INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Q236 Additional comments

Q236

Q236 Additional comments on any section Are there any additional comments that the IAIS should consider in the development of ICS version 1.0 that have not been addressed in any of the previous questions? If “yes”, please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	Yes	The Bermuda Monetary Authority (BMA) welcomes the opportunity to provide further comments on the latest IAIS Insurance Capital Standard (ICS) Consultation Paper. As an active participant in the development of the ICS, we have chosen to provide comments on the areas of ICS version 1.0 where we have stronger views or concerns at present. Instances where we have not provided our views should not be necessarily be interpreted as consent with the current approach and we do reserve the right to provide comments on these in due course, if necessary.As highlighted in our previous response to the consultation document, the BMA supports the ICS being established as a PCR measure. We do however stress our position that the ICS should be designed as a minimum standard for IAIGs and should be sufficiently flexible and encompassing to allow jurisdictions with existing risk based solvency regimes that fulfill the ICS’s principles and cornerstones and that have comparable to or higher risk based capital standards, to be able to rely on their existing solvency regimes to calculate the ICS capital requirement for their IAIGs. The BMA supports consistency of outcomes as opposed to consistency of processes which does not allow for the risk profile of IAIGs to be adequately captured and compared and it is ultimately likely to lead to herding behavior and procyclicality.

					The BMA supports the development of a single economic valuation framework as the basis for an effective global insurance capital standard. We are skeptical about the current development of two non-convergent valuation frameworks, one of them arguably not being an economic consistent framework (GAAP Plus). Notwithstanding its limitations and open issues, we are of the opinion that MAV should form the basis for the ICS. We recommend pragmatic and sensible compromises to be reached on the MAV approach in order to make it a globally accepted and implementable valuation approach. The BMA supports the adoption of the Tail-VaR risk measure as it is a more robust risk measure. Having said that, the BMA would also consider the adoption of a VaR risk measure as long as IAIGs are allowed to use risk measures and calibration targets that are at least as conservative as the calibration underlying the ICS capital requirement. The BMA strongly advocates the use of partial internal models for the calculation of catastrophe risk for the ICS standard method. It is difficult to envision a practical approach other than individual modelling use of partial internal models, given the potentially significant and varied nature of the risks, perils, risk mitigation strategies and even business models under consideration. We believe that market risk stemming from variable annuity products due to its nature and complexity also does not allow to be adequately captured using a standard formula. Thus internal models should be allowed to be used by default for these two risks as long as appropriate disclosures are provided. The BMA supports capital resources being categorized into tiers, we believe the 2-tier approach proposed is a workable starting point but we also do not oppose a 3-tier approach as exists in Bermuda at present. Notwithstanding the need of having consistent robust criteria for owns fund and irrespectively of the decision to be taken on whether senior debt fulfills all current criteria or will fulfill alternative criteria, we acknowledge senior debt as material source of financing for insurers especially in North America. As such we recommend the development of sensible and sufficiently long dated grandfathering provisions for senior debt in order to avoid undesirable pro-cyclical behavior and market impacts resulting from sudden refinancing needs caused by ICS rules.The current ICS proposal which requires capital resources to be absent of encumbrances to be deemed eligible (in either Tier 1 or Tier 2) is too punitive. In practice certain of these assets are held well in excess of the liabilities they are backing and may be readily available to be withdrawn and deployed around the IAIG if needed. We suggest that where assets are pledged in excess of the liabilities, it would be appropriate to include the excess of the pledged assets over the liabilities within the capital resources.

					Although outside the scope of the consultation document, the BMA supports allowing the use of approved full internal models to calculate the ICS capital requirement, as they offer the best way to make appropriate allowance for the specific risks, risk mitigation arrangements and capital fungibility issues of IAIGs.
Financial Services Agency, The Japanese Government	Japan	IAIS Member	No	Yes	The Financial Services Agency of Japan (JFSA) would like to express our strong support for the efforts by the International Association of Insurance Supervisors (IAIS) to develop the Insurance Capital Standard (ICS) as a common international capital framework. The JFSA also wishes to express its respect for the contributions by experts from the IAIS's member jurisdictions to date. As senior officials from multiple authorities have already stated, the social and economic environment surrounding financial institutions has been rapidly changing over the last few years. In the developed countries in particular, structural changes such as the aging populations combined with low birth rates as well as the persistent low-growth and low-interest rate environment are having a significant impact on the management and profitability of insurance groups. In light of these changes in the environment that are related to the insurance regulatory regime, the JFSA would like to express its own views taking advantage of this opportunity to comment for the ICS Second Public Consultation. At the same time, the JFSA wishes to highlight several points to which special attention should be paid in designing the solvency regime*. *The JFSA wishes to refrain from expressing its views regarding the individual issues directly raised at this Public Consultation in order not to prejudice the feedback from the industry. The ICS for Internationally Active Insurance Groups (IAIGs) aims to provide the authorities of each jurisdiction with a consistent view on various risks in the future held by insurance groups in terms of economic-based value. It is extremely important for insurance groups to control risks and make managerial decisions from a long-term perspective in order to respond appropriately and swiftly to the changing environment and maintain sustainable business models. Globally active insurance groups in particular are making progress in measures to control risks and sustain the profitability of their entire business lines

					through enhancing enterprise risk management (ERM). Against these backgrounds, in developing the ICS, it is important for the new regulatory framework not to hinder such efforts by each insurance group and not to be excessively complicated, while maintaining its core objective to appropriately address future risks. Under the current increasingly difficult environment surrounding insurance groups, there may be cases where ratios measured by the ICS would not be appropriate indicators expressing the actual solvency of insurance groups and would pose various unintended impacts, depending on some factors such as its definition of capital or its detailed valuation methodologies for liabilities that will be ultimately adopted. In this regard, the JFSA would like to draw your attention to the following points. (1) Unintended impact on the solvency of insurance groups In designing the solvency regime, it is not sufficient to merely conduct point-in-time impact analysis based on the current state of assets and liabilities of insurance groups. We need to determine methodologies for calculating solvency ratios taking into account the results of comprehensive and dynamic analysis of how the new regime would affect the groups' behavior and how their risk-taking or profits would be changed after its implementation. For example, under a method in which temporary interest rate shocks are directly reflected in the discount rates for liabilities, the resultant solvency ratio could be an extreme figure that is distant from the genuine value based on a long-term perspective, since an interest rate shock has an effect on the entire remaining period of liabilities. In order to avoid such a situation, some insurance groups may adopt overly risk-adverse behavior in their asset management or product portfolio, and may be able to regain solvency in the short run. However, this strategy would squeeze their profitability and damage their solvency in the long run. (2) Unintended impact on the financial market It is essential in developing a solvency regime to examine the possibilities of its unintended impact on the financial market, given that insurance groups are its important players through their asset

					management activities. Insurance groups may alter their ALM in response to changes in the solvency regime. Therefore, sufficient ex-ante analysis is needed regarding the possible impact on the financial market caused by the accompanying reallocation of their asset portfolios. Also, as mentioned above, if each insurance group resorts to excessively risk-averse behavior or a number of insurance groups take similar investment strategies simultaneously in the face of immediate shifts in the market, a regulatory framework may run the risk of becoming the source of further turmoil in the market. (3) Unintended impact on the social role of insurance groups Since the solvency regime would have an impact on the product portfolio or asset management of insurance groups, and further on the financial market, as mentioned above, we need to be mindful of the social role that insurance groups are expected to play in designing the solvency regime. To date, insurance groups have supported the activities of corporations and individuals, who bear respective responsibility in the real economy, and contributed to economic growth and development by providing insurance products to undertake risks for the players mentioned above. In addition, insurance groups, which have the characteristic of long-term investors, can be regarded as having provided stable financing to infrastructure and other long-term projects as well as having supported market functions, even in the situations of short-term price downturns, through providing liquidity to the market. Therefore, it is important to be mindful of possible adverse effects in the case where insurance groups would not be able to fulfill these roles adequately in response to changes in the solvency regime. (4) Unintended impact during the transition Finally, we need to be mindful of extra burdens and adverse effects during the transition period to the globally harmonized solvency regime. In the case where hasty changes to the existing valuation method for capital and liabilities in each jurisdiction are sought, global comparability among IAIGs could be enhanced in a short period of

					time. However, discrepancies of risk management or supervisory practices from those which have taken root in each jurisdiction could come out. During the transition period, for example, the shape of the optimal portfolio for an insurance group or the appropriate measures for supervisors to be taken based on a solo-entity based regulation could differ from those based on the ICS, leading to confusion about how best to deal with each case. Therefore, the development and implementation of the ICS should be conducted in a careful and gradual manner while being mindful of such unintended consequences during the transition period. The JFSA is looking forward to active discussion in the IAIS towards the finalization of the ICS Version 1.0, the development of Version 2.0, and the ultimate goal that lies beyond them. In that regard, it goes without saying that the JFSA is committed and prepared to actively contribute to future discussions regarding ICS development.
Swiss Financial Market Supervisory Authority (FINMA)	Switzerland	IAIS Member	No	Yes	
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	The issue of selecting appropriate ICS target criteria of 99.5% VaR requires further discussion among IAIS members and stakeholders. The ICS CD, Version 1.0, is using a 99.5% VaR measurement with a 1 year time horizon without reference to other measurement bases. As the many questions on calibration included in this document indicate and given that jurisdictional views may differ in the understanding and application of a one year 99.5% VaR, full discussion of this subject matter is necessary.
Ageas	Belgium	Other	No	Yes	We welcome the opportunity to provide additional comments as we want to contribute in a constructive way to ICS. We prefer to keep ICS reporting aligned as much as possible with our already existing reporting

					framework Solvency II. That would enable us to keep the reconciliation between ICS and SII as simple and explainable as possible, would avoid the introduction of new requirements where we need to steer our company on and would minimize our administrative burden. If ICS were to move in a different direction, we would suggest to modify SII in such way that it would become in line with ICS. We would support using an economic approach for the contract boundaries and the usage of a Company Specific Volatility Adjustment. We would like to stress that it is very important to have transitional measures like grandfathering of capital instruments in place to allow for a smooth transition to the new ICS regime. Furthermore we support internal models for the calculation of the capital requirements. Since the confidence level of SII and ICS are similar, we expect that (partial) internal models approved for SII will also qualify under ICS. ICS will apply for IAIGs. In order to have a worldwide level playing field we would welcome that the IAIS-members will also apply ICS to insurance groups, which meet the size criteria of an IAIG, but are not active in at least 3 jurisdictions or don't have at least 10% of their business outside their home jurisdiction. Finally, we would like to add the following comments to our answers on several questions where due to our choice, we were not able to include a comment: Question 14 In general, where the swap rates exists and can be justified that these rates meet the criteria deep, liquid and transparent, these rate should be used. Whereas in countries such criteria are not met or the data are not available, the government bond rates can be used. Question 16.1 An assessment should be made on the points (deep liquid and transparent). Question 28 This is a long term assumption which should not be impacted by short term changes. Nevertheless,

					this does not mean that these assumptions should be fixed forever. We are not in favour of sudden drastic changes. This is why, in line with answer to question 18, we suggest to embed gradual change in line with the proposal of EIOPA in case a long term trend is identified. Question 54 We have a strong preference to use the Cost of Capital approach. Question 96 We propose to be aligned with Solvency II. From the Delegated Acts : Basis risk is material if it leads to a misstatement of the risk-mitigating effect on the insurance or reinsurance undertaking´s Basic Solvency Capital Requirement that could influence the decision-making or judgement of the intended user of that information, including the supervisory authorities. Question 123 We believe there is no benefit to justify such approach by including trend and level stress components for lapse risk. It is preferred to apply directly stress on the best estimate lapse rate tables, which is a more straight forward approach. Question 147 Historical information used to derive risk factors is generally not consistent across lines of business and across countries, this already been concluded in the Solvency II exercise. Historical data should be in a Best estimate view and not based on a reporting. Evolution of portfolio and underwriting cycle make the data's non consistent across time and entities. All these effects should be isolated but as first step, we don't see which other approach should be applied easily. We do hope that Solvency II will evolve with time together with ICS Question 168 Yes, but it seems not in line with the correlation of 100% between parallel shift and flattening indicated in table 17. Question 171 If both assets and liabilities move in the same way and are well matched, this does not add a lot of

					value. On the other hand, this would be useful to reflect the fundamental spread risk in which the short term volatility might be ignored as long as the company is able to hold these investments up to maturity. A good ALM is key for an insurer, as such insurers matching assets and liabilities should be able to benefit via the determination of the criteria. Of course, criteria should be developed to show that assets can be held up to maturity & default risk should still be considered for these assets. Question 171.1 In case assets match liabilities, valuing at cost does not add value, moreover this could lead to an inconsistency between asset and liability valuation. Such allowance should be made for credit risk via the application of relevant liability stresses in which can be determined how much assets can be held up to maturity under such events.
ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	Other	No	Yes	ABIR appreciates the opportunity to provide stakeholder input into the development of ICS Version 1.0. We highlight below our position on key areas of importance which are not under consultation as part of the public consultation on ICS Version 1.0. Timetable and Transitional measures: The timeline to implementation is very tight, with ICS V1.0 due for adoption for confidential reporting in 2017 and V2.0 due for adoption at the end of 2019. In targeting this timeframe, it is crucial to allow transitional measures as well as provisions for grandfathering of existing capital instruments in order to minimize market disruptions in such a short timeframe. Notwithstanding the intention is not to discuss transitions as part of this consultation it is not possible to set this discussion aside when considering the impact of currently proposed restrictions on financial instruments as compared to the current stock of assets in place in industry. As such a clear statement on grandfathering would be an essential improvement to aid engagement in this process.

					We believe that inclusion of transitional measures from existing regimes and grandfathering should already be included for this version for reporting next year given how important such Transitional Arrangements were for the implementation of and reporting under Solvency II. Recognition of existing regimes: We would urge IAIS to maintain flexibility within the implementation of ICS and in particular not to inadvertently encourage the IAIS members to have, as a goal, convergence to a single regulatory capital standard applied universally. Rather, while ICS can be used as a broad benchmark, capital standards should ultimately be determined by jurisdictional regulators, encapsulating the specificities of the local market. Further, in development of the ICS standard, the IAIS should recognize that the major (re)insurance regulatory regimes already provide a strong capital framework and should be leveraged to avoid unnecessary duplication of efforts. Internal Models: We support the consideration of Internal Models, either full or partial, as an alternative approach to calculating the ICS. Internal models are both risk-sensitive and are tailored to the circumstances of each company.
Canadian Institute of Actuaries	Canada	Other	No	Yes	The following is not incremental to the comments in the previous sections. Rather, it is meant to provide a bird's-eye view of our overall feedback. Overall, we are supportive of the general direction and broad features of the ICS version 1.0. We have included responses to many of the questions posed in the consultation document. Our comments are varied in how significant an impact they could have on the end result or in how much more work it could mean for the IAIS. Here, we highlight two particular areas of comment which we believe could have significant impact and which we feel more strongly about: Discounting: Chapter 4.1 – Market-adjusted valuation (MAV) approach – outlines an approach to setting the liability cash flow discount rates, including the base yield curves and the adjustment to

					the base rates. We agree with the multi-segment construct, but believe that the design of both the base yield curve and the adjustment could be improved, with the objectives of (i) aligning as much as possible with what we know in this regard of the upcoming IFRS 17 (formerly known as IFRS 4 Phase 2), (ii) justifying or eliminating large differences in long-term (e.g., years 60+) discount rates across currencies/countries, (iii) reducing the likelihood and magnitude of large sudden impacts to the liability valuation and capital position of IAIGs, regionally and/or globally, arising from changes in IAIS-specified parameters, and (iv) reducing, where, appropriate the disconnect between the valuation of assets and the valuation of liabilities. Risk mitigation: Chapter 6.3 – Risk Mitigation – outlines the proposed approach for reflecting an IAIG's risk mitigation programs in the determination of its capital requirement, in particular that recognition is limited to instruments existing and on the IAIG's books at the reference date. In our opinion, capital requirements should reflect a continuation of well-established and documented existing risk mitigation strategies. The impact of this would be most notable where IAIGs employ dynamic hedging programs involving frequent (e.g., daily) updates to the program. We believe the proposed standards could significantly undervalue the effects of a company's risk mitigation strategies and practices, thereby significantly overstating the amount of capital requirements.
CLHIA	Canada	Other	No	Yes	The development of a group consolidated capital standard for the global insurance industry by the IAIS is a welcomed and extremely important initiative. We commend the IAIS for its ongoing concerted efforts to develop and implement a robust standard that is relevant and decision useful globally given the diversity of (life and P&C) insurer products and risk management practices among jurisdictions. We stand ready to assist the IAIS to ensure the ICS results in a global framework that is decision useful and not merely a compliance exercise. From both development and implementation perspectives, we entirely agree with the IAIS's approach of introducing the ICS in gradual stages. In the earlier stages (version 1.0 and version 2.0), especially considering methodologies will not be finalized during these stages, we view the role of the standard as providing some element of international benchmarking and not "binding" supervisory level ("PCR") capital requirements that in effect provide floors to local requirements. Even beyond the earlier stages, considerable dialogue and analysis is vitally needed before any

					conclusions are drawn on the respective roles of ICS and local requirements. At least for ICS versions 1.0 and 2.0, the IAIS should avoid undue complexity (e.g. refrain from adopting a more "economic" approach") to keep the ICS manageable on a global scale. The focus should be on key calibration items, notably appropriate discount rate curves. We have provided comments on discount rates in answers to other Questions, notably #20 and #31 which outline the need for: higher assumptions for the "LTFR"; higher spread assumptions; the use of credible historical data from as many years as possible to set long term assumptions; and the use of spot rates instead of forwards for the "LTFR". The effective dates of both version 1.0 and version 2.0 of the ICS are likely to precede the effective dates of the IASB's new insurance contracts standards, IFRS17. However, from operational, continuity and alignment perspectives, we encourage the IAIS to place more emphasis than it has to date on the development of the ICS to be in the context of the IASB's decisions (e.g. discount rates) for their standard. We are concerned there may not be an alignment of Qualifying Capital Resources (numerator of the ratio) and Capital Requirements (denominator of the ratio) with the result that, in effect, there could be "double counting" of margins. The numerator in the ICS ratio is essentially qualifying resources above current estimate liabilities plus MOCE. However the denominator incorporates shocks on current estimate liabilities only. Hence ostensibly capital requirements (in the denominator) are VaR 99.5 in excess of current estimate liabilities resulting in an understatement of the ICS ratio. Furthermore, the excessive conservatism in the MOCE exacerbates the disconnect, most notably due to the conservatism in the discount rates. We recommend the IAIS address this disconnect. With regards to calibrations, at present, there are some elements which are too conservative, notably the Interest Rate Risk requirement as we outline in our response to Question 172. Finally our compliments to the IAIS for this Consultation Tool, it is very user friendly
Ping An Insurance	China	Other	No	No	

