mutual understanding and greater confidence in cross-border analysis of IAIGs among group-wide and host supervisors.** Applying a common means to measure capital adequacy on a group-wide consolidated basis can contribute to a level playing field and reduce the possibility of capital arbitrage. **ICS Principle 6 – The ICS promotes sound risk management by IAIGs and G-SIIs.** **ICS Principle 7 – The ICS promotes prudentially sound behaviour while minimising inappropriate procyclical behaviour by supervisors and IAIGs.** The ICS does not encourage IAIGs to take actions in a stress event that exacerbate the impact of that event. Examples of procyclical behaviour are building up high sales of products that expose the IAIG to significant risks in a downturn or fire sales of assets during a crisis. **ICS Principle 8 – The ICS strikes an appropriate balance between risk sensitivity and simplicity.** Underlying granularity and complexity are sufficient to reflect the wide variety of risks held by IAIGs. However, additional complexity that results in limited incremental benefit in risk sensitivity is avoided. **ICS Principle 9 – The ICS is transparent, particularly with regard to the disclosure of final results.** **ICS Principle 10 – The capital requirement in the ICS is based on appropriate target criteria which underlie the calibration.** The level at which regulatory capital requirements are set reflects the level of solvency protection deemed appropriate by the IAIS.

IRSG response

- Support many of the principles as a good foundation for the ICS
- Need to be reviewed/ revisited to ensure appropriateness when the final details of the ICS have been settled
- A "one size fits all" rules-based capital standard generating the ´right risk management incentives for all IAIGs is not a viable objective. An alternative would be more extensive use of principles considering whether there are areas where different approaches would be allowed subject to supervisory approval
- Detailed comments made on principle 3, 5 and 6
- Enhancements suggested by IRSG (conditions that could be relevant for the long-term ICS framework)

Section 3 – Scope and application

. An insurance group qualifies as an IAIG if it meets the following criteria:[4]

a) international activity criterion

i. premiums are written in three or more jurisdictions

and

ii. percentage of gross premiums written outside the home jurisdiction is at least 10% of the group's total gross written premium

and

b) size criterion (based on a rolling three-year average)

i. total assets are at least USD 50 billion

or

ii. gross written premiums are at least USD 10 billion.

IRSG response

- Once Solvency II is introduced in Europe, EU should be considered as one jurisdiction
- An IAIG need not be dominated by insurance so care needs to be taken in defining the criteria for IAIG who fall under the Comframe requirements
- There appear to be a lot of discretion with the supervisor, which makes the rules less clear. The definition could be made clearer.

Section 4 – Scope of Group

IRSG response

- IRSG support that the consolidated group-wide balance sheet should be the basis for measuring capital adequacy
- The IRSG do not agree with the integrated approach rather it should be based on a sensible sectorial approach
- Comment made on what should try to avoid i.e. situation already experience in EU
- Given the ICS is a group standard, various “group issues” will likely be very important and probably difficult. Examples are how to calculate the capital base in different kinds of groups and whether there a rules about capital fungibility between legal units of the IAIG
- Time will likely be needed to specify such rules and test them, and time should be allowed for that in the development of the ICS

Section 5 – Valuation

42. Informed by the field testing results and other considerations the following decision of the IAIS has determined the way forward on valuation[12] which does not prejudge any aspect of the ICS:

> *"The market-adjusted valuation approach will be used as the initial basis to develop an example of a standard method in the ICS.*
>
> *The GAAP valuation approach data will be collected. Reconciliation between the market-adjusted valuation approach and GAAP valuation approach will be requested of the participating IAIGs. This will be used to explore and, if possible, develop a GAAP with adjustments valuation approach."*

43. The example of a standard method to determine the ICS capital requirement referred to in the decision above can be found in Section 9. In addition, it was decided that the economic valuation approach should no longer be field tested.

IRSG response

- Valuation principles and framework should be finalised as soon as possible
- Make clear, that all companies will be required to apply a consistent valuation approach for assets and liabilities
- Leave no ambiguous as to whether jurisdictions will be allowed to apply significantly different valuations
- The IAIS should not develop a MOCE as part of the ICS framework. Bearing in mind that the ICS is a minimum standard, the MOCE should be part of core capital. It can then be left up to local regimes if they include a MOCE in liability calculations