(Group) Company of China Ltd.					
EIOPA Insurance & Reinsurance Stakeholder Group	EU	Other	No	Yes	Executive Summary – IRSG opinion General comments on the scope of the ICS • The IRSG understands that the development of global capital standards for insurance was triggered by an overarching objective to ensure increased resilience of the global financial system and comparability. The IRSG supports risk-based prudential measures for the (re)insurance industry. • Given the technical nature of the paper the IRSG has focused on providing high-level comments to the design and have not comprehensively covered all questions raised by the IAIS • The ICS should in the view of the IRSG ensure that appropriate and strong risk management is encouraged and is aligned with the economic basis that the business is managed on e.g. * Use of internal models; * Asset and liability management through cash flow matching is not properly reflected in the current formulation of the ICS model. • It is not clear whether the use of partial or full internal models and other variations to the standard method will be covered in ICS2.0. Given these are areas of importance to many IAIGs the need for and validity of including internal models should already be made clear in V1.0. • The limits of a standard formula should be acknowledged and the core role for internal models made clear from the start. It is not realistic that a one size fits all works in every case on a global basis, given the diversity in terms of products, consumers' needs, and other regulations such as tax and financial regulation, which are also, most often, jurisdiction-specific. Even for global businesses, there are many differences in risk profiles that can hardly be captured by a standard method, all the more if the scope of application is restricted to 50 or so IAIGs. • The Valuation basis is a critical aspect of the ICS, it is important that this reflects the insurance business model and does not introduce pro-cyclicality. The use of an appropriate discount rate is essential in this regard. Under Solvency II, in a European context, this area was discussed at length and specific long term measures were introduced to address this. Under the 'MAV approach' this aspect must be given greater focus to provide appropriate solutions consistent with the long term nature of insurance liabilities, asset liability management and the ability to hold investments for the

					long term. In addition further work should be undertaken to explore the extent to which a bridge to 'GAAP with adjustments' can be found in this area. • The overall scope of the ICS 1.0 consultation is narrow and does not address/ describe the basic principles such as the overall objectives of the ICS, the purpose of the measurement basis, the interaction with existing jurisdictional regimes, the consequences associated with not meeting the ICS requirements. • The IAIS states that the ICS would serve as a "minimum standard" for a group PCR (paragraph 13). It is unclear what is meant by a minimum standard. If the ICS together with the suggested calibration of a VaR with a 99.5% confidence level over a 1 year time horizon is assessed to be the minimum standard for capital requirement, it could suggest that higher capital requirements are needed (ladder of intervention, see also Insurance Core Principle (ICP) 17.3). The high level of capital requirement and the "one size fits all" will result in substantial deviations between the calculated capital requirement and the risk profile of the IAIG. • It is unclear how the ICS interact with local juristically requirements in particular SII in a European context. • The fact that the ICS would be implemented as a minimum standard would appear to undermine the key potential benefit of a common framework, such as comparability across jurisdictions and harmonisation of capital frameworks. Timing • The proposed timetable of having a usable and agreed framework ready for adoption in 2019 and fit for implementation from 2020 appears optimistic given the time it has taken to develop similar regulatory frameworks (Solvency II; Basel II and IFRS) • Transitional measures should be considered as part of the implementation. • The IAIS should take the necessary time to carefully test as well as calibrate its proposals and to learn from experience of already existing frameworks designed around the same principles and objectives (Solvency II being one of them) Interplay with Solvency II • From a European perspective, the development of ICS should be implemented in a proportionate manner taking due account of the fact that Solvency II is a sophisticated risk based framework. Overall the view of the IRSG is that Solvency II should be considered an appropriate implementation of ICS

					• ICS will be a major project, and the costs related to the project cannot be ignored • The use of internal models as part of ICS must be considered at an early stage. This was a core part of Solvency II allowing a more appropriate reflection of the underlying business models e.g. reinsurance, geographical diversification Section 2 – Insurance Capital Standards Note, the Public Consultation raise no questions to this chapter • In section 6.1.1 the IAIS described the composition of the 2015 Field test and contributing type of insurers and resulting risk types embedded in the submissions. The IAIS itself concluded that not all types of insurance and risks were represented. It is unclear how the 2016 field test will ensure a more balanced view. It should be noted that for a proper calibration and assessment of appropriate methodology a sufficient representation is needed especially on those areas were regional diversity is high such as health insurance and catastrophe risk. • More fundamentally, it is noted that if the scope of application is restricted to 50 or so IAIGs, a standard method can hardly capture the diversity in risk profiles among these (re)insurance groups and that an internal modelling approach would appear more appropriate.
Joint response from European GSIIs (Aegon, Allianz, Aviva, Axa and Prudential)	EU	Other	No	Yes	**IAIS consultation: Risk-based Global Insurance Standard version 1.** The European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential appreciate the IAIS on-going dialogue with the industry in the development of the ICS. We set out below issues on which we all agree that will need to be addressed in the further development of the ICS. **Aims and objectives of the ICS** The IAIS has stated that its ultimate goal is to build a single ICS with common methodology by which one ICS achieves comparable, i.e. substantially the same outcomes across jurisdictions. This will be a complex endeavour and will require a large amount of time and a lot of technical expertise which make the IAIS timetable for ICS versions 1.0 and 2.0 look exceedingly ambitious. That said there are issues that the IAIS can tackle now to improve the consistency between the

					different valuation approaches currently included within the ICS. We comment on this under valuation below. The IAIS has previously stated that the ICS will be a group consolidated capital requirement and is not intended to replace requirements applying to individual insurance entities at a jurisdictional level. It is important therefore that the ICS focuses on the financial strength of the group as a whole and does not duplicate areas already addressed in the ICPs at an entity level, such as MOCE. It should also be viewed in the context of ComFrame as a whole where it is one tool, but not the only tool within the framework focusing on the sound prudential management of insurers. Therefore capital should not be regarded as the only tool and excessive prudence in developing the group consolidated capital measure should be avoided. **Interaction of the ICS with local/regional prudential regimes** How the ICS will interact with existing risk based regimes such as Solvency II in Europe, RBC in the United States and with Asian markets, some of which are adopting more risk based regimes is still an area where clarification is required, and there is a clear risk that if the ICS is too prescriptive it will be impossible to reconcile with national/regional regimes given the clear statements made by the US Federal Reserve and European Commission concerning the nature of prudential regimes that are suitable for their respective jurisdictions. A more principle based, rather than prescriptive ICS would be more likely to succeed in achieving the IAIS's ultimate goal in this respect. A more principles based regime would enable national/regional regulators to take into account local and regional differences in their markets that are difficult to reflect in a prescriptive standard method approach. It is also essential that the IAIS demonstrate that there is political commitment among national legislators to the continuing development of the ICS to validate the ongoing resources that are being devoted to the development by both the supervisory community and industry. **A one size fits all will not deliver comparability of outcomes**

					It is important to recognise that IAIG's are likely to be large and diversified by their nature, and the diversity of differing business models may be difficult to fully capture within a single approach. For this reason, as noted earlier, it is important that the ICS provides sufficient flexibility to enable national/regional regulators to tailor requirements to reflect local market features. There are various ways in which this can be pursued, with jurisdictional and undertaking specific parameters allowing for more variety and flexibility within the Standard Method. However, it will also be important that insurers have the option to use full or partial internal models where this would better reflect the risks that they are exposed to than a standard method approach. This would achieve better alignment of regulatory and management incentives. For this reason a range of approaches should be envisaged depending on the nature, scale and complexity of an insurer. **Valuation** It is essential that the valuation approaches included within the ICS are based on consistent principles in order to lead to substantially the same outcome, and achieve a level playing field. To be credible, it is also essential that the valuation approaches used promote sound risk management, and minimise inappropriate pro-cyclical behaviour. These are also requirements of the ICPs that the ICS will need to comply with. The IAIS recognise that short term changes in the valuation of long-term assets may create artificial 'noise' in the valuation of insurance liabilities where insurers are able to hold assets to maturity. This is true for all asset classes. In particular to address this GAAP Plus allows for earning of actual spreads on assets backing illiquid liabilities, based on the IAIG's own yields. A similar allowance for recognising actual spreads should be allowed under a MAV approach for long term insurance products, as the rationale set out in paragraph 162 of the consultation, *('To support long-term insurance liabilities, IAIGs are able to hold long-term fixed income assets with little risk that they must be sold prior to maturity. As long as those assets are held, their projected cash flows do not change (except through defaults), regardless of the short-term changes in interest rates.'*), is equally relevant whatever valuation

					approach is used. It is important to recognize that full matching should lead to a full (default corrected) illiquidity adjustment, where partial matching should trigger a partial adjustment. A binary approach and/or a prudent approach should be avoided as they undermine the current estimate approach that underlies the MAV approach, induce cliff effects and would decrease comparability. The current MAV discounting options do not provide an appropriate treatment for long term insurance liabilities and without refinement would be likely to lead to procyclical behaviour, potentially increasing the systemic risk of the insurance sector, and therefore are not be fit for purpose. It is important to examine an option where MAV discounting is based on spreads calculated by firms based on actual asset portfolio returns backing the liabilities. This is allowed under GAAP Plus and should also be an option to be examined under MAV. Such work should take into due consideration the necessity to avoid creating adverse investment incentives. Consistency in principles underlying the development of the differing valuation approaches should help the IAIS achieve more comparability between the outcomes, i.e. substantially the same outcome to provide a level playing field. If the differing approaches achieve substantially the same outcome it should not matter which an insurer applies, and therefore as long as multiple approaches to valuation are allowed within the ICS, IAIGs should have the choice over the method to apply for their business. Insurers should also be able to hypothecate assets from all portfolios to liability buckets (for valuation purposes) to reflect the link between assets and liability management strategies largely based on buy and hold. In this context it is important to recognise that some liabilities are completely illiquid and as such should be subject to a 100% application ratio. Additionally, all types of liabilities may be divided up in different buckets according their degree of liquidity and matched with appropriate assets in terms of liquidity. Then the liquidity of liabilities as well as the assets backing those liabilities is already reflected in the discount rate, and as such, there is no need to impose a lower application ratio for each bucket. This approach allows for a wide application, which is key for a global standard.

					It is also important to recognise that other ALM strategies exist, particularly in a context of low rates, and that around the world regulators have put in place adequate countercyclical measures for such strategies. Therefore, further testing of a range of options to address excessive volatility will be required to reflect those different strategies in addition to developing and refining a widely applicable approach on an earned rate basis for MAV. Depending on the choice of MAV discounting option, the IAIS should also review whether the current 'swap plus adjustment' approach best reflects the IAIS's intended outcome. For example, under the many of the options, the use of government or credit yields for the base yield curve would have resulted in a discount rate more reflective of the intended portfolio. It is essential that the ICS does not dis-incentivise good risk management or asset liability management practices. In this regard a risk sensitive framework must consider duration mismatch. **MOCE** Currently there is a lack of clarity over the objective of the ICS as a consolidated group capital requirement and therefore, there is no coherent rationale for the role of MOCE within it. The IAIS has previously commented that a MOCE is required as it is a feature of the ICPs, however, the ICPs do allow for some flexibility of approach. For example, within the description of scope and coverage of the ICPs there is flexibility to tailor certain supervisory requirements to ensure they are commensurate with the potential risks posed. Specifically it is noted that supervisory measures should be appropriate to attain the supervisory objectives of a jurisdiction and not go beyond what is necessary to achieve those objectives. It is therefore important to consider what the purpose of a MOCE would be in supporting the objectives of group supervision if an explicit MOCE is to be included within the ICS. The inclusion of a MOCE as an addition to technical provisions also appears to result in the double counting of risk, as it increases the level that the PCR is applied effectively ratcheting up the required capital. This effectively leads to calibrating the ICS above the 99.5% level and would result in the ICS being an excessively prudent measure.

					We would also note that ICP 14.9.3 states that where risks are reflected in both the MOCE and regulatory capital requirements, double counting should be avoided as far as practical. Given the high calibration level of the ICS this will implicitly cover any inherent uncertainty surrounding the valuation of liabilities. Therefore the need for an explicit MOCE as an addition to technical provisions at a group consolidated level is highly questionable and in the absence of adequate justification of the requirement for a MOCE the IAIS should remove it from the ICS construct. Not withstanding the above, if the IAIS pursue a MOCE, a clear conceptual purpose within the objectives of the ICS as a group consolidated capital requirement needs to be articulated and its design should be tailored to that rationale in a manner that is appropriate for long term life business and does not give rise to undue sensitivity to interest rates. **ICS standard method capital requirement** As noted earlier, the ICS should be viewed in the context of ComFrame as a whole where it is one tool, but not the only tool within the framework focusing on the sound prudential management of insurers. Therefore capital should not be regarded as the only tool and excessive prudence in developing the group consolidated capital measure should be avoided. We consider that the calibration and design of some stresses under the ICS standard method approach are too conservative, in particular: ***Currency risk*** The required capital for currency translation risk is too high, given that there is no impact from this risk on meeting policyholder obligations ***Equity volatilities*** Since no credit for dynamic hedging will be given in ICS 1.0, there should also not be a volatility stress. It is conceptually inconsistent to apply volatility risk shocks on non-linear exposures, but not to allow for the risk mitigation approaches used to manage those same exposures. It would lead to an asymmetrical treatment of risk. If it is decided to allow for risk mitigation approaches then an additive approach should be used ***Interest rate risk*** This is too high and procyclical due to narrow period used to calibrate the stress ***Longevity risk*** This is too high, and a 100% assumed correlation between longevity trend and longevity level is inappropriate given there should be low or no correlation between the two. ***Non-life*** This is too high, given that IAIGs likely to be well diversified.

					Operational risk This is too high. Premiums that are not directly related to insurance risks should be excluded from the operational risk premium charge, but still be captured under the current estimate charge. In addition, there is a need for the IAIS to adopt consistency in its approach across the standard method to ensure that capital requirements do not exceed the target level of calibration. For example, insurers liabilities should not be exposed to movements in implied volatilities if dynamic hedging is disallowed. **Diversification** We consider that the IAIS's proposed approach is too simplistic and will not adequately capture the differing exposures to jurisdictions, products and investments that IAIG's will have. A more modestly calibrated ICS that does not interfere with existing prudential requirements or risk management would not suffer from this, but in case a more sophisticated ICS is pursued higher accuracy is required by e.g. increasing the granularity of the Standard Method or by allowing insurers the option to use full or partial internal models. Some of the drawbacks in the standard method approach proposed by the IAIS are as follows: • The current 'two step' structure may not capture the full underlying scope of diversification effects that exists. For example, for an annuity writer with large exposure to longevity risk, the correlation between the market and life risk modules will differ to another insurer where the main life risk relates to lapses. • It also does not capture non linier interaction between risks, in particular it does not capture reduced exposure to changes in asset prices following a mass lapse shock • Diversification between operational risk and other risks not recognised The above issues may impinge on insurer's ability to optimise the management of capital within their business.
Actuarial Association of Europe	European Union	Other	No	Yes	Valuation approach • Having two different valuation bases in MAV and GAAP plus will make comparisons between IAIGs headquartered in different jurisdictions challenging.

					• Comparisons between IAIGs will also be difficult with the two different approaches to calculating the MOCE, i.e. Cost of Capital and Prudence. Solvency II Consistency • For IAIGs located in Europe it seems to be desirable that the overall calibration of the ICS should lead to results comparable to Solvency II results taking into account that Solvency II is using the same Var 99.5% target as the ICS. The different stress factors (E.g. Mortality: Field Test 2016 10% vs. Solvency II 15%; Longevity: Field Test 2016 15% vs. Solvency II 20%) should converge over time. Calibration • For substantiating calibration choices, in particular regarding European exposures, we recommend that the IAIS may consider documentation prepared by EIOPA/CEIOPS of Solvency II calibration, in particular as the ICS has the same risk measure as Solvency II (VaR 99.5% over one year). • It is worthwhile to mention that the calibration of ICS as it stands is related to large – already implicitly diversified – portfolios. However it might not be adequate for smaller or concentrated portfolios. As such the calibration is specific to IAIG and may not be adequate for insurance entities with a localized portfolio. This should be borne in mind in case that ICS will be used as a starting point for the development of Capital Standards for individual insurance undertakings. Proportionality • ICS should explicitly include the “principle of proportionality”. In particular, the rigour of assessing and modelling a specific risk should take the materiality of the respective risk into account. This will be of high importance in case that there is the intention to roll out ICS to further (smaller) companies and not to IAIGs only. Risk Measure and time Horizon • Regarding the risk measure, our clear preference is VaR (at 99.5% confidence level) and not TVaR. There are many technical advantages of TVaR which have been explained by the IAA earlier on various occasions. However in practical cases the application of TVaR in high probability levels often relates to lacking data and therefore does not lead to improvements. VaR has a reduced complexity compared to the TVaR and would be still applicable in such cases. Furthermore the

					usage of VaR would enable consistency with Solvency II. For the same reason we recommend using a one-year time horizon.
AXA	France	Other	No	Yes	AXA response consultation on a Risk-based Global Insurance Capital Standard – Version 1.0 Public Consultation Document Comments due by 19 0ctober 2016 AXA would like to thank the IAIS for giving us the opportunity to provide feedback on the latest Insurance Capital Standard ("ICS") consultation and we appreciate the ongoing dialogue which we have been afforded. AXA wants to complement the European industry submission submitted jointly by ALLIANZ, AVIVA, AXA, AEGON, PRUDENTIAL to which GENERALI has been associated, and the IIF GA letter to the IAIS consultation, by providing some broader policy observations on the subject in the context of the questions raised in the consultation. 1. ICS must be viewed as an element of ComFrame The ICS project is not an isolated project and must be correctly embedded in ComFrame, the objective of which is mainly to increase convergence by improving supervisory mutual understanding. ComFrame module 2 element 5 acts as a placeholder for the ICS. However, as is stands, the prescriptive nature of the ICS goes well beyond the ComFrame objective. ComFrame promotes an integrated approach in which capital is simply viewed in the context of the broader supervisory framework convergence. Therefore, the ICS capital standard should not be viewed as an all-inclusive prescriptive solution to all supervisory matters. Rather it should be a complement to the range of other tools available. 2. ICS should be a principle-based solvency regime seeking consistency of outcome across the globe.

					If the objective is to significantly help the convergence internationally, the IAIS must focus on the outcome. On the contrary imposing a one size fits all type of prescriptive approach which would elude the key issues in order to expedite the process would have an adverse effect. A "badly" constructed ICS is worse than no ICS at all because it would provide a spurious convergence and be actually misleading. Against this background, the fact that IAIS is looking at promoting a "minimum" but prescriptive standard framework, likely to be based on the smallest common denominator and potentially subject to "gold-plating", is contradictory with the objective of convergence and would be a serious regression, especially for firms evolving yet in a new and harmonized prudential framework (such as Solvency II). 3. IAIS cannot proceed with detail development before addressing the fundamental issues. Voluntarily, the IAIS consultation eludes all fundamental issues raised by any advanced capital framework. The industry, and more globally all stakeholders in all jurisdictions involved in the ICS project, should be aware of the direction which will be followed by the IAIS and not have to speculate on what the key features of the future framework may look like. On the fundamental side, work is first of all needed to explain (i) the ICS' relationship to existing capital regimes, (ii) how it will get the industry to an even level-playing field if implemented worldwide, (iii) the ability to reflect local circumstances, (iv) the approach to valuation standards, and (v) the full recognition of internal models. Therefore, we strongly recommend to first agree on key common objectives and concepts and second, to make sure to have the necessary political buy in before developing the details and continuing field testing and consultation which come at a significant cost for participants. This also means that any confidential reporting should be postponed to avoid the risk to use quick and crude proxies, or data leakage. The unfortunate experience of the BCR should not be repeated. Against this background we observe that dealing with non-economic short-term volatility, and counter-cyclical measures, is key for any valuation approach and vital for all primary insurers. And yet IAIS proposals on the table do not address the issue. This is not just only about the field testing but we really want to say is that it does not make sense to

					advance on the details before agreeing on the key principles and objectives. 4. The complexity of the project must be reflected in a realistic timeframe. Solving the fundamentals, building up an ICS on two markedly different valuation approaches with comparable outcomes is an over ambitious goal which will require a significant amount of time, work and technical expertise. It must be reflected in a more realistic ICS project timeframe. In this context, we insist that time allowed to develop an ICS should not be underestimated and that it should never be an arbitrage between getting something out and getting things right. Furthermore, the current status of two valuation basis raises the question of the ultimate objective and also the nature of the ICS. Moreover, the ICS project requires all along its progress a sufficient political buy-in from the main jurisdictions. This is all the more true as any new regulation covering IAIGs would need to apply and be implemented consistently across the globe to ensure a level playing field. In this regard the commitment of key IAIS member jurisdictions to adopt the global capital standards is far from being acquired. Key examples are the US Federal Reserve’s current effort to develop group capital standard, the upcoming changes in Asian countries capital regime (China and Japan in particular), and Europe’s scheduled review of Solvency II. This point needs to be addressed in particular to justify the ongoing resources that will have to be devoted to the development by both the supervisory community and industry. 5. AXA supports a principles-based ICS which would ultimately allow promoting an economic and risk-based capital framework As a European headquartered company, AXA fully supports a principles-based ICS which would ultimately allow promoting an economic and risk-based capital framework where major risks, including ALM risk which is a key risk to be managed in insurance business, are fully and adequately captured. Any other framework, including a degraded framework, would appear as a retrograde step compared to the EU standard and would be detrimental to the protection of policyholders and financial stability.

					Solvency II is a holistic risk-sensitive group-wide framework which took many years of development. It fulfills all requirements of the ICPs as agreed by supervisors and is consistent with the valuation principles currently tested by the IAIS. Solvency II targets a Value at Risk with a confidence level of 99.5% over one-year period which is fully aligned with IAIS proposal. IAIS should recognize Solvency II (including the equivalence) as a practical implementation of an ICS. It obviously implies that internal models formally approved by group supervisors should be allowed in the context of the ICS. It will be counter-productive for the IAIS to reinvent or reshape a risk based framework without acknowledging the work already done by some jurisdictions (e.g. solvency II in Europe). It would be detrimental from a risk management perspective, to adopt any alternative approach that would diverge from existing in-force solvency frameworks that meet the IAIS target.
Institut des Actuaires	France	Other	No	Yes	Overall consistency: The ICS should be theoretically robust and pragmatic. A number of the questions propose suggestions which if implemented would create inconsistencies, double counting or a set of divergent methodologies depending on whether the market-adjusted valuation approach or the adjusted GAAP approach is the valuation basis. Importantly, the notion of confidence level of the capital requirement and any prudence inherent in the valuation basis, for example any margins in the GAAP approach, must be aligned so that the overall result is not unduly onerous or stronger than the 99,5th percentile intended. The risk of divergent methodologies undermines the objective of consistency and comparability, and may leave open opportunities for arbitrage. Balance between appropriateness and complexity: The more complex and detailed the framework, the greater the hurdle and cost to compliance would be. IAIS should consider whether a basic minimum approach is possible, and subsequent phasing of non-priority items is plausible to allow time for embedding and transitioning. Benefiting from the investment and work done for Solvency II in Europe The Solvency II framework which was introduced as of 1 January 2016 was the product of at many years of research and collaboration of amongst other things actuarial subjects. Many of the questions posed in your current questionnaire were early questions in Solvency II consultations and

					analyzed through 5 quantitative impact studies. Many options were analysed and discarded for valid reasons. It would be a pity not to take on board the lessons learnt and at least use Solvency II's story as a starting point. Equivalence Some consideration should be given to the notion of equivalence and its reciprocity. Under Solvency II, certain countries , including the US can have their local frameworks deemed equivalent to Solvency II. In addition, in recent years Solvency II has provided a starting point for many developing countries as they move towards a risk based regime and many countries now have similar frameworks. The IAIS should give consideration to potential equivalence criteria for countries regulated on a Solvency II basis or similar 99,5th percentile basis. Other reporting developments IAIS should be aware of other reporting requirements and onerous projects on the horizon for insurers and specifically IFRS 17. Although not yet implemented the standard is expected to be effective in 2021. While IFRS is for investor and other stakeholder communication and is not based on a prudential logic, it none the less is based on fair value principles aiming to provide a true and fair reflection of insurance liabilities. Currently, the proposal for IFRS 17 and its differences to S2 create already one reconciliation requirement and communication of the differences. If faced with too many frameworks, the operational and communication difficulties may distract from the desired objectives. Principles of Reserves plus Capital Requirements We are supportive that the ICS should be based on the principle of a balance sheet at fair or market value (without prudence margins) and a capital requirement should be established by reference to a stressed balance sheet. The proposed level of confidence of the ICS of 99,5% is consistent with Solvency II. For the credibility of both the prudential frameworks it is however important that the two calibrations at the same confidence level do not give significantly different answers for capital requirements. Grandfathering and transitional arrangements We would advocate the general principle of transitional arrangements similar to what had been

					allowed under Solvency II. For example the eligibility of certain types of pre-exisitng capital resources remain eligible or are phased out (eg grandfathering rules under Solvency II could serve as an example). Maintenance of the standard We would recommend that the standard be maintained and updated regularly to ensure its ongoing appropriateness. P-MOCE/R-MoCE With regard to the margins used in liability valuation there are two methodologies proposed, i.e. P-MOCE and C-MOCE. Having 2 different margins over current estimates that both allow two different valuation bases undermines the objective to get a truly global standard, with good comparability across jurisdictions. A prudence margin is in fact a form of capital requirement, it is unclear whether a P-MOCE in addition to a capital requirement would provide a level of confidence above 99,5%. We would support the use of a well calibrated C-MOCE as the notion of allowing for the theoretical transfer costs of run-off have a theoretical sense when added to the obligations. ICS Capital Requirements: the standard approach Alternative approach by internal models: Many European Insurance groups currently have internal models calibrated to the 99,5%ile of their risk distribution which have been calibrated and fitted to their own risk profile. These internal models have been accepted by European regulators as alternatives to the standard formula Solvency Capital Requirement, having been subject to independent validation and rigorous internal model approval processes. The current consultation on ICS makes no mention of internal models nor the role they can be expected to play in the future ICS. Infrastructure investments: The prudential framework should not create procyclic effects. In particular for long term business, the time horizon of the investments and their long term real saving objectives should be considered. A multi-year approach to solvency is likely to be more appropriate than a simple 1 year VaR eg ORSA. Insurance companies have a significant role to play in the infrastructure and capital

					investments of their local economies and consumer interests should be balanced in this regard too,without the Standard discouraging long term investment.
Allianz	Germany	Other	No	Yes	We acknowledge and support the comments made by European industry organisations and other groups of stakeholders and ask the IAIS to consider the fundamental concerns regarding the ICS Version 1.0 and the ICS in general, that are explained therein.
Coburg University of Applied Sciences (Hochschule für angewandteWissenschaften Coburg)	Germany	Other	No	Yes	The IAIS should consider in the development of ICS version 1.0 that the data collected allows for further calibration and refinement.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	1. We very well understand that the IAIS wants to discuss the issue of Internal Models not before the finalization of ICS version 1.0 in 2017. Nevertheless, we believe that the issue is of utmost importance and want to highlight the need to integrate the possibility of Internal Models for the ICS as early as possible. Insurance groups operating globally can differ considerably in their risk profile. This holds, for instance, to reinsurance undertakings that write non-standardized products based on the actual profile of the risks covered in the region. Internal models can capture the undertaking specific risk profiles more adequately than standard methods. Accompanied by a supervisory approval and validation process the use of an internal model should be possible for the whole group or for part of the group. Besides the above mentioned Internal Models and the experience from their application can also help developing the standard approach and contribute to the goal of comparability of outcomes. 2. Since the latest communication from the IAIS indicates that the different valuation methodologies will not only be part of ICS version 1.0, but also in ICS version 2.0 we believe that it must be the

					choice of the individual company to decide which methodology they use for the ICS. A different approach would almost necessarily lead to an unlevel playing field.
German Association of Actuaries (DAV)	Germany	Other	No	Yes	Solvency II Consistency For IAIGs located in Europe it seems to be desirable that the overall calibration of the ICS should lead to results comparable to Solvency II results taking into account that Solvency II is using the same Var 99.5% target as the ICS. The different stress factors (E.g. Mortality: Field Test 2016 10% vs. Solvency II 15%; Longevity: Field Test 2016 15% vs. Solvency II 20%) should converge over time. Calibration For substantiating calibration choices, in particular regarding European exposures, we recommend that the IAIS may consider documentation prepared by EIOPA/CEIOPS of Solvency II calibration, in particular as the ICS has the same risk measure as Solvency II (VaR 99.5% over one year). It is worthwhile to mention that the calibration of ICS as it stands is related to large – already implicitly diversified – portfolios. However it might not be adequate for smaller or concentrated portfolios. As such the calibration is specific to IAIG and may not be adequate for insurance entities with a localized portfolio. This should be borne in mind in case that ICS will be used as a starting point for the development of Capital Standards for individual insurance undertakings. Proportionality ICS should explicitly include the “principle of proportionality”. In particular, the rigour of assessing and modelling a specific risk should take the materiality of the respective risk into account. This will be of high importance in case that there is the intention to roll out ICS to further (smaller) companies and not to IAIGs only. Risk Measure and time Horizon Regarding the risk measure, our clear preference is VaR (at 99.5% confidence level) and not TVaR. There are many technical advantages of TVaR which have been explained by the IAA earlier on various occasions. However in practical cases the application of TVaR in high probability levels often relates to lacking data and therefore does not lead to improvements. VaR has a reduced complexity compared to the TVaR and would be still applicable in such cases. Furthermore the

					usage of VaR would enable consistency with Solvency II. For the same reason we recommend using a one-year time horizon.
Munich Re	Germany	Other	No	Yes	1. We feel that the current calibration of ICS 1.0 should be refined as it seems to be rather conservative. 2. All types of reinsurance should be treated appropriately (in contrast to the admittedly very rough approach of the BCR). 3. It has been clearly communicated that the possible use of Internal Models is not within the scope of ICS 1.0. We would therefore like to reiterate our conviction that Internal Models should be considered as from the beginning in the development of ICS 2.0. In our view there are manifold benefits for the (re-)insurance companies that develop, undergo the supervisory approval process and use Internal Models (better understanding of own risks, incentivizing good risk management). They better capture the risks emanating from complex, non-standardized reinsurance solutions and better reflect diversification effects between risks and geographies. Elements of Internal Models could even be considered in a Standard approach contributing to an enhanced comparability of outcomes across all insurance groups.
Global Federation of Insurance Associations	Global	Other	No	Yes	GFIA appreciates the opportunity to comment on the IAIS version of ICS 1.0. The development of the ICS is the single most important development in international insurance prudential regulation and, as such, requires a thoroughly considered approach. We appreciate that given the size of the ICS project it would be unrealistic to expect for all issues to be addressed in one iteration. In fact, GFIA has been a strong and long standing proponent of a measured approach to ICS development, working with the grain of local regulatory environments – which implies a number of iterations and a longer gestation period than currently envisaged. We therefore appreciate that the IAIS consultation document recognises that the ICS will be an iterative process. Nevertheless, we are disappointed by the removal of a number of crucial issues from the scope of the comments. Many of these are central to the discussion of the technical issues, which limits the ability of stakeholders to provide responses that are as full as they could otherwise be. While we appreciate the difficultly of addressing questions about comparability and the interaction between legal entities and group, these are at the core of how the ICS should look and what it would mean in

					practice. We urge the IAIS to consult on these fully, and allow sufficient time for dialogue with stakeholders, and to consider the implications of the choices made. For similar reasons, while we are very appreciative of the ICS stakeholder sessions and find these very valuable, these would be even more useful if, alongside the technical detail, the IAIS could provide greater insight into the drafters' philosophy that was guiding the decision to adopt a particular approach in the first place. This would allow stakeholders to more deeply engage with the IAIS process, and provide more tailored input. GFIA's view on is that, as expressed on previous occasions, local regimes which are consistent with the ICS framework should be recognised as a suitable implementation of the ICS framework, to avoid unnecessary costs and having potentially conflicting requirements. We understand the IAIS view is that the ICS is a group-wide capital regime with no impact on the regulation of legal entities. However, in practice, unless further thought it given to the relationship between global and local regimes, there is a risk of inadvertent overlap in purpose and coverage. In this light, and consistent with IAIS' statement that the ICS is a minimum standard that jurisdictions can build on or adjust, ICS Principle 10 should be amended to reflect that the levels of capital should be set at jurisdictional level, rather than by the ICS. While not covered in this consultation, GFIA proposes that internal models (partial and full) should be allowed to determine solvency, where permitted by local regulatory regimes. The option to use internal models is very important to ensure the ICS avoids becoming hugely complex while still ensuring that solvency requirements will be aligned to the real risks across all the companies applying the ICS. Internal models provide insurance companies and supervisors with better insights into the firm's idiosyncratic risks and therefore promote sound risk management, in line with ICS Principle 6. The valuation of liabilities is of key importance to GFIA members. GFIA recognises that the right balance needs to be struck between, on one side, the ability of the valuation approach to capture the link between assets and liabilities in a way that avoids artificial balance sheet volatility and, on the other side, the complexity of calculations. While some GFIA members believe that it's key for the valuation to reflect the actual holdings of assets on the liabilities side, other GFIA members believe that a reference portfolio approach should be used to favour simplicity over complexity. GFIA therefore believes that a valuation based on actual assets and liabilities should be proposed by the IAIS, but companies should be allowed, for simplicity reasons, to use a valuation based on a reference portfolio. Another central feature of the insurance business model that needs to be explicitly and

					appropriately recognised in any capital framework is the use of diversification and risk-mitigation techniques, including re-insurance, profit sharing and hedging. These elements are key to achieving the envisaged risk-sensitivity feature of the ICS framework. Diversification and risk mitigation are fundamental aspects of the insurance business and are also closely linked to ICS Principle 6 on promoting sound risk management by IAIGs. GFIA also recommends that grandfathering transitional measures, particularly in respect of capital resources, should be considered as soon as possible. ICS proposals on capital instruments differ from arrangements currently in place, and assurance in this area is needed. In addition, GFIA members felt that some risks are calibrated at an unnecessarily high level for some jurisdictions. This includes currency, equity, interest, mortality, longevity, premium and claims risk, operational and lapse risks. Given this, we would like the IAIS to set an appropriate stress level through referring to input from stakeholders including the collection of historical data of Volunteer IAIGs during Phase 2+ of Field Testing. Finally, GFIA notes that when the IAIS has included the ICS confidence level in its previous consultation, it was explicit its request for comments only referred to the confidence level to be used during field testing, and not to the ultimate confidence level to be used in the ICS. Paragraph 31 of the CD states, however, that the ICS confidence level will be 99.5% VaR, without asking for comment or making any reference to field testing. GFIA asks that, if the IAIS proposes to decide now on the ultimate confidence level for the ICS, that it asks for stakeholder comment on the issue before making any decision. We would like to thank the IAIS for considering GFIA comments, and we look forward to ongoing engagement with the IAIS.
AIA Group	Hong Kong	Other	No	Yes	AIA believes that the IAIS should focus on developing a single valuation approach that incorporates the best elements of the MAV and GAAP Plus approaches. Such an approach would (I) be based on the IAIG´s assets hypothecated to its liabilities (I) make deductions specified by the IAIS for credit risk (iii) limit spreads to those on BBB bonds, (iv) use an long term rate assumption for durations beyond the point at which there is an active market.

International Actuarial Association	International	Other	No	Yes	The IAA is pleased to respond to the IAIS ICS Consultation Document (CD) issued July 2016. This CD represents an important milestone for the IAIS in the design and implementation of a global capital framework for insurers. Through the experience of its member associations and of individual actuaries globally the actuarial profession has long played an important role in insurer solvency assessment (e.g., "Global Framework for Insurer Solvency Assessment", IAA 2004) and welcomes this opportunity to be of assistance to the IAIS. The IAA is very supportive of the importance and usefulness of a standard approach for determining insurer capital requirements. Further, the IAA is supportive of many aspects of the design of the ICS standard approach as detailed in the CD. The IAA believes, however, the design requires improvement or correction in many areas. Accordingly, the IAA has submitted its responses to the questions raised in the CD via the IAIS provided on-line tool. Given the number of questions posed, the IAA believes it beneficial to identify the key themes or messages that are of overall importance to the IAA. Accordingly, the following are the IAA's key themes/messages for the IAIS at this stage in the development of the ICS for IAIG's. Overall 1. The ICS standard approach is only one tool in insurer solvency assessment and should be used by supervisors in conjunction with other useful tools that provide additional perspectives on the risks of an insurer or insurance group. These tools include, for example, ORSA and stress and scenario testing (beyond the stresses included in the ICS). Over-reliance on the results of one tool designed based on industry average data may fail to reveal insurer specific risk sensitivities or exaggerate the actual risk(s) involved. Some of the IAA responses address this issue. 2. The IAA supports the IAIS goal of developing a standard approach which achieves comparable outcomes across jurisdictions. Some of our responses note specific weaknesses or bias in the current ICS with respect to the risks undertaken by insurers in a particular jurisdiction. 3. The IAA supports continued exploration of both GAAP+ and MAV valuation approaches as part of the ICS framework for their potential to achieve comparable outcomes. Several of the IAA responses highlight areas in which comparability of each method can be improved. The IAA believes that it remains to be demonstrated whether either approach produces comparable outcomes by itself, or when both methods are in mixed use by different IAIG's or even within an IAIG. The IAA believes that mixed usage of GAAP+ and MAV requires further study.

					4. The IAA notes that the challenge in assessing whether the entire ICS package fits together for long duration contracts is due significantly to the need for consistent treatment of investment risks s (i.e., market risks, credit risks, reinvestment, matching, risk mitigation and risk management etc.) in both the assets and liabilities. 5. The CD is not clear on how group risks will be addressed in the standard approach. For example, ICS Version 1.0 as described in this CD does not recognize that fungibility of capital considerations within a group can either hinder or enhance the solvency position of the group depending on the positioning of capital within the group and its source of financial distress. Further, the CD should clarify the expected difference in loss absorbency of group capital expected from an IAIG versus a GSII. 6. The IAA believes there is considerable lack of clarity surrounding the intended valuation and capital treatment of life and health insurance adjustable products (i.e., both participating (with dividends/ bonuses) and non-participating adjustable (i.e. adjustable premiums or other charges)) in comparison with fully guaranteed life and health insurance products. While we support the focus of the ICS to use consistent approaches on valuation matters across all product types, the ICS framework will need additional clarity and discussion on the positioning and amount of credit to be taken for product adjustability. For example, for a par life insurance contract with annual dividends/bonuses, is the valuation to be (1) implicit and assume all experience gains are passed along to the policyholder (in which case substantial adjustability is implicitly assumed in the valuation and little further capital credit is needed for adjustability) or (2) based on current estimate projections of experience and dividends consistent with that experience (i.e., in which case a substantial capital credit – where the dividends are non-trivial in size – versus a similar non-par product – will be required for adjustability)? The latter approach is more consistent with the current estimate foundation of the valuation of insurance liabilities and enables a verifiable actual to expected monitoring of the actual adjustability potential of the dividends. In contrast, the former is more consistent with a valuation framework based on a “bottom up” approach to the discount rates. 7. The IAA understands that practical limits and tradeoffs exist for obtaining comparable outcomes and pledges its continuing support on related design issues. The need to achieve comparable outcomes (design principle 5) while, at the same time, using measures that are reflective of the actual risk exposures (design principle 6), will require compromises. These compromises need to be done in a transparent manner so that the design tradeoffs between comparability and actual risk exposures are clear. The IAA expects that this issue will be an important continuing challenge.

					Scope of Group (Section 3; Q 1-4) 1. The IAA believes that a single clear definition of the head of an insurance group (HoIG) which serves the ICP's, Comframe and ICS together is very important to enable effective assessment of group-wide risk, capital management and supervision. In our response to Q 1-4 the IAA provides a constructive alternative for the definition of an HoIG. 2. The ICS CD appears to focus only on insurance-led financial conglomerates and does not appear to deal with IAIG structures that have non-insurance entities as the HoIG. 3. The ICS is only one aspect of the supervisory tools used in group-wide supervision. Lack of a common approach across the integrated IAIS standards will result in ambiguity, varying practices among groups and supervisors and hence lead to supervisory inefficiency, regulatory arbitrage and an undermining of the ICS goals. 4. The IAA recommends that the HoIG satisfy itself that it has sufficient access to actuarial function advice. Valuation (Section 4; para 65-70) 1. The IAA supports the IAIS/ICS goal of comparability of outcomes. While GAAP+ and MAV may eventually be designed to provide reasonably comparable surplus outcomes, that does not necessarily mean that they will provide comparable ICS required capital outcomes given the stress-based approach to assets and liabilities that underpins the ICS. 2. The IAA believes that the following conditions foster greater comparability: a. Assets and liabilities are valued consistently thereby leading to surplus which is not distorted by inconsistent valuation methods b. Valuation of liabilities is based on a combination of current estimate assumptions along with a consistently applied and comparable MOCE c. Across methods - The quantum of surplus from each method should be comparable (similar) - A range of stresses applied to either method should not produce materially different results - The level of conservatism in the MOCE is roughly the same in both methods 3. The IAA believes that the following conditions interfere with comparability: a. Unbalanced options in assets/liabilities (i.e. greater value or different behavior on one side versus

					the other) since their valuation differs greatly under GAAP+ vs MAV thus causing a loss in surplus comparability over time b. Unbalanced valuation (both current estimate and MOCE) reactions to changing assumptions (i.e. due to different approaches to reflect changes in experience both within each method and across methods), cause a loss in surplus comparability over time. MAV Approach (Section 4.1; Q 5-32) (Open questions 5, 15 & 25) 1. The IAA recommends that the MAV use an economic approach to the valuation of insurance risks to the greatest extent possible and rely on the MOCE and capital requirements of the ICS to provide the desired level of prudence. 2. The IAA recommends that the IAIS not re-open several technical design matters which have been extensively debated in the development of IFRS 17, unless the change is materially necessary to improve the correspondence of the balance sheet to the economic position in a reliable fashion. The IAA believes that the decisions already reached for building blocks 1 and 2 for IFRS provide a suitably economic baseline, meeting the needs of the IAIS for an audited MAV approach. The IAA recognizes that while the margins in the proposed IFRS 17 are not fully economic, using IFRS 17 as a baseline would greatly simplify the workload for IAIG's and for regulators as well as being an audited reporting basis. The IAA recognizes and understands the complex interplay of the various design matters involved in the MAV approach. All elements of the design need to fit together. As such, shopping for design elements from various sources may not result in a MAV that works as intended. In contrast, the IAA believes that reference to some of the decisions already made in preparation for IFRS 17, which also are in keeping with the objectives for MAV, makes sense. See the detailed response to Q 32 for specifics. 3. The IAA recommends that the next version of the ICS include a comprehensive description of the treatment of participating (with profits) and similar business, including its valuation, provision for future bonuses/dividends and their impact on capital requirements in contrast to similar non-participating policies. Many IAIG's have substantial blocks of par business for which the present value of future dividends (a useful yardstick in discussing adjustability) is such a large amount that using even a portion of it (say 50%) as a credit in the ICS can significantly affect an IAIG's ICS solvency position. GAAP+ Approach (Section 4.2; Q 33-47) Outstanding items: Review of Questions 39, 40, 42-3

					1. If GAAP+ includes a reasonable MOCE, the IAA believes the resulting measurement of company net worth or surplus should be about the same magnitude as the measurement under the MAV approach subject to duration matching. However, the numbers may differ to the extent one is on a current market value basis while the other is not fully on an economic basis. Within each approach the assets and liabilities are valued consistently if the following caveats are addressed outside of the ICS valuation basis. They include: a. The assumption that the assets and liabilities are duration matched. The degree of duration (and/or convexity) mismatch should be able to be found/addressed in the ORSA documents to determine whether this is a material issue b. Duration matching may have three competing objectives. The ORSA or some other reporting mechanism should be able to identify and document the relative priority given to weighting statutory vs. economic vs. GAAP reported earnings and surplus. c. The ability to assess volatility of the risk/exposure to options and guarantees embedded in the insurance contracts is more limited in the GAAP+ approach and should be able to be addressed via an ORSA review. MOCE (Section 4.3; Q 48-66) 1. The IAA has long supported the concept that an insurer should maintain sufficient capital in addition to its current estimate obligations to provide for a one-year shock at a high confidence level as well as additional funds post shock to allow the business of a failing insurer to be passed along to a succeeding insurer (i.e., see "Global Framework for Insurer Solvency Assessment", IAA 2004, paragraphs 2.16-2.18). Translating that concept into a workable valuation framework, however, has to be done in a manner consistent with the underlying assumptions and purpose of the valuation framework. The CD has been very helpful in identifying and working through these issues. 2. The IAA understands the need for the valuation of insurance obligations for supervisory reporting purposes to include a MOCE in addition to the current estimate. The focus of IAA comments on the CD primarily relates to the soundness of the combined total of the ICS MOCE and capital requirements, taken together (i.e., total balance sheet focus), rather than on the "correctness" of the MOCE by itself. 3. The CoC MOCE makes the (perhaps) optimistic, assumption that market and credit risks are largely hedgeable and therefore there is no need for a CoC MOCE for these risks, especially if risk

					free rates are used for discounting the insurance liabilities. If this approach to MOCE is maintained the capital requirement for market and credit risks must be carefully designed and calibrated to capture the ALM risks arising from mismatched portfolios, the risks (and margins) arising from participating (with profits) business and the non-diversifiable market risks associated with variable annuities with guarantees. (See IAA response to Q 56) 4. Feedback from our members familiar with CoC assumptions used in the sale of blocks of life/annuity business in Canada, Australia and Hong Kong indicates that the CoC assumption used in recent transactions is consistent with the ICS suggested use of 5%. The IAA notes that different CoC assumptions are also being used in various areas. Examples include (1) the valuation of P&C claim liabilities for purchase accounting, (2) goodwill impairment testing required under some versions of GAAP, (3) some sale/purchase evaluations performed in the U.S. While some of our members support the proposed 5%, indicative of the approximative aspect of this concept, the choice of a different cost of capital rate is certainly justifiable and reflected in actual practice. Once the rate is chosen, while there is not a need to mirror/track market risks through a cycle (i.e. pegged to economic indices) it would be appropriate to reflect regime changes (such as post 2008) in resetting the CoC rate as the cost for insurance risk is more stable over time than is the cost of market risk. 5. IFRS allows the company to determine the spread between the discount rate and the total expected return on assets based on the characteristics of its insurance contracts. ICS specifies the same rate for everyone. We recognize that for fixed payment streams using the same set of discount rates for all cash flows is a universally accepted principle; however, there are several issues with this when applied to insurance: a) The same spread is not appropriate for everyone because the risk-sharing or participating provisions in contracts differ between insurers. b) We understand the IFRS determined spread to be a long term assumption that will not fluctuate based on current market spreads if those spreads are expected to be mean-reverting over time and experience is managed through participation over time. c) As a minor issue, even for non-participating contracts, the appropriate size of the spread is debatable and will thus have some inherent bias. d) The market consistent discount rates are most appropriate for valuing “today’s” desired transactions. In the event of a mandated insurance transfer of business, the regulator has a longer time horizon and the buyer recognizes that it is not buying a liquid investment, but one that will be managed over a long time horizon. Also, the assets currently being used to manage the business will be transferred along with the liabilities. Lastly, whether the policyholder should expect only a guarantee or a reasonable continuation of dividends/bonuses after the transfer is key to

					setting the desired ultimate regulatory calibration here. 6. In insurance the solvency supervisory target has historically often been to successfully run-off a failing, legal entity insurer. Solvency II's philosophy is instead that of a going concern group basis which includes a capacity to refinance with an implicit need/expectation to continue writing new business. Each framework (and their underlying valuation basis) will need to be tailored with other important elements. While the G-SII's have been defined to be capitalized on a going concern basis and many non-IAIG firms are defined to be capitalized on a run off basis, what are the IAIG's meant to be calibrated to? The G-SII level, the legal entity level or somewhere in between? One conceptual challenge for IAIG's to meet a going concern objective will be the existing legal issues associated with transferring an entire book of IAIG business existing in many jurisdictions, whether that be to another IAIG or to an internationally active buyer, seeking to trade in multiple regulatory jurisdictions. Reinsurance (Section 4.4; Q 67-69) 1. Reinsurance that provides effective risk mitigation in times of crisis should be allowed for by the ICS framework even if it does not meet the strict rules for insurance accounting. Target Criteria (Section 6.2) 1. The IAA is generally supportive of several key design aspects of the ICS Version 1.0 (e.g. total balance sheet approach, use of one-year shock horizon, and VaR at a high confidence level such as 99.5%) as these are common features of modern capital requirements on a run-off basis for single entities. As communicated by the IAA to the IAIS on several occasions (as early as 2004), the IAA accepts VaR as a practical compromise needed for a simple standardized approach but remains of the belief that TVaR is a better risk measure. The IAA also reminds though that the use of confidence levels as a benchmark is not a precise number in a real sense. The results for insurance risk can have much less precision in them than is implied by the use of a confidence level such as 99.5%. Risk Mitigation (Section 6.3; Q 91-98) 1. The use/recognition of hedges beyond those currently held is needed for a framework not based

					on market values. Management Actions (Section 6.5; Q 100-103) 1. The IAA notes that the credit to be given to participating contracts with dividends (bonuses) appears (in the CD) to equal 100% of the present value of currently projected dividends, For many life insurers with such products, this present value can be a large amount and provide a very significant capital credit in comparison with a comparable non-participating contract. Given reasonable policyholder expectations for bonuses/dividends as well as competitive pressures, some regulatory jurisdictions favour a run off of guarantees as an acceptable resolution and others would like to target a going concern of continuing “reasonable “ dividends/bonuses after a resolution. Thus the jurisdiction’s regulatory “risk appetite” preference and its legal requirements will indicate whether 100% of dividends is too large a credit under a shock scenario. Mortality Risk (Section 6.6; Q 104-109) 1. The IAA recommends that the longevity risk component include a trend factor of .75% per annum. 2. Both the life and morbidity risk components are almost exclusively driven by calamity (pandemic) risk. The IAA recommends that this be reflected in the aggregation method. Morbidity/Disability (Section 6.7; Q 111-122) 1. The IAA believes that the stress levels are too high for health insurance and the associated geographical variation is not supported by any evidence and thus seems somewhat arbitrary. Lapse (Section 6.8; Q 123-131) 1. As long as actuaries update mortality and morbidity assumptions after the occurrence of mass lapse rates, the procedures for determining lapse shock capital requirements are reasonable. 2. Given that life insurance contracts may vary directionally in their sensitivity to lapses, a simple one direction lapse shock may increase insurance liabilities for some contracts and decrease it for others. Canada, for example, already requires insurers to apply the lapse shock in the direction that

					increases the insurance liability at the contract level for every duration. It is also true that actual lapse behavior that may appear sub-optimal to the policyholder from the company's perspective is optimal based on information known only to the policyholder (e. g. taxes, other assets) Expense Risk (Section 6.9; Q 132-139) 1. Different types of expenses are subject to alternative risks. For example, a great deal of expense, being of a strictly variable nature (such as agent commissions), will not vary in the future other than directly with its corresponding metric - there is no need to further stress those expenses. Fixed and semi-fixed expenses should be stressed in scenarios in which insurance units, such as volume of new business, will be affected. Premiums and Claims (Section 6.10; Q 140-151) 1. The IAA recommends the use of actual rather than projected premiums for premium risk assessment 2. Calibration of risk factors and their dependency relationships should continue to be reviewed. Indeed, the IAA recommends that ICS should ensure that, ultimately, all risk factors are calibrated based on data, to the extent credible. 3. There is a detailed combined discussion of risk charge calibration and dependency in our answer to Q151, with the recommendation that IAIS should test the HHI approach (explained therein) as an alternative to the correlation matrix approach. Catastrophe Risk (Section 6.11; Q 152-164) 1. Several catastrophe risk charges appear overstated (e.g., treatment of General Liability and Products Liability risk, as well as that for Health Insurance) and it is argued in this response that the latent liability risk charge for Workers Compensation coverage in the United States should be 0. 2. The IAA strongly supports allowing the use of catastrophe models but recommend some additional safeguards, set forth in the response document, regarding validation and monitoring of results. Market & Credit Risk (Section 6.12; Q 165-197 & Section 6.13; Q 198-204)

					1. It is not clear to the IAA that the GAAP+ and MAV versions of market risk provisioning are similar. For cases where liabilities are carried at fair (market consistent) value and an AOCI is appropriately applied to translate the assets to fair value they should be aligned. This assumes, however, that the AOCI is appropriately calculated and the IAA review suggests that this will not necessarily be trivial to arrange. Further, for cases where liabilities are at non-market consistent value and an AOCI adjustment is applied to align assets and liabilities better, it is less clear whether the two will be similar, as the IAA struggled to understand how the AOCI adjustment would in practice be identified and applied. 2. It is not clear to the IAA that the GAAP+ and MAV versions of market risk usefully capture ALM risk resulting from different cash flow patterns in the assets and liabilities. Given just the material in the ICS CD, it is not clear that the market and credit risk sections capture all aspects of own credit risk (see detailed response). Further, they may also not handle credit spread risk in as comprehensive a manner as might be desirable (again see detailed response for specifics). 3. The IAA finds the explanation of the AOCI adjustment given in the ICS CD confusing. We are unsure whether GAAP+ versions that include an AOCI adjustment will treat interest rate ALM risks effectively. In particular, we suggest exploring whether it works in situations where insurers have leeway to select how assets and/or liabilities are to be treated under the relevant GAAP. Recent related BCBS material suggests that in a Pillar 1 context, robust handling of ALM risks if assets and liabilities are not in effect fair valued may be challenging. Operational Risk (Section 6.14; Q 205-208) 1. The IAA agrees that the exposure measure for operational risk needs to reflect the business of the undertaking. 2. An emerging best practice is to assess operational risk charges after a qualitative ranking of a variety of operational risk exposures into high, medium and low buckets. Aggregation/Diversification (Section 6.15; Q 209-216) 1. Regardless of the significant complexities involved with aggregation/diversification, the IAA believes there is little doubt that some level of diversification credit is appropriate in the ICS. It would also seem prudent to leverage off an existing diversification structure for which there has

					been extensive calibration and industry input. The SII structure on which the ICS diversification structure appears to be built is one possible starting point, although further work is needed (Version X.0?) to appropriately implement this in the context of a global ICS. 2. A key IAA issue is whether the proposed aggregation structure is suitable for all major insurance markets including North America, growing markets in Asia and the EU. If the proposed ICS structure fails to recognize (even to a limited degree) key risk dependencies in a major market, then the ICS risks producing inappropriate (perhaps low; perhaps high) capital requirements for these markets. See the IAA responses on the need to correct the dependencies with respect to lapse risk and calamity risk. 3. The IAA believes it is very important that insurers model and stress test their risk dependencies on a routine basis. Such modelling and testing should be important elements of insurer and insurance group (including at the head of the group) ERM and capital management. ORSA is a useful tool for reporting the results of such testing. The actuarial function is a vital source of advice on these matters to both insurers and insurance groups. Tax (Section 7; Q 217-235) 1. Due to the complexities of income taxes across a variety of jurisdictions, the relationships between consolidations, tax loss carrybacks, tax loss carryforwards, ownership structure (current and future) and variations of interpretations, it is difficult to derive reliable tax projections for an IAIG. Consequently, the IAA recommends that the ICS standard approach be conducted on a pre-tax basis. IAIG tax specificities would be addressed as part of group supervision reviews using IAIG data and filings such as the ORSA.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	With regard to the ICS development, we would like to express the following general comment. ・Consideration for the impact of implementing the ICS is essential We appreciate that the IAIS will give full consideration not to interrupt sound development of insurance business in each jurisdiction by implementing the ICS. We deeply understand the importance of securing financial stability. We, however, have a concern that the development of our insurance business would not be achieved and we could not fulfill our social responsibility to our

					stakeholders in case severe capital regulations were implemented to secure financial stability. Especially, if the tough capital regulation be implemented under the circumstance in which extremely low interest rate situation is continuing for a long time such as Japan, life insurers will be compelled to rapidly change their investment strategy and product portfolio to survive. As a consequence, base of long-term revenue will collapse. Japanese life insurers including the Dai-ichi have roles to complement social security system of Japan and to provide long-term-capital to financial market. We have a serious concern that we could not meet the need of our customers who prefer long-term-protection and we could not play the role of long-term-investor. Furthermore, if the whole insurance company takes the same action,　i.e. rapid risk-off action, negative impact to financial market will occur and the stability of financial market will weaken against the goal of implementing the ICS. The role of insurance business is highly connected with social security system and characteristics of each nation. Therefore, insurance business is more diversified in the world than banking or securities business. We appreciate that the IAIS will take all actions to minimize negative impact of implementing the ICS considering diversity of insurance business and specific situations of jurisdictions. ・Ability to earn revenue is essential part to judge soundness of an insurer In order to enhance the soundness of an insurer, risk-sensitive and economic valuation may be useful because it shows future risk at early stage and help us respond to the risk promptly. However, the management of life insurance business requires planning and decision making based on long-term-prospect. When insures make their decision only depending on single volatile measure which is highly affected by short-term fluctuation of financial market, they will repeatedly change their strategy in short term and they will not be able to determine long-term strategy. From the view point of customer protection we have a concern that customers' benefits and rights may be infringed, if the insurer be forced to go bankrupt by the single volatile measure. For example, technical provision for customer would decrease by 10 % at maximum in Japan, when

					insurers are identified as bankrupted. In addition, economic valuation usually aggregates future cash flows by discounting to present value and it cannot show the shape of long-term cash flows. It ignores the actual point when net cash flow of an insurer goes negative and the insurer is forced to make fire sale or some difficulty occurs in terms of payment of customer claim. Therefore, economic valuation has the drawback that the possibility of a life insurer's recoverability by utilizing glace period until actual crisis occur is not properly represented. Considering long term nature of insurance business, it is important to assess the mid- and long-term ability of earning revenue and accumulating retained earnings when judging capital adequacy of life insurers. That is to say, comprehensive judgment of the balance between capital, risk-taking, and profitability is essential to assess the soundness of an insurer. Therefore, we believe the IAIS should include the actual condition of IAIG's ERM when assessing it. ・Given the above, we would appreciate it if IAIS could consider the below points. Risk factors should be adjusted properly with data from the volunteers: We understand the IAIS believes that the ICS, which is for group level, would not affect existing local regulations. However, the interaction between local regulations and the ICS should be examined since life insurance groups consist of legal entities in each jurisdiction. To avoid the confusion from the relation of local regulation, the ICS should not be excessively prudent. The adequacy of level of confidence should be reconsidered: Even though we make the level of confidence of the ICS lower, it would be possible or rather workable to keep the quality of supervision by monitoring and assessing each insurer's ERM, reflecting each jurisdiction's characteristics and each insurer's method of risk management adequately. Comprehensive supervising is required: The soundness of life insures should be examined with the companies'ERM and governance, not only the ICS rate. Level of ICS rate should not be only trigger of interruption by regulators. It would be appreciated if regulators take into consideration the balance of capital, profitability and risk-taking.

					Transition measures should be introduced: Transition measures have to be introduced due to the specific issues in each jurisdiction when the ICS comes to be effective. How much existing regulation differs from the ICS in each jurisdiction varies among them, and the impact of implementing potential regulation varies too. Pursuing the quality of the ICS and re-consideration of schedule is required: It would be appreciated if the IAIS would consider the issues pointed out in public comments and field testing and pursue the quality of ICS ver. 1.0., and the schedule for developing the ICS should be rearranged in case that it is necessary to improve the quality of the ICS.
General Insurance Association of Japan	Japan	Other	No	Yes	- GIAJ wishes to express thanks for the opportunity to comment on this consultation document. - While the current consultation advances the discussion of technical aspects such as the valuation and measurement of liabilities and risks, we think that these issues should essentially be addressed in conjunction with how the ICS will be utilized (i.e. how it will be positioned within the supervisory framework and its relation with corrective measures by the regulators etc.) to enable a more beneficial and efficient discussion. Please note that the comments which the GIAJ submit on this occasion may be revisited at a later date when issues such as how the ICS will be utilized are discussed. - Under the IAIS's currently proposed schedule, it is assumed that multiple views will co-exist such as MAV and GAAP plus approaches even for ICS Version 2.0 which is the jurisdictional implementation stage. Regulatory implementation by each country while two views co-exist is not desirable. It should be implemented by each country only after achieving convergence toward a single economic value-based approach and ensuring true comparability and fairness. -Although not an issue in the current consultation, in developing regulatory standards, it is important to consider a balance between the burden of calculation and its benefits in addition to the issues mentioned above. Specifically, we think that the contents described in Paragraphs 16 and 17 of 4.2 Proportionality / Best effort in the 2016 Field Testing Technical Specifications should be added to the ICS Principles as a "Proportionality Principle". Meanwhile, on a separate note, the confidential reporting based on ICS Version 1.0 should be conducted on a best effort basis in a similar way to the field testing exercises as it may not be possible for IAIGs to make preparations on time. - We hope that our comments will be of help to the IAIS´s work towards the development of the ICS.

The Life Insurance Association of Japan	Japan	Other	No	Yes	While the IAIS plans to launch confidential reporting after the completion of ICS Version 1.0 in the first half of 2017, it is important that calibrations of parameters continue to be analysed to verify their appropriateness and are modified, if necessary. We would like to sincerely ask the IAIS to develop the ICS toward the Version 2.0, giving due consideration to the feedback from the Volunteers participating in Field Testing from many countries including Japan as well as the feedback received on this CD. Additionally, we are highly interested in: 1) the way in which the ICS will be used in the supervisory process, 2) the relationship between the ICS and the local requirements, 3) transitional arrangements in implementing the ICS in each jurisdiction, 4) the availability of internal models, and 5) the disclosure issues, although these issues are not covered in this CD. In particular, we believe that how the supervisors would actually use the ICS is an essential part in developing the ICS itself and should be clarified at an early stage. While we would like to express our opinions on these matters again in a future public consultation, we will describe our opinions of the key issues as below: 1. Toward the completion of ICS Version 1.0 1.1. Consideration should be given to the various potential impacts of the introduction of new capital standards ☐The IAIS should be careful to prevent unintended repercussion from the requirements. We believe the IAIS need to analyse the impacts of the requirements not only from a narrow perspective (e.g. similar to requirements for the insurance industry), but also from a broader perspective (e.g. the interaction with markets and real economies, and the overall impacts on economic activities). As for Question 179 in relation to the abovementioned issue, we support the idea of including a counter-cyclical measure for Equity risk charge to reduce pro-cyclical behaviour. ☐Insurers play the role of providers of long-term funds in the financial market. The excessively strict application of requirements could impair this role and could potentially have an adverse impact on the overall economy. In this context, for example, the IAIS should consider the appropriate introduction of measures to lower the risk charges applicable to, equities held on a long-term basis and infrastructure investments, in order not to excessively discourage long-term investments, as per our response to Question 177. 1.2. The ICS should appropriately reflect risk characteristics of each jurisdiction and insurer ☐We recognise the IAIS has focused on the achievement of comparability during the past

					discussions on the development of the ICS. However, we believe the IAIS should also focus on whether or not the ICS appropriately reflects risk characteristics of each jurisdiction and insurer. In the banking sector, comparability between banks would be more strongly emphasised because banks are highly interconnected due to their clearing function. On the other hand, the insurance business has relatively low interconnectedness, and insurance business models and products are greatly diverse among different jurisdictions or different insurers. Therefore, capital standards need to reflect the diversity in risk characteristics. From this viewpoint, it is possible to base the ICS as a minimum standard whereby the ICS is not developed as an excessively conservative capital requirement and it allows for the diversity among different jurisdictions to some extent. There are many questions on risk factors in the CD. We consistently responded that the ICS should reflect characteristics of each jurisdiction. 1.3. The IAIS needs to give due consideration to the approach for setting discount rates for the valuation of insurance liabilities □Assuming the ICS intends to be an indicator on an economic-value basis, we believe the valuation approach of insurance liabilities (to which many pages of this CD are devoted) is the most important issue in order to restrain excessive volatility due to fluctuations of market rates. Considering the long-term nature of insurance businesses, the approaches for setting discount rates for the valuation of insurance liabilities are important, particularly discount rates for long-term liabilities. In this context, we support the adoption of LTFR as mentioned in our response to Question 13. However, we believe the adoption of LTFR would not be sufficient. The IAIS should continue to analyse and consider several issues such as how the adjustments to credit spread should be appropriately made, and whether or not the adjustment cause advantages or disadvantages for particular markets depending on the depth of the corporate bond market, in order that the approach is consistent with the actual asset portfolios , as per our response to Question 20. 2. Moving to the development of ICS version 2.0 2.1. The use of internal models and transitional arrangements should be flexibly considered □In developing ICS version 2.0, we believe the IAIS should consider the availability of internal models, the definition in using the models, as well as the scope to apply the models depending on the insurers´ internal control practices, and then develop standards accordingly. Additionally, we expect the IAIS to give due regard for and address specific circumstance in each jurisdiction such as the transition period and the concept of grandfathering clause considering transitional

					arrangements are critical for implementing ICS where there are significant difference in the supervisory/regulatory framework and the existing framework. In implementing a new regulatory framework, we believe an appropriate transitional arrangement that takes into account the differences between the existing and incoming regulations are needed considering the entirely different level of practical burdens imposed, and the height of the bar set on IAIGs in each jurisdiction. In another words, there should be a proper transitional arrangement that takes into account the gap between the current starting point at present and the future ending point. 2.2 Usage of ICS While the economic value-based measures have the advantage of allowing for market-consistent valuation of both assets and liabilities, it needs to be noted that such measures may lead to high volatility in the level of capital depending on the fluctuation of market interest rates. In order to restrain excessive volatility, we believe the IAIS needs to be careful in using the ICS in supervisory practice, as it relates the technical perspective regarding the model (e.g. determination of discount rate for the standardised model). (1) The IAIS needs to be careful in using economic value-based quantitative indicators as a trigger for interventions ☐We do not think it is appropriate to consider the ICS as the only trigger for supervisory actions. The ICS is merely one of a number of supervisory tools, and the supervisors should make decisions on supervisory actions comprehensively taking into account other inputs including the IAIG´s ERM, ORSA and governance. The economic value-based quantitative indicators do not reflect long-term projections of the macro economy or governmental policies as it provides a snapshot under the assumption that economic environment remains unchanged from the valuation date. Therefore, undertaking supervisory actions based solely on this indicator might pose a risk of resulting in unintended consequences, such as forcing the insurers to change their products or investment behaviour, thereby interfering the social role of the insurance ☐It is already demonstrated through the application of the EU Solvency II that the economic value-based indicators are highly sensitive and volatile to interest rates. Given the world-wide low-interest rate environment including negative interest rate, the IAIS should assume the use of ICS as a soft rule such as monitoring indicators, rather than a hard rule such as a trigger for interventions. We believe it is worth considering an option to take a gradual supervisory approach in the application of a volatile capital standard. In other words, it is possible to start the application of the standard as a soft rule such as monitoring indicators and then to refine the standard through communication

					between the supervisory authorities and insurers, as they become more experienced. (2) The IAIS should be careful in disclosing results calculated under the ICS ☐We expect the IAIS to carefully consider the disclosure of the calculation under the ICS, although its relevance depends on the usage of the ICS and transitional arrangements in practice. As we have mentioned earlier, we have a concern the parameters of the ICS could be excessively volatile. Although the results both based on GAAP with adjustments approach and based on market-adjusted valuation approach could possibly exist in parallel for the time being, we are concerned the uniform disclosure may cause misunderstanding that the results are comparable leading to an improper assessment by the market, which does not reflect the reality. Given this, we believe there are still many remaining obstacles for disclosure and as such, the ICS should initially be introduced as a soft rule and then gradually refined. Additionally, the comparability between jurisdictions and insurers cannot be assured during the transitional period where a certain transitional period is set,. This requires the even more careful consideration of the proper treatment and timing of disclosure. 3. Comments on the overall process for ICS development ☐We believe further discussions are needed toward the completion of ICS Version 1.0 in the first half of 2017 to ensure it would not discourage life insurers´ long-term management (such as the provision of long-term coverage and long-term stable provision of funds). There are some measures under ICS discussion and have not been incorporated in the ICS standard model. In particular, measures to restrain volatility, measures to reduce pro-cyclicality, and measures to encourage long-term investment. In this regard, the LIAJ has made concrete recommendations through the series of comments on the CD. We would expect the IAIS to consider further enhancement to develop ICS Version 1.0 as a base for a high quality standard model, giving due consideration to comments from stakeholders. ☐As the IAIS is developing ICS specifications before determining how to use the ICS, stakeholders are split over the ICS specifications. Additionally, we have a concern that communications between the IAIS and the stakeholders may be insufficient as discussions on the development of the ICS are progressing too fast. We would like the IAIS to consult the stakeholders and reconsider future timelines for discussion.
Great Eastern Holdings Ltd	Singapore	Other	No	No	

Swiss Association of Actuaries	Switzerland	Other	No	Yes	The Swiss Association of Actuaries (SAA) has not answered questions regarding the so-called "standard approach". We are deeply convinced that it is highly unlikely that an appropriate refection of the risk profile of all, or even a majority of IAIGs ifs possible following a standard approach. As an empirical evidence one observes that the implementation of a risk-based, market adjusted solvency regimes in Switzerland and the European Economic Area (EEA) allow for internal model and that the Swiss and European authorities have assessed, that the standard approaches (Standard Model and Standards Formula, respectively) are not suitable for almost all the IAIGs domiciled in Switzerland or the EEA. The SAA supports the inclusion of internal models to determine the capital requirement and the CoC-MOCE in the ICS V2.0. We strongly belief the allowing for an internal model approach is a prerequisite for an appropriate prudential capital standard. All of the specific questions in the Chapters 6 and 7 can be reasonably answered only in a setting with an internal model. The questions to Chapter 5 need to be regarded and answered in light of a fixed valuation approach.
Swiss Re	Switzerland	Other	No	No	
Aegon NV	The Netherlands	Other	No	Yes	Aegon NV welcomes the opportunity to respond to the IAIS Public Consultation Document, Risk-based Global Insurance Capital Standard Version 1.0. Aegon's purpose is to help people achieve a lifetime of financial security. We fulfil this purpose by providing insurance protection, lifetime income, and other financial services products to customers across the globe. Based in the Netherlands, Aegon's largest operations are in the United States, where we operate under the Transamerica brand. We also have significant operations in Europe and Asia. We appreciate the opportunities that the IAIS offers stakeholders to provide input into the ICS development process, not only during formal public consultations but also during the field testing process and at public stakeholder meetings. We also commend the IAIS for its initiatives to foster further global regulatory convergence. While we recognize the IAIS's efforts at increased transparency and outreach, we remain

					concerned with both the development process and the philosophy underlying the ICS. We have long shared the IAIS vision of a true global standard, but we have advocated that the standard be created via a step-by-step process involving convergence of various regimes around the globe. The IAIS appears, however, to still be pursuing an accelerated approach, adopting a variation of the new European Solvency II framework that would starkly contrast and conflict with the existing regimes in many jurisdictions. Meanwhile, Solvency II is already scheduled for review in the European Union at the end of next year and there will likely be significant modifications to the regime. Additionally, the U.S. Federal Reserve announced earlier this year its own approach to group capital methodologies that included a specific rejection of the Solvency II framework. Consequently, the accelerated approach being used to develop the ICS is unlikely to produce a true global standard and convergence of regimes. The IAIS has attempted to accommodate various concerns with a Solvency II-like, market-adjusted valuation approach by allowing for an alternative valuation approach, GAAP with adjustments. We broadly support consideration of GAAP-based valuation alternatives due to the fact that GAAP accounting tends to reflect a blend of short-term and long-term estimates, unlike market-based approaches which tend to overemphasize short-term effects. Should the IAIS adopt an ICS that includes multiple alternatives, we believe that it is imperative that insurers be permitted to choose the alternative that best suits their business model in order to promote a level playing field. Meanwhile, while we appreciate the stated intent of the IAIS not to replace existing regimes, we have concerns about the positioning of the ICS as a ‘supplemental’ regulatory capital measure, applying only to IAIGs and G-SIIs. For impacted insurers, the ICS would create significant management complications due to differences with other regulatory regimes to which they would remain subject. Moreover, this application of the ICS would lead to material playing field imbalances in local markets, harming the very consumers the standard is intended to protect and undermining the goals of the IAIS. From a philosophical standpoint, we observe that the ICS continues to attempt to create a very precise standard that is aligned with a theoretical view of risk and target capital levels, similar to the market-consistent philosophy underlying Solvency II. We agree that such an approach may have merit in a context of internal risk management, where a diversity of tools, frameworks, assumptions, and practices can avoid dangerous “herding” behavior. However, such a standard will likely prove

					challenging to develop for regulatory purposes, due to its complexity, need for precise parameterization, and high risk of pro-cyclical reflection of market changes. We believe that a weakness of the ICS, as currently developed, is the attempt to address every supervisory concern through the headline "Pillar I" solvency ratio, while not giving due recognition to the fact that supervisors already have a range of tools at their disposal to assess the financial health of an insurer. Instead of attempting to build a "perfect" valuation approach and "perfect" capital calibrations, we believe that the IAIS should aim for a simpler, more modestly calibrated, and most importantly, less volatile standard. The emphasis on theory has led to an ICS whose suitability for life insurers is questionable. Because the ICS is intended to be a key element in the supervision of G-SIIs, and because the G-SII designation process is skewed towards life insurers, it would seem essential to tailor the ICS for the unique life insurance business model. Yet the 1-year-VaR, exit-value philosophy underlying the ICS contrasts with the long-term, going concern mind-set used to manage life insurance business. The volatile, market-adjusted valuation approach conflicts with the expectations of stakeholders and erodes trust in the stability of the industry. The approach to contract boundaries is problematic, as it is based on a non-life paradigm that ignores discretionary funding that is common in many life products. In short, elements of the current ICS do not align with how life insurance businesses operate, overlook the long term nature of the business, and therefore may compromise the IAIS aim of promoting financial stability. While some aspects of the ICS are designed to create a precise and highly calibrated standard, other elements of the ICS create biased outcomes. For example, credit for dynamic hedging programs is absent even though such programs are common risk management tools. As mentioned above, the approach to contract boundaries, perceived to be a simplification, distorts the economics of certain life insurance products. The approach for liquidity bucketing does not adequately or appropriately reflect the degree of stability of many liability portfolios. If the ICS were to become a binding standard, management behavior would be impacted, leading to herding behavior and risk concentrations. The ICS can be useful only if it avoids severe distortions and cliff effects. In light of the above observations we have seen increasing statements from key policymakers in various jurisdictions expressing concerns about the direction of the ICS. This activity suggests that, without significant revisions, the ICS faces long odds of becoming an actual, legally binding

					standard. We believe that the viability of the ICS would benefit greatly from a standard that stresses simplicity, modest calibration, and valuation stability. Any ICS also needs to avoid severe distortions and cliff effects. We would urge IAIS to consider whether a different path is needed.
American International Group (AIG)	U.S.	Other	No	Yes	October 18, 2016 Yoshihiro Kawai, Ph.D. International Association of Insurance Supervisors Bank for International Settlements CH-4002 Basel Switzerland Re: Public Consultation on the 2016 Risk-based Global Insurance Capital Standard Dear Dr. Kawai, American International Group, Inc. (AIG) appreciates the opportunity to offer comments on the Risk-based Global Insurance Capital Standard (ICS) Public Consultation Document dated July 19, 2016, and, more broadly, on the work of the International Association of Insurance Supervisors (IAIS) in its effort to develop risk-sensitive, group-wide global capital standards for the insurance industry. AIG believes that the development of an internationally-harmonized and globally-accepted group capital standard is an important, deeply worthwhile policy objective. A well-designed global standard would enable cross-jurisdictional comity and market access, an evolution that is of vital interest to (i) global consumers who would benefit from the competitive provision of socially-valuable insurance products underwritten by well-supervised carriers with demonstrable (and comparable) financial strength; and (ii) responsible carriers whose business models and product towers place them on a world stage. The deepened and extended risk diversification fostered by this global evolution towards prudent, convergent standards will be of global social and economic benefit. It should be an important goal for supervisors and companies alike. We also want to emphasize the important opportunities for future global convergence in light of the

					Federal Reserve's advanced notice of proposal rulemaking (ANPR). In particular, we note the beneficial comparability in architecture between the ICS and the "consolidated approach" proposed in the ANPR. The Federal Reserve's work on developing a consolidated capital construct, which will be tailored to the risk profile and inherent diversification of insurance companies, promises to produce valuable insights and research that we believe can inform the future direction of the ICS as it evolves. Similarly, as the ICS proposals have been shaped by the collective expertise of insurance supervisors and companies, detailed and iterative quantitative testing, and existing modalities for identifying and assessing enterprise-wide insurance risks, AIG views the ICS, as it continues to mature, as an important influence on the substantive evolution of Federal Reserve insurance group capital requirements. Each of the ICS and Federal Reserve group-wide capital initiatives should inform the progress and evolution of the other, in an integrated and evidence-based process. We therefore see valuable potential in the ICS process as the proposals continue to mature, and we view the current consultation as an important milestone in a thoughtful and deliberate pathway to a well-designed, appropriately tailored, and reasonably calibrated consolidated capital standard. In this letter, AIG provides both conceptual and technical feedback on several elements of the ICS proposal. Given the depth and scope of the consultation, we focus on select issues of significant priority, with the understanding that our engagement in this process, like that of other industry stakeholders, is ongoing and adaptive to the evolution of the ICS. As part of the IAIS's open and continuing engagement in developing the ICS, we expect to focus in the future on issues not thoroughly covered in this response, as well as on potential alternative methodologies not yet considered in this current iteration of the ICS. AIG's submission comprises: (i) An overview of our feedback on major issues within the ICS proposals (ii) Responses to select questions posed in the consultation

					We are also, in parallel, working on several in-depth policy and research papers addressing core issues within the ICS consultation, with a view to identifying and substantiating potential alternative methodologies in certain areas, including insurance liability discounting, valuation of non-insurance liabilities, and tax considerations. AIG looks forward to sharing the product of this analysis, once finalized, with the IAIS and other stakeholders in the ICS policy process. Overview of AIG feedback on major issues within the ICS proposals AIG believes the following issues are important to address in the further evolution of the ICS: Developing and testing an "own assets" approach to liability discounting, with appropriate "guard rails" around assumptions and practices The design of a valuation basis is, in many respects, the most important first order decision point in developing a risk-sensitive enterprise-wide capital standard that is comparable and implementable across regulatory jurisdictions globally. While significant effort has been dedicated to both the market adjusted valuation (MAV) and GAAP+ proposals, each of these constructs would require significant further modification to properly address liability valuations (and the related assessment of required capital for interest rate risk). Rather than seeking alignment of what, in the form of the current MAV and GAAP+ proposals, are two flawed approaches, the IAIS should more effectively focus its efforts on the development of a single discounting methodology – one that is tailored to insurer business and risk management practices and is instrumental to the desirable regulatory objective of implementing a risk-sensitive framework that both incentivizes prudent asset-liability management while mitigating pro-cyclicality. A single methodology would also obviate the broader policy challenge of attempting to make two distinct valuation frameworks co-exist in a meaningful way, which is a pre-requisite for the ICS to serve as a truly global standard. The following objectives are critical to achieving a viable approach to liability discounting: • Incentivize and reinforce insurers' long-established discipline of matching liabilities with assets that have similar risk characteristics;

					• Support an ICS ratio that provides appropriate risk signaling across market cycles, while engendering neither "fire sales" during a crisis nor excessive risk taking during expansionary periods (and, in practice, supporting the potential market-stabilizing role of insurers to act as prudent buyers of creditworthy and fundamentally valuable assets facing episodic, liquidity-driven valuation pressures); • Align with prudent insurance industry valuation and risk management practices, which in turn provides useful ICS risk information in managerial decision-making; • Provide reasonable transparency and tractability, enabling both internal and external stakeholders to understand the drivers of, and changes in, an insurer's ICS ratio; • Support comparability in standards across internationally active insurance groups (IAIGs), ensuring that carriers apply broadly consistent methodologies that are governed by both quantitative and qualitative "guard rails" that safeguard against unhealthy arbitrage and gaming of results. To best achieve these objectives, we propose an alternative valuation approach that synthesizes key features and benefits from both the current MAV and GAAP+ proposals into a single integrated approach. We call this the "Own Assets with Guardrails" (or OAG) approach, in which the liability discount rate is derived from the firm's own assets, valued at market. Discount rates are determined in a manner that is consistent with observed market values, as reported by an agreed to internationally recognized data source. These market rates are then adjusted based on standardized conventions, which would provide quantitative "guard rails" to eliminate management discretion and potential inconsistencies in approach between companies. Insurance companies are able to hold assets to maturity, matching long-term fixed liability cash flows. Our proposed approach recognizes this fundamental attribute of insurance risk management and, in balancing risk-sensitivity with comparability, transparency and simplicity, provides a framework that: • Incentivizes prudent asset and liability matching

					• Promotes appropriate risk signaling across markets • Mitigates undue balance sheet volatility and pro-cyclicality (incentivizing neither “fire sales” during a stress event nor excess risk taking during expansionary periods) AIG, in dialogue with several IAIG peers, is actively working on further specification of a proposal that would provide an implementable basis for an own assets liability discounting approach. The development of comprehensive and credible “guard rails” will be essential in providing both regulators and industry peers with comfort in the rigor of the resulting liability valuations. Refining and testing the ICS approach to credit risk, to ensure that the methodologies and calibrations are tailored to insurer risk profiles and more stable liability structures AIG believes that one of the primary virtues of the ICS is that it is a group-wide capital framework that is expressly tailored to insurance company risk profiles and risk management practices. In its assessment of credit risk capital requirements, the IAIS directly leverages the Basel III banking standards by basing the ICS calibrations on the internal-ratings based (or “IRB”) approach. While a treatment of credit risk based on the Basel IRB calibrations might be reasonable for certain forms of credit exposure, we view this methodology as requiring modification and tailoring in order to serve as a viable basis for securitization exposures. Using rating agency credit ratings as the measure of a securitization exposure’s credit risk could significantly overstate the economic capital applicable to these positions, particularly if purchased at a significant price discount or if the recovery attributes are stronger than is indicated by the rating agency rating. More specifically, rating agency ratings are typically designed to capture default risk (or the probability of default), which, in the current ICS approach to credit risk, would not capture the potentially significant expected recovery on thicker tranches. Additionally, if an insurer were to purchase a distressed securitization position at a significant discount to its fundamental value, this discounted price represents a form of buffer or protection against future realized deterioration in the credit performance of the asset. This buffer is particularly valid for insurance companies, whose longer duration liabilities enable the holding of the exposure to maturity and the ultimate realization of cash flows, irrespective of intermediate changes in the market value of the position.

					We therefore strongly encourage the IAIS to recognize NAIC designations in determining the ICS credit risk charges on securitizations, which provide a more meaningful and insurance-appropriate treatment, particularly on positions purchased at a deep discount that have strong expected recoveries. Such treatment would also help to promote important financial stability policy objectives, by supporting the potential role of well-diversified insurance companies to act as prudent buyers of creditworthy and fundamentally valuable assets facing episodic, liquidity-driven valuation pressures. Holistic treatment of tax AIG agrees that it is important to develop a coherent approach to the consideration of tax impacts across the ICS framework. Notably, we believe that the IAIS should develop a risk-sensitive treatment of deferred tax assets (DTA), which reflects its loss absorption properties under stress based on: • A recognition that DTA are conceptually more appropriate as a form of “going concern” than as “gone concern” capital, given that a wind-down or resolution scenario would likely not generate sufficient long-term operating income to enable full realization of the tax benefits; • Analysis of the potential realization of DTA under conditions of economic stress, which could differ for an insurance group with diversified financial and non-financial risks, relative to a banking organization concentrated in financial risk whose earnings might, in turn, be more volatile under stress; and • A differentiated assessment of the loss absorption of the various forms of DTA, which can vary in quality and in the horizon over which the benefits are realizable. We are in process of developing further research and potential approaches to the capital treatment of DTA, and we look forward to further dialogue with the IAIS on economically appropriate approaches. Definition of available capital

					AIG believes that there are several issues with the current definition of available capital resources, which in their totality could meaningfully understate the true, demonstrable loss absorbing resources of an insurance group. Fortunately, these issues are readily solvable. • Inclusion of par value of equity. The par value of equity, which is demonstrably loss absorbing and is recognized as such by all credible constructs for group risk capital, must be includible in full as part of core capital. It is incontrovertible that all forms of pure equity capital, irrespective of the technicalities of the currently proposed ICS criteria, need to be treated as core capital, in order for the ICS to provide an economically risk-sensitive, credible, and rational measure of group capital adequacy. • Hybrid debt. AIG recommends further review of the classification of hybrids, based on the equity-like attributes of each type of instrument. Hybrids that are issued with stronger equity-like features (e.g. no fixed maturity, no ongoing payment obligations, and unequivocal loss absorption for creditors) should be included in Tier 1 capital, subject to reasonable thresholds that would deter an over-reliance on these instruments. • Valuation of financial instruments. AIG generally supports the ICS proposed valuation requirements for financial liabilities, as an increase in a company's own credit risk should not lead to a reduction in the value of its liabilities and a concomitant increase in available capital resources. Instead of using the prescribed yield curves calibrated for insurance liabilities, AIG recommends that (i) the valuation of financial liabilities should exclude changes in an IAIG's own credit standing and (ii) the credit spread adjustment component of the discount curve should be kept constant after its initial recognition. This treatment would be consistent with various established capital frameworks (e.g., Basel III, Solvency II) and leverages transparent and auditable information based on accounting standards (GAAP, IFRS). AIG is in the process of developing further analysis of this alternative treatment and plans to share this work with the IAIS to inform further dialogue. Unclear economic rationale for MOCE; if necessary, could be viewed as "gone concern" capital The provision of the margin over current estimates (MOCE) appears, at a high level, to be a solution in search of a problem. The prudence MOCE is a quantitative measure of unexpected losses and

					therefore is duplicative of required capital. Notably, within US statutory requirements, the conservatism embedded in liability estimates is counterbalanced by a commensurately less conservative calibration of required capital, reflecting the fundamental interplay between reserves and capital resources. The cost of capital MOCE represents a transfer concept, which could have some relevance in a "gone concern" or wind-down scenario, but does not have relevance as a deduction from "going concern" capital, particularly given a rigorous process underlying the determination of best estimate liabilities. We therefore do not believe that the ICS framework should include a MOCE requirement that is, effectively, a deduction from available capital. However, as an alternative to the current proposal of a full MOCE deduction, we see potential in the treatment of MOCE within "gone concern" capital, as a form of capital in resolution. Mechanically, this treatment could entail either inclusion in additional capital (Tier 2) or as a component of capital in determining Minimum Capital Requirements (MCR). As a practical matter, under the currently proposed ICS valuation basis, the MOCE could exacerbate capital volatility in unwarranted ways, especially under a low and/or negative interest rate environment. Until the potential impact of MOCE is more fully understood, we strongly encourage the IAIS to proceed with caution by not incorporating MOCE within ICS 1.0. Contract boundaries should reflect economic characteristics and experience AIG is supportive of an economic approach to contract boundaries, which is consistent with the economic basis of the ICS, grounded in realistic, best estimate assumptions and observable data. A more economic approach to contract boundaries would also enable stronger alignment with (i) the direction of IASB/IFRS; and (ii) companies' own internal pricing, reserving, ALM and risk management practices. Diversification AIG strongly supports the ICS approach of explicitly incorporating diversification effects within group regulatory capital charges. Incorporating differentiated and explicit estimates of cross-risk correlation, based on empirical study, sound analysis, and documented experience, is instrumental to aggregating an insurer's required capital. Such an approach promotes both the credibility of the

					resulting standard through closer alignment with underlying economic risk as well as the prudential and economic incentives to mitigate risk concentrations, deter regulatory arbitrage, and provide socially-useful products with low correlations to the rest of portfolio. We believe that the proposed ICS correlations are a useful starting point in the development of a group standard that appropriately recognizes and incentivizes diversification. As the ICS, and in particular the underlying required capital charges, evolve further, through both the consultation and field testing exercise, we think it is important that the IAIS continue to refine both the granularity and calibration of the underlying correlation parameters. In our view, the granularity and calibration of the correlation parameters should be based on a combination of empirical study, prudent expert judgment, overall calibration targets, and a consideration of the positive behavioral incentives for institutions to mitigate risk concentrations. AIG looks forward to continuing to engage constructively with the IAIS towards this end. Very truly yours, Daniel L. Rabinowitz Global Head of Regulatory Capital Policy
Institute and Faculty of Actuaries	UK	Other	No	Yes	Permitting the two different valuation bases, MAV and GAAP plus will make it difficult to make comparisons between groups with headquarters in different jurisdictions. The two different approaches to calculating the MOCE, i.e. Cost of Capital and Prudence will also make comparisons between different groups difficult.
Association of British Insurers	United Kingdom	Other	No	Yes	The ABI appreciates the opportunity to comment on the ICS proposals. While we acknowledge that extensive technical work has gone into progressing the proposals to

					this stage, we regret to say that the ICS as proposed will not work for UK business in general, and for annuities in particular. There are three main reasons for this. Firstly, the lack of internal models, necessary to reflect the diversity of business models globally and the complexity of IAIGs. Secondly, the absence of a discounting rate option under MAV that would reflect the nature of long-term insurance business. Finally, the purpose of the MOCE is not yet articulated and results in a calibration well in excess of 99.5% level, particularly given the long-term nature of UK insurance products. The ABI looks forward to continuing to work with the IAIS on addressing these issues. However, at this stage, it is doubtful these issues can be resolved within the IAIS' proposed timelines for the ICS development and implementation, and we urge the IAIS to consider a more pragmatic timeline. In this section, we set out the key concerns of our members in relation to the ICS proposals. Alongside the three central areas already mentioned, we would like to highlight the IAIS' approach to the recognition of diversification, and transitions. More detailed comments are provided in our responses to the specific questions. Internal models While excluded from the scope of the current consultation, given that the IAIS is already in ongoing discussions on ICS 2.0, we feel it prudent to already comment on why internal models should be included as an option. The standard method proposed highlights the inevitable limitations of a one-size-fits-all approach to determine capital adequacy, due to its limitations in capturing different risks and dependencies between risks appropriately. This is likely to create unintended consequences and encourage herding and procyclical behavior, increasing systemic risk, and inappropriate risk-taking. Sophisticated risk-based regimes recognise this and explicitly allow a range of different approaches depending on the nature, scale and complexity of an insurance group's operations, including the use of internal models subject to supervisory approval. The use of internal models has multiple benefits both for the insurers and supervisors, as they require insurers to have robust processes for identifying, measuring, managing, monitoring and reporting all the risk that they are, or could be, exposed to. This results in a much better

					understanding of the true sources of risks, which is a precondition for good risk management, improved risk decisions and enhanced policyholder protection. The benefits of using internal models include: • Internal models are risk-sensitive and tailored to the circumstances of each company. Risks will necessarily differ between one IAIG and another and, as firms have very different geographical footprints, offer a diverse range of products with differing terms and conditions and are operating in different legal and tax environments, the standard method will not be a true reflection of any one company; • From a supervisory perspective, because the internal model is naturally tailored to the circumstances of each company and is a genuinely risk-sensitive approach, it is more likely to deliver the comparability of outcomes that the IAIS is looking for in comparison to the standard method, which can only produce an approximation of the risks on an insurer's balance sheet; • Internal models can thus deliver both better supervisory insight for supervisors and protection for policyholders; • This approach could be supplemented with a standard method for those firms (or jurisdictions) that do not have internal models. Adjustment to yield curves The currently proposed approach to the discounting of liabilities do not adequately reflect the long-term nature of insurance. If implemented as is, the ICS risks seriously damaging the provision of essential long-term products that individuals rely on to plan for their retirement. We strongly urge the IAIS to consider a MAV discounting approach based on spreads calculated by firms based on actual asset returns, as is allowed under GAAP Plus. From the options included within the field testing, the only appropriate approach would be Reference Method 3, combined with an allowance for hypothecation of assets by buckets as well as a 100% application ratio for illiquid assets such as annuities. MOCE While the IAIS has articulated its theoretical rationale for a cost of capital MOCE and prudence

					MOCE, it has not articulated how this links to the objectives of the ICS as a group consolidated capital measure or the ICS principles. It appears to result in the double counting of risk and is consequently equivalent to calibrating the ICS well in excess of a 99.5% level. Given the introduction of MOCE is not a pre-condition for the attainment of ICS objectives, we propose that it is not introduced. Recognition of diversification and risk mitigation Diversification and risk mitigation lies at the heart of the insurance models. It is therefore essential that these are adequately reflected in any capital regime. Currently, the proposed diversification benefits are quite limited. For example, there is no allowance for geographical diversification within the EU. Similarly on lines of business, these are grouped at quite a high level, and a more granular approach would more appropriately reflect the economic reality of a diversified portfolio. Transitions Notwithstanding, the intention is not to discuss transitions as part of this consultation, it is not possible to set this discussion aside when considering the impact of currently proposed restrictions on financial instruments as compared to the current stock of assets in place in industry. A clear statement on grandfathering would be an essential improvement to aid engagement in this process. We believe that inclusion of transitional measures from existing regimes and grandfathering should already be included for this version of the ICS, and the period over which transitional measures would apply should extend substantially beyond the planned introduction of the ICS. Ongoing uncertainty in this area would impede management and investment decision-making. The ABI would like to thank the IAIS for the opportunity to comment. We hope the IAIS finds these suggestions helpful as it considers the way forward. We remain at your disposal if any aspect of our response requires future elaboration or clarification.
Institute of International Finance	United States	Other	No	Yes	The Institute of International Finance (IIF) and the Geneva Association (GA) welcome the opportunity to provide comments on the Consultation Document dated 19 July 2016 on the Risk-based Global Insurance Capital Standard (ICS) - Version 1.0. The combined membership of the IIF

					and GA represent the vast majority of Internationally Active Insurance Groups (IAIGs), which will potentially be affected by the ICS. We have followed the development of the ICS with interest, responded jointly to the first ICS consultation in December 2014, and will continue to work constructively with the IAIS. Our submission focuses on delivering important high-level messages regarding the ICS. At the same time, a number of our members, many of whom participate in the IAIS' field testing exercise, will independently respond to the many questions, which must be answered at a more granular, technical level. I. First address the fundamentals of the ICS, then sequence further development We acknowledge that progress has been made on a range of technical issues related to the ICS. However, a number of fundamental and technical issues remain. On the fundamental side, further work is needed to explain the ICS' relation to existing capital regimes, the interplay of the ICS and the other modules and elements of ComFrame and the ability of the measure to reflect local circumstances. On the technical side, further work is needed to improve the valuation approaches. We believe that these questions should be addressed before ICS 1.0 is released. The industry and more generally all stakeholders in all jurisdictions involved in this project should be aware of the direction which will be followed by the IAIS and its members and not speculate on what the key features of the future framework may look like especially on these fundamental aspects. We would also like to insist that it is critical to its success that the ICS project get the necessary political buy-in at all levels along its development. To date the IAIS has not demonstrated that there is clear political commitment among domestic or regional regulators to the development and ultimate implementation of the ICS in particular to justify the extensive resources required of both supervisors and stakeholders. Furthermore, placing the ICS on top of existing local regimes as currently envisioned will result in conflicting solvency regimes and costly disruption to insurer's asset and liability management (ALM), the availability and affordability of insurance, and insurers' ability to continue their role as stable, long-term investors and contributors to global economic growth. We urge the IAIS to take a sequential approach in the development of the ICS. We suggest a step-

					by-step approach in which higher-level, principles-based measures are designed and then fully tested before work is advanced further. This would provide an opportunity to evaluate fully the impact of the capital standard against its agreed objectives and within the broader context of ComFrame, and to determine cost-benefit trade-offs associated with the level of prescriptiveness in the ICS necessary to meet appropriate regulatory objectives. This will help to ensure that the ICS fulfills its role within ComFrame as a supervisory tool that contributes to achieving comparable outcomes and respects the insurance business model, and provides a basis for sound risk management, resilient and stable provision of insurance protection and vigorous, fair competition in local and regional markets. We further note the following issues as essential to the ICS' development: 1. Promoting consistency with regional circumstances and capital regimes Insurance markets around the world are marked by a wide variety in demographics, legal requirements, insurance and other financial product offerings, consumer risk preferences, and potential government-provided social security, and corresponding differences in approach among jurisdictions' supervisory regimes reflecting these fundamentals. Members of the IIF/GA unanimously agree that the current ICS standard method including valuation, discount rate and calibration approach do not appropriately reflect these important differences and consequent assessments of exposure to risk. The standard method must be amended to capture these fundamental differences in version 1.0. This could be pursued in a number of ways including more appropriate calibrations and less prescription to reflect geographic diversity or the use of (full or partial) internal models in jurisdictions, where permitted. The IIF/GA have concerns that the ICS in its current form could be inconsistent with existing and developing insurance capital regimes. In fact, this past year has seen a renewed commitment by several IAIS member jurisdictions to the development or maintenance of their own insurance capital regimes. It is not yet clear how, in such circumstances, the ICS could increase convergence and comparability across regimes, and contribute to greater supervisory and compliance efficiency for supervisors and IAIGs respectively. We call on the IAIS to develop an ICS with appropriate flexibility

					to work within local, national, and regional regimes and circumstances, resulting in comparable outcomes across jurisdictions. 2. Interplay of the ICS and other modules and elements of ComFrame There is a fundamental question about the interplay of the ICS and other modules and elements of ComFrame which still needs to be addressed. While we understand that module 2 element 5 acts as a placeholder for the ICS, we note that (a) the developing ICS is not truly embedded in ComFrame and (b) the ICS' prescriptive nature goes beyond functioning as "a basis for comparability of IAIG regulation and supervisory processes." Indeed, several aspects of the ICS go beyond the aim of comparable capital adequacy measurement and cross into other prudential concerns, including liquidity risk. We emphasize the need for a more integrated approach in which capital is viewed in the context of the broader supervisory framework of ComFrame. Numerous quantitative and qualitative tools and requirements currently help guide both supervisors and companies, including corporate governance and ERM standards, ORSA and stress testing. As a result, the ICS capital standard should not be viewed as an all-inclusive solution to all supervisory matters; rather it should be a complement to the range of other available tools. In today's economic environment, we also consider it critical that the ICS be designed and calibrated in a manner that will allow the insurance sector to continue to provide certain products and services to customers. Excessive risk aversion may lead to a deterioration of the sustainability of the insurance business, thus dampening economic growth and the expansion of insurance in all global markets. Therefore, it is essential to strike a balance between capital, risk and the continued provision by insurers of certain products and services to customers, together with investments associated to support these products and services. 3. Valuation The ICS should be based on a valuation framework that, through a coherent treatment of assets and liabilities, is tailored to the insurance business model. This includes recognition of buy-and-hold investment strategies. The framework should lead to more stable and comparable - substantially the same - valuation outcomes across jurisdictions in accordance with ICS Principle 1. This would support key prudential objectives such as mitigating pro-cyclicality, incentivizing prudent ALM, and

					providing appropriate risk signaling. It also would increase the ICS' compatibility with local supervisory regimes and risk management practices. Below, we provide recommendations on how to improve the Market-Adjusted Valuation (MAV) and GAAP with Adjustments Valuation (GAAP+) approaches in more detail. We do note that building such a valuation standard is likely to take a long time to accomplish, notably beyond the current timeframe the IAIS has currently set for the ICS. II. The ICS must respect local and regional differences The ICS aims to provide a comparable capital regime for IAIGs against a background of existing solvency regimes that are primarily focused on solo entities. In order to support this convergence process, the IIF/GA stress the importance of ensuring sufficient flexibility to allow implementation that is tailored to the specific markets and address local and regional issues. The prescriptive one-size-fits-all approach to the ICS adopts a rather narrow perspective that may seem natural to achieve comparability, but in our view will not succeed. It is vital that local and regional differences in relation to, among others, available assets, products, strategies or legal environments are accounted for in the ICS framework to appropriately reflect the risks applicable to IAIGs and avoid conflicting with existing, legally binding jurisdictional capital requirements. As mentioned above, members of the IIF/GA unanimously agree that the current ICS standard method including valuation, discount rate and calibration approach do not appropriately reflect these important differences and consequent assessments of exposure to risk. The standard method must reflect appropriate improvements to capture these fundamental differences in version 1.0. Members suggest this could be pursued in a number of ways, including more appropriate calibrations and less prescription to reflect geographic diversity or the use of (full or partial) internal models in jurisdictions where permitted. Two examples illustrate the insensitivity of the standard model and the valuation methods to local differences. • In the standard model, the impact of various risks (i.e. morbidity, mortality, longevity) will differ by region and among insurers within regions (e.g. based on their products, size of portfolio, type of

					policyholders). Adding additional granularity could better reflect the diversity and yet create comparable results. • For MAV valuation discount rates, the appropriate approach should reflect the nature of liabilities and the ALM practices of insurers. We are keen to work with the IAIS to develop strategies for respecting local and regional differences while maintaining meaningful comparability between different regimes in the longer run. III. Building valuation approaches with comparable outcomes is a long-term endeavor A key feature of the proposed ICS version 1.0 is the inclusion of two valuation approaches, the MAV and GAAP+. This reflects existing differences in valuation standards in IAIS member jurisdictions. However, the IAIS' stated ultimate goal is to build a single ICS with a common valuation approach through which the ICS achieves comparable outcomes across jurisdictions. Reaching such an ambitious goal will require a significant amount of time and technical expertise, but could ultimately produce a more informative, globally-consistent, and meaningful ICS that both reflects and incentivizes the prudent asset-liability management that is at the heart of insurance risk management. There are also steps the IAIS can take as an expedient to improve the consistency between the different valuation approaches currently proposed in the ICS. In the interim, with more than one approach existing for the ICS, IAIGs should have a choice on which approach to apply. The ICS should be based on a valuation framework that, through a coherent treatment of assets and liabilities, is tailored to the insurance business model. The framework should lead to more stable and comparable - that is, substantially the same - valuation outcomes across jurisdictions in accordance with ICS Principle 1. This would support key prudential objectives such as mitigating pro-cyclicality, incentivizing prudent ALM, and providing appropriate risk signaling. It would also increase the ICS' compatibility with local supervisory regimes and risk management practices. 1. Countering excessive short term volatility and recognizing buy-and-hold strategies According to the overwhelming majority of member companies, including all of the G-SIIs, dealing with the problem of excessive short term volatility should be a key objective of the ICS' valuation approach. Under the MAV, volatility arises in particular when spreads increase compared to the reference interest rate, and valuations of assets and liabilities adjust differently if the appropriate

					liability discount rate is not adopted. This may give rise to movements in available capital in the short term even though the longer term outlook is more stable. Under the GAAP+ approach, the volatility arises because the valuation of liabilities is more or less locked (based on book/expected yield), while that of the assets fluctuates more with the market. The above mentioned overwhelming majority of IIF/GA members are of the opinion that, in dealing with non-economic short-term volatility, it is key for any valuation approach to recognize the ability of insurers to apply a buy-and-hold investment strategy as part of their ALM. Buy-and-hold strategies are a key feature of the insurance business model. Indeed, paragraph 162 of the consultation document states that “[t]o support long-term liabilities, IAIGs are able to hold long-term fixed income assets with little risk that they must be sold prior to maturity, in order to support a large amount of their long-term insurance liabilities. As long as those assets are held, their projected cash flows do not change (except through defaults), regardless of short-term changes in interest rates.” The same holds for other types of assets, including equities and real estate, which can be held for long periods in line with the duration of (long-term) liabilities and the level of free surplus capital. Where future cash flows are fairly matched and the default risk is properly accounted for, the need for capital is significantly reduced. We do recognize that mismatch in the duration of assets and liabilities must be accounted for and that it is also vital that the long term nature of the insurance business is recognized (i.e., that insurers should not be unduly penalized for insurance liabilities which extend beyond the investable horizon). Both should be reflected in the appropriately designed and calibrated capital requirements rather than in the discount rate. Most members agree that interest rate stresses are suited to reflect duration mismatches where they exist on an insurer’s balance sheet while some question this. At the same time, buy-and-hold strategies are not always the most effective tool to support asset-liability management, in particular in a context of low rates. Around the world, prudential regimes have considered as well alternative ALM strategies, and have put in place countercyclical measures. 2. On solutions to volatility in the consultation document

					Solutions to dampen volatility in the MAV as sought in the consultation document relate to a range of options for adjustments of the discount rate term structure for liabilities. However, the overwhelming majority of our members, including all of the G-SIIs, believe that these do not address the issue and think that significant further work is required. In particular, they stress that an option that should be seriously considered and explored further is an expected earned rate with proper guardrails in addition to other options being tested such as a reference portfolio. Such work should take into due consideration the necessity to avoid creating adverse investment incentives. Moreover, in the view of some members, a dampener to short-term equity movements should be examined as well. A few member companies remain committed to having the option to use unadjusted discount curves for liabilities. Whereas the overwhelming majority of member companies, including all of the G-SIIs, have a totally different view and believe the use of unadjusted rates is completely inappropriate and would be procyclical and lead to unintended consequences for the wider economy. Under the GAAP approach, the AOCI adjustment is introduced to deal with volatility. Both solutions – adjustments to the discount rate and the AOCI – are possible paths to address the problem of excessive short-term volatility. Hence, we strongly urge the IAIS, together with industry, to ensure that the valuation approaches pursued under the ICS result in comparable outcomes in normal and stressed conditions, based on consistent principles. 3. Key issues for further work Key issues for proposed joint further work are: • Both the MAV and GAAP+ valuation approaches may give rise to “noise” that might distort relevant signals about the capital position. Going forward, priority must be given to avoiding such noise in the approaches. • Buy-and-hold investment strategies should be reflected in the approaches. This implies that, as long as the default risk is properly considered, excessive short-term volatility should not affect solvency ratios. For example, when a bond is held to maturity by an insurer, a temporary increase in spreads would decrease the economic value of the bond on its balance sheet. However, this

					unrealized loss would recycle back as an unrealized profit up to the bond's surrender value at maturity. o It is important for many of our members that such differences are captured properly through adopting a flexible, broad approach to the liability discount rate and to avoid narrow, restrictive adjustments. Notwithstanding the reflection of buy-and-hold strategies, where cash flows of assets and liabilities are closely matched, the ICS must recognize that the underlying risk to solvency is significantly reduced and in case of partial matching that the risk is partially reduced. • The ICS must be able to reflect the valuation of insurance liabilities for a wide range of insurance products across jurisdictions. Many of our members argue that the optimal way forward is to develop an expected earned rate (based on a company's own assets) with proper guardrails. Such an approach is most readily reflective of insurer business and risk management practices and amenable to the desirable regulatory objective of implementing a risk-sensitive framework that both incentivizes prudent asset-liability management and mitigates procyclicality. An expected earned rate with guardrails could also serve as a single methodology across firms, obviating the broader policy challenge of attempting to make two distinct valuation frameworks co-exist in a meaningful way, which is a pre-requisite for the ICS to serve as a truly global standard. We would also be keen to work further with the IAIS on these issues, including how to define and calibrate the expected earned rate. • Adjustments to AOCI: o The current approach identifies the AOCI on the debt securities, but does not consider the AOCI on foreign currency swaps or interest rate swaps hedging the debt security. We believe the AOCI on qualifying hedges on debt securities should be included in the AOCI adjustment calculation. o AOCI on assets backing long-term liabilities should be identified, with appropriate reductions to this AOCI balance for instruments where the unrealized gains and losses are more likely than not to be realized. This would include instruments such as callable bonds and RMBS expected to be prepaid. In addition, an adjustment for the AOCI from qualifying hedges on the assets backing long-term liabilities would be necessary. o Currently, instructions on how to determine the amount of AOCI included in the AOCI adjustment require exclusion of assets backing non-life insurance liabilities. Members propose that a determination of AOCI based only on the "more likely than not" criterion would provide a more accurate view of what is expected to be realized, and that the determination should not be based on product type. Assets are purchased so that the overall entity's asset portfolio matches the overall entities cash flow needs. By introducing a generalization based on product type the IAIS is

					incorporating unrealized gains/losses which are not likely to be realized. • Moreover, in the view of some members, a dampener to short-term equity movements could be examined as well. • The need for an appropriate calibration level. The targeted level of calibration of the ICS is identical to the calibration of some other regimes, yet stresses and the approach to the discount rate term structure seem to differ on important points. The reasons for such deviations should be explored in the work going forward. We recognize and appreciate that the IAIS is seeking to address the issue of excessive short-term volatility in the consultation. However, the overwhelming majority of member companies, including all of the G-SIIs, think that more efforts need to be undertaken in order not only to address short-term volatility issues, but also to do it in a way that promotes comparability of valuation approaches and supports the insurance business model. Together, the IAIS and the industry should analyze how, under both approaches, the short-term volatility problems can best and consistently be resolved. IV. Capital resources should take into account local regimes Surplus notes should be included in Tier 1 capital resources for all insurance firms, not subject to limitation. This issue is particularly important for U.S. mutual companies where, unlike stock companies, mutuals cannot raise capital through stock issuance. In contrast to companies with a holding company parent (whether a mutual holding company or stock company), mutuals also cannot issue senior debt and downstream proceeds to add to capital at the insurance entity level. So, in order to attract capital, particularly in times of financial distress, mutual insurance companies and their regulators rely on surplus note issuances. Foundation funds (Kikin) in Japan have similar features as surplus notes, and Kikin should also be included in Tier 1 capital. Hence, the IIF/GA support paragraph 264 (including surplus notes and Kikin examples) in the consultation document. This would allow mutual IAIGs to issue Tier 1 capital, but suggest that the suitability criteria may refer to ICP 17.11.2 not to make capital resources for IAIGs too prescriptive. 1. Restrictions on financial instruments Based on the specifications of the field test, it is clear that the capital resource resulting from the

					current structure does not recognize the strength of balance sheets when compared to existing globally accepted regimes. In particular the restrictions on financial instruments are not in line with instruments currently in place and in particular the procedures for determining tiering, maturity and amortization are still too immature and onerous as they appear to collate the restrictions of all bases rather than selection of a suitable basis. A specific case in point is the approach on subordinated debt raised at the holding company level which is "structurally subordinated" to policyholders by means of being pushed down to subsidiaries which is currently not deemed eligible within the ICS framework. 2. Encumbrances The introduction and description of the charge for encumbrances does not allow for the underlying liquidity/transferability of funds at the balance sheet date and as such does not reflect the level of loss-absorbing capacity of such excess assets. The current ICS proposal requires capital resources to be absent of encumbrances to be deemed eligible (either Tier 1 or Tier 2). The IAIS could undertake improvement on this issue. Members agree that further work needs to be done on encumbrances. 3. Transitions and timetable The ICS proposes restrictions on financial instruments that differ from the current stock of assets in place in the industry in several cases. Existing capital resources should receive grandfathering treatment, and a clear statement on this would be an essential improvement to aid engagement in this process. We believe that inclusion of transitional measures from existing regimes and grandfathering should be included immediately and the duration for which transition measures apply should be sufficiently long beyond legal implementation of these measures to allow for an orderly run-off of such grandfathered instruments. V. Other elements of the ICS must be addressed 1. MOCE For the overwhelming majority of IIF/GA members, including all of the G-SIIs, the introduction of the

					MOCE is a key concern and they question its relevance in the context of the ICS. These members doubt there is an economic rationale for a MOCE to be applied if the current estimates and capital requirements are properly defined. Moreover, these members believe that the MOCE merely acts as another layer of capital in addition to the 99.5% VaR requirement. Not only does this result in significant over-calibration of the ultimate ICS outcome, it could undermine the intention to create comparability of outcomes. These members would recommend that no MOCE provision be developed for inclusion in the ICS. The above mentioned overwhelming majority consider that, in the ICS, balance sheet valuations should be based on best-estimate assumptions for future liability cash flows, with any potential unexpected losses covered by capital requirements. Consequently, many members believe it should not include a MOCE. However, a few member companies have a different view and see a rationale for the MOCE, to account for the production cost of the liabilities including the cost of capital. 2. Calibration The ICS is supposedly calibrated on a 99.5% 1-year VaR confidence level, or to target 1-in-200 year events – despite major differences to other regimes applying the same confidence level. The IIF/GA are of the opinion that there is a material risk that the actual calibration level of the standard will be higher than the targeted level. In jurisdictions applying an approach similar to the proposed ICS, a ladder of regulatory intervention will often be used, implying that a “hard regulatory target” would be set significantly below the 1-in-200-year event, leading to the triggering of supervisory intervention if a solvency control level in the ICS is reached. In other words, the 99.5% confidence level would only set a “soft target” for group capital levels. By way of example of an overly conservative calibration of the ICS, the longevity shocks are excessive since they do not take into account the 1-year horizon (e.g. the changes in the longevity trend are not observable over 1-year horizons and therefore not applicable in a 1-year calibration) and with the trend and level shocks simply added together ignoring diversification. Similarly, the Underwriting Risk modules for P&C businesses do not reflect the portfolio construction of large international companies. Related to this, use of a fully loaded premium basis such as exists under U.S. GAAP will lead to an overstatement of exposure within a common ICS framework.

					Also, the magnitude of the U.S. interest rate shock used in the ICS for 2016 Field Testing is calibrated well above a 99.5th percentile instantaneous move. Historical analysis shows this magnitude has never occurred in the U.S. on an instantaneous basis, even when interest rates were at historical highs. Having an interest rate shock applied on an instantaneous basis does not recognize prudent risk management, such as dynamic hedging of interest rates which rebalance positions as interest rates move. The IAIS should revise the interest rate stress approach to make the stress interest rate level dependent and either modify the application to be a stress over a year's time, allowing recognition of risk management practices, or re-calibrate the 99.5th percentile to more appropriately reflect an immediate shift in the yield curve. It is critical to recognize that, while the ICS is intended to be a minimum standard for group capital requirements, it can be topped up by local decisions. This also raises concerns about the level of calibration. 3. Risk mitigation • Due account must be taken of tools like rolling hedges. Stresses in the ICS should be applied over a period, as calibration is difficult based on instantaneous stresses. Stresses applied over a period better account for rolling hedges. • The ICS should take into account the economic benefits of reinsurance contracts. The definition of a reinsurance contract needs to facilitate this. • As a general principle, the benefit of management actions in section 6.5 should be allowed for where the IAIG has the ability to amend the premium where appropriate. In this context the definition of management actions should be extended to allow for the appropriate premium increases for business on (re)insurance contracts other than health where the features of those contracts allow for such premium increases. Where the premium increases are economically justified in line with the nature of the contract they should not be subject to a cap. • We support the diversification credit in the ICS proposal, because this would encourage the insurance companies diversifying their product mix and investment portfolios. 4. Contract boundaries

					• While the IIF/GA recognizes that conservatism in a prudential context is appropriate, the majority of our members have consistently argued against the application of a strict legal definition of contract boundaries to renewable life insurance products, including short-term products, for balance sheets that are designed to be economic in nature, like the ICS balance sheet. Even where contracts are short-term, insurance companies manage this business with an expectation of renewals and the data is deep and credible in considering the likelihood of renewal. The ICS MAV approach is an economic approach based on realistic, best estimate assumptions and observable data. The GAAP plus adjustments approach will similarly lead to a valuation of liabilities on a best estimates basis. Applying a strict legal/accounting definition of contract boundaries is inconsistent with this economic approach. • Most members believe strongly that the current contract boundaries definition should be amended and reflect economic reality based on a current estimate basis in line with all other elements of the current estimate. Such an amendment would avoid that cash flow projections are artificially cut short and more importantly, that the risk profile is properly reflected (e.g. risks are not hidden). It would also reduce complexity as it would require companies to run additional scenarios to account for the strict contract boundaries definition. • Other members would not advocate for increasing contracts boundaries as they are a necessity to impose some restrictions to complexity and limits as to what can be envisaged and modelled within reasonable plausible ground. A corollary to that is that the ICS shocks should have exposure remits consistent with those of the prudential balance sheet. 5. Operational considerations The current ICS calls for data mappings that are not established for most undertakings and groups. As such the mapping of exposures to what are granular factors leads to significant scope for measurement error. The alternatives for implementation would appear to be either a move to more simplified buckets and lower calibrations or to a more bespoke basis of exposure measurement as reflective of a company’s own mappings and rating factors. There are further operational considerations emerging as we go through each field test, for example the ability to measure encumbrance using an ICS basis of presentation, consideration of how DAC adjustments can flow down to reserves at the level of each capital segment. As these operational considerations mount up it becomes more important to consider the cost-benefit of the regime.

					VI. The ICS should avoid creating material unintended consequences In line with ICP 17.2.4, the ICS should be developed with full consideration of the consequences for the wider economy, society and financial markets. As currently envisioned, the ICS could have material unintended consequences at odds with its stated objectives of increasing comparability of insurance regulatory regimes, strengthening policyholder protection, and contributing to financial stability. In its current form, the ICS includes redundant layers of conservatism – valuation, MOCE, stress design and calibration – that likely would lead to increased costs for policyholders and/or reduced availability of insurance cover. This will be detailed by some insurance groups in their responses and field testing results. The current ICS framework also does not appropriately incentivize ALM and diversification. Insurance is often long-term in nature, while the ICS takes a short-term perspective in assessing a group's solvency situation. Many of our members believe that a valuation approach that does not pay due attention to insurer's business models, including by mitigating the impact of short-term volatility in financial markets, could lead to pro-cyclicality and impair the ability of the industry to provide long-term retirement products and stable, long-term investing. *** The Joint IIF/GA ICS Task Force is strongly committed to continuing the constructive dialogue and cooperation with the IAIS. Given the number of critical issues highlighted and given the wide range of views expressed reflecting jurisdictional specificities, the Task Force members believe that a direct dialogue between policymakers at the IAIS and stakeholders is essential and appreciate the IAIS' willingness to continue these interactions. The IIF and GA stand ready to provide additional views or clarifications. Should you have any questions on the issues raised in this letter, please contact the undersigned.

National Association of Mutual Insurance Companies	United States	Other	No	Yes	NAMIC General Comments NAMIC appreciates the opportunity to comment on the IAIS Insurance Capital Standard Consultation Draft. We appreciate the continued improvements in the draft including the consideration of mutual insurers concerns about capital resources and the acceptance of U.S. GAAP as well as statutory reporting. Several issues remain that affect U.S. insurers in general and property/casualty insurers in particular. In these general remarks NAMIC highlights the primary concerns. I. TIME TO CONSIDER AN AGGREGATED APPROACH AS AN OPTION Group capital for insurance SIFIs and other insurance groups has been the topic of recent activity at both the Federal Reserve (FRB) and the NAIC. In the U.S. significant efforts are already underway to assess the level of group capital for insurers on an aggregated basis and only suggesting a consolidated approach for systemically important financial institutions (SIFIs). NAMIC asserts that considering the focus in both fora on an aggregated approach to group capital, the time has come for the IAIS to recognize that an aggregated approach can provide meaningful information relevant to the solvency of insurance groups. The NAIC is working on a group capital calculation that is based on the aggregation of legal entity capital requirements. In this effort they have recognized that U.S. RBC has included a group capital requirement for some time, but it was only applied to groups with an insurance underwriting company as its top tier company. Interestingly this is the structure for most mutual insurers. The RBC for companies with an insurance underwriting company as the parent organization have been held responsible for group capital since RBC was designed in the early 1990s. The U.S. RBC for such companies includes a factor to assess the capital of all subsidiaries and affiliates, both insurance and non-insurance, both domestic and foreign and including banks and other financial institutions. The effort at this time is to determine the best way to apply the same concepts to other insurance groups with a non-insurance holding company at the head of the group. There are details to be addressed but the U.S. is close to having a calculation that would qualify as group capital. In addition, in June 2016, the FRB proposed a structure for insurance group capital that includes an aggregation approach similar to that of the NAIC. Their proposal includes different structures for SIFIs they supervise that would be based on a GAAP consolidated approach and an aggregated building block approach for the non-SIFI insurers they supervise. This dual approach is one that could work for the ICS as well. If GSIIs were required to comply with the consolidated approach but all other IAIGs were allowed to comply with ICS using a consolidated or an aggregated approach, the IAIS would have a base of information that would help identify

					trends, identify the level of safety among both groups of insurers and would be achievable by far more countries than a single consolidated group capital mandate. With the understanding of the differences between the approaches supervisors in supervisory colleges would be able to ask questions and understand the capital model other domiciliary jurisdictions were using. NAMIC asserts that understanding of different regulatory approaches is truly the key in any case. Any jurisdiction that thinks a consolidated international formula provides all of the information they need about the companies doing business in their countries will be disappointed at the least and may be the victim of much more significant impacts at worst. Finally, even the IAIS in this very consultation draft has reconciled with the idea of aggregation in one sense. In section 2.7 “Non-insurance aspects of the ICS” the proposal is “for matters of valuation and capital requirements, the IAIS is taking an aggregated approach in the ICS between insurance and non-insurance components.” If aggregation works for the non-insurance entities, then it can work for the insurance entities. There is no doubt that an aggregated approach will be taken in the U.S. and may be taken in other countries as well. While this may not achieve the ideal that some in the IAIS would like to achieve, it does result in an estimation of group capital that may not differ materially from the consolidated approach. For these reasons, principle 1 should be revised either to include a parenthetical reference to aggregation as an acceptable option for consolidation, or the description of what is required should eliminate the word “consolidated” as part of the requirement and a reference to jurisdictional flexibility should be added to this principle. NAMIC understands the IAIS’ desire to achieve a consistent, comparable group capital standard for internationally active insurance groups. Notwithstanding this desire, it is an unachievable goal with the differences between the jurisdictions that are involved in the IAIS. In the event that one or more large jurisdictions decides not to comply with the requirement or to drastically diverge from the ICS methodology the IAIS will fall very far short of the consistency goal. This lack of consistent agreement to the standard will undoubtedly have a chain reaction globally that will likely mean the loss altogether of any global capital standard. In the alternative, infusing more flexibility in the design of the standard could result in much more widespread adoption and a successful result for all. It seems that the time has come for flexibility and cooperation. II. MUST CLEARLY REMOVE DISCOUNTING FOR NON-LIFE RESERVES Second, the IAIS needs to clarify in the final version of ICS 1.0 that reserves set for claims filed under short duration contracts issued by property/casualty insurers will not include discounting if not included in GAAP/SAP financials. With this understanding about property/casualty reserve

					discounting, it follows that the MOCE should also be eliminated as it simply adds back the amount that was discounted. This issue is addressed in the response to the questions above, and we have been assured that such is the intention of the consultation draft, but a clarification of this issue is vitally important to property/casualty insurers and should be provided. III. 99.5% VAR TOO HIGH FOR GLOBAL GROUP CAPITAL STANDARD The calibration of the ICS noted in prior consultations indicated an open discussion about the appropriate calibration for the standard. This consultation reflects the first mention of a final decision to maintain the standard at the 99.5% VaR level. This requires all insurers to hold enough capital to address a 1 in 250 year event. Capital is not generally required at such a high level. For property/casualty insurers this is entirely out of proportion. Such a requirement approaching a 100% capital under the standard formula leaves little room for error and will tie up significant capital in non-productive assets that could result in hard markets and high prices for many years to come, until the error is recognized. At that point it may be too late as we may be in the midst of another crisis in which capital serves no real purpose. We strongly urge the working group to reconsider this decision. IV. CONCERNING CHANGES FROM PRIOR CONSULTATION In addition to general themes, several of the new ideas included in this draft are concerning: 1) the suggested re-examination of the scope of the group beyond what is currently provided in ICP 23 and ComFrame seems to be an unnecessary re-litigation of the issue; 2) the question of whether reinsurance should be considered a reduction of the risk seems obvious; 3) the consideration of applying MOCE when property/casualty reserves remain undiscounted; and 4) the confusion of catastrophe risk, latent risk and mass tort risk. These issues are all well addressed in NAMIC's responses to the questions in the draft, but the evolving ideas in arising from the working group seem to be lacking basic insurance information. V. SCOPED OUT ISSUES Finally, the consultation draft proposal to scope out issues "not related" to the technical provisions of ICS is nonsensical. The issues of jurisdictional flexibility, application to non-IAIGs in jurisdictions that do not subscribe to discriminatory treatment of subgroups of the industry, comparability, cost benefit analysis, and fungibility among other issues are paramount to the interpretation and understanding of the impact of the technical issues. For this reason, despite the suggestion that these issues are not in scope, we include relevant past remarks in this section to emphasize their importance in any discussion of the ICS proposal. You will note where appropriate italicized remarks at the beginning of each section identify any critical changes since the 2014 comments

					were originally issued. NAMIC COMMENTS ON SCOPED OUT ISSUES Notwithstanding the decision to scope out certain issues from this consultation draft of the ICS, we feel that reminders of the importance of the issues should be in the forefront of the discussion and so we have included herein comments NAMIC made to the prior consultation draft of importance to our members and to ultimate resolution of the issues around this ICS proposal. Most of our members do business exclusively in the United States, but all feel the impact of international standards for several reasons. The IAIS decisions influence regulation in the United States, influence the assessment of U.S. regulation, and impact the reinsurance market. While a small number of our members meet the definition of internationally active insurance groups, over 650 of our members are part of registered holding companies. The proposed global group insurance capital standard would have significant impacts on many of these holding companies if it were ever adopted under state insurance laws in the United States. While the likelihood of such adoption in the U.S. is not within the purview of this discussion, it should be the responsibility of the IAIS to design a capital standard that can work in all jurisdictions with varying governmental, legal and corporate structures or to turn to a more flexible approach. We have several foundational concerns about the approach the IAIS is pursuing to the international capital standards. Our concerns are organized as follows: 1. Clarification of the problem; 2. The challenges of comparability; 3. The strength of a legal entity system; 4. The question of implementation; 5. Cost-Benefit analysis. Clarification of the Problem to be Solved Throughout the development of the BCR and now the ICS, commenters from around the world have requested a better understanding of the problem the ICS is being created to solve. In the consultation the objective is defined as protection of policyholders and contribution to financial stability, but there is no evidence proposed that policyholders have not been protected under current regimes or that the insurance industry contributes to systemic risk in the global economy. In fact, just the opposite has been repeatedly reported. Consistently scholarly and government researchers investigating the topic, including the IAIS, have concluded that the insurance industry

					as a whole and the property-casualty in particular are not contributors to systemic risk [See U.S. GAO Study, “Insurance Markets: Impacts of and Regulatory Response to the 2007-2009 Financial Crisis” (June 2013); IAIS, “Insurance and Financial Stability” http://iaisweb.org/index.cfm?event=getPage&nodeId=25255 (Nov. 2011); International Actuarial Association, “Actuarial Viewpoints on the roles in Systemic Risk Regulation in Insurance Markets,” (May 2013); Insurance Europe, “Why Insurers Differ from Banks,” http://www.insuranceeurope.eu/uploads/Modules/Publications/why_insurers_differ_from_banks.pdf (October 2014); Special Report of the Geneva Association, “Systemic Risk in Insurance: An Analysis of Insurance and Financial Stability,” https://www.genevaassociation.org/media/99228/ga2010-systemic_risk_in_insurance.pdf, (March, 2010); Cummins, J. David and Weiss, Mary A., “Systemic Risk and the U.S. Insurance Sector,” Journal of Risk and Insurance, (December 2, 2013); Shapiro and Mathur, Unnecessary Injury: The Economic Costs of Imposing New Global Capital Requirements On Large U.S. Property and Casualty Insurers,” http://www.sonecon.com/docs/studies/Report_on_Capital_Standards_for_PC_Insurers-Shapiro-Mathur-Sonecon-Final-November-15-2014.pdf, (November 2014);]. In fact, in 2012 Peter Braumüller the chair of the IAIS Executive Committee citing the IAIS Study stated: “. . . the IAIS has found that neither long experience of insurance markets or information arising from the global financial crisis provides any evidence of traditional insurance either generating or amplifying systemic risk within the financial system or in the real economy. Rather, while traditional insurers can suffer episodes of distress and failure, their business model builds on stable financing and adequate loss provisioning. . .” While nine insurers have been designated as globally systemically important insurers, even in these circumstances it has been repeatedly confirmed that it is the non-traditional and non-insurance activities and the connectivity of their activities with other financial sectors that adds to the systemic risk [See IAIS, “Insurance and Financial Stability”]. Even if we reject all of the studies and reports about the lack of systemic risk posed by the industry, assume the goal is to address systemic risk, and accept that some action is needed to address

					systemic risk, there is no evidence that increased capital standards will diminish systemic risk. It is like putting a Band-Aid on a broken leg – it may provide an unsubstantiated sense that something has been done but will do nothing to address the real problem. We would assert that a complex global group capital standard that creates disruption and volatility in global insurance markets for several years may actually have the opposite effect. Instead of reducing risk of systemic impacts it could create such disruption that enterprise risks will increase for most of the industry impacted by the standard. In addition, the shrinking capacity of the insurance market created by increased capital requirements will have the effect of increasing prices for insurance and reducing product availability further resulting in negative economic impacts for consumers and the global economy. The attempt to expand the focus of the ICS, intended to be applicable to non-GSII companies, beyond policyholder protection, creates these significant issues. We strongly believe that the only goal of capital requirements for companies that are not deemed systemically risky should be on a “gone concern” basis focusing on policyholder protection. The protection of creditors and investors and a “going concern” model is not the province of insurance regulation and would result in unnecessarily high capital requirements. It is also important to note that “protection” of policyholders should incorporate both solvency to pay claims and other obligations to policyholders balanced with continued product availability and innovation. Increased capital requirements cannot be viewed in a vacuum that ignores the impact on overall insurance capacity and the chilling effect on innovation. Policyholders are not only served by solvency. They need companies that address their evolving needs and are willing to sell products at prices unencumbered by excessive regulatory costs. We further believe that articulation of the problem to be solved along with economic impact studies on the existence of the problem must be completed and analyzed before going further with the development of an ICS. The Challenges of Comparability A prescribed formulaic global approach to insurance capital will not produce “comparability” even if all countries could agree on a valuation model, qualifying capital, target level and specific capital formula. The application of the same capital standard to unique companies that come from very

					different regulatory environments with very different economic and political goals will not produce comparable conclusions about capital or solvency. Every country has a unique regulatory system with unique features that influence the solvency of the companies doing business in that regulatory environment. For instance, U.S. property casualty companies are subject to conservative regulatory accounting, rate regulation, legal entity risk-based capital requirements, financial statement filing requirements, regulatory financial analysis, periodic risk-focused financial examinations, market conduct examinations, guaranty fund assessments, Enterprise Risk Reports, ORSA filings, and a highly litigious environment. This system is based upon an economic and political philosophy that supports limited barriers to entry and exit, and a competitive insurance market with protection of policyholders the primary role of the regulator. Many of these features of the U.S. system result in higher levels of solvency, a stronger more competitive system, and earlier identification of hazardous conditions that are not provided in all regulatory systems. At a minimum the features of the U.S. system are different from those of other countries. Clearly the U.S. environment differs from that of other countries. For example, the proliferation of state-based insurance entities in China, monthly financial reporting requirements and the percentage of companies below 100% solvency reported in their 2011 FSAP, are features of the unique Chinese environment. In the EU the future implementation of Solvency II with its very high capital requirements and desired protection of creditors and investors poses another unique regulatory and political environment. None of these systems are right or wrong, they are just different. The level of supervision of insurers is sound and while the means are different, they have all found effective ways to supervise their insurance industry taking into account their unique political and rule-making environments. But it is important to recognize that these are not comparable systems – the companies from these countries do not have comparable regulatory oversight. Any effort to create one capital standard should be principle-based, outcomes-focused and fluid enough to recognize these very major differences in approach. In addition to regulatory environment and economic/political philosophy, unique characteristics from company to company will also affect any effort at comparability as all differing characteristics cannot be measured fully in a single capital formula. Companies could have the same level of “written premium” but very different levels of volatility due to differing concentrations of catastrophe risk or terrorism risk, for example. Companies could have the same amount invested in “derivatives” with one engaged only in simple interest rate swaps and the other invested in highly complex, multiple

					level derivatives similar to those that were related to the financial crisis. Companies could have the same ERM framework, but the incorporation of an ERM risk and capital analysis throughout the enterprise in all decision-making could be quite varied. Some hold high levels of capital at the holding company level, while others hold most capital in their legal entities. Some companies are organized under a mutual structure and others under a public stock structure. These are just a few of the examples of the very significant differences between different insurance groups that are not "comparable." These variations will result in very different solvency concerns and capital needs that the proposed prescribed ICS will address. A successful global effort would not create unnecessary competitive issues for companies domiciled in one well-supervised jurisdiction over companies from another. The IAIS should instead focus on enhancing understanding of different regulatory approaches and constantly striving for consistency. We propose a flexible and dynamic capital assessment that would recognize and improve understanding of diverse, successful approaches to solvency regulation and would create a principle-based, outcomes-focused approach for regulatory capital assessments. • To enhance understanding, the IAIS should work with supervisors to develop a comparison of each of the regulatory environments, which will facilitate understanding of each regulatory philosophy and how the checks and balances work in different jurisdictions. This tool should be enhanced by regulators from each jurisdiction periodically to reflect the changing regulatory framework and impacts on insurer solvency and financial stability. While this could start with the FSAPs for each jurisdiction, this is more than a comparison of FSAP findings as it would include features that are not part of the ICPs that jurisdictions have implemented to address solvency, market conduct and policyholder protection beyond the ICP requirements. • To enhance consistency, any capital proposal should provide the outcomes and principles desired; should consider local capital requirements and differences in regulatory environments; and should alert regulators to a wide variety of unique features they may find among the individual companies they assess. So instead of layering a formulaic approach on top of non-comparable regulatory environments, the IAIS would develop principles reflecting the parameters of a strong local jurisdictional capital requirement that do not dictate the actual formula and valuation approach. We believe that a system that builds on the local jurisdictional capital frameworks and considers a balance between comparability and disruption should be allowed under a flexible approach to the

					ICS. Flexibility -- Strength of the Legal Entity System We believe that a strong risk-based capital structure can include a focus on the capital held by the legal entities within a group instead of a consolidated group standard. In many jurisdictions experience has shown that a legal entity capital system is stronger and more protective of policyholders who rely on contractual commitments from the legal entity. Legal entity capital systems provide better assurances that a weakness in one entity will not infect other entities within the group. This may be true for the legal entity regulation for non-insurance entities as well. A banking regulator or securities regulator will have better tools to address capital needs in the specific legal entities engaged in their industries than would an insurance group-wide supervisor. In addition, a question will always arise about which industry should act as the group-wide supervisor. This is especially true in the United States. In property-casualty insurance in the U.S. the entire policyholder relationship is with a legal entity, not a group or holding company. The products offered often differ between legal entities within the same group. The underwriting standards and corresponding rates are specific to the legal entity and may vary for other entities within the group. The product pricing in most jurisdictions is regulated and required to be unique for each legal entity based only on the experience of that entity. When purchasing products, a critical factor policyholders consider is the financial strength of the legal entity. These legal entities are often separated by lines of business even within the property-casualty lines. This segmentation is due in large part to rate regulation and asset and surplus restrictions codified in most U.S. insurance statutes and regulations. To illustrate the separation of the relationship, in the U.S. auto insurance policyholders can rest assured that the premiums they pay for insurance and the capital held by their auto insurer must be used to pay only auto insurance claims incurred by policyholders with the same company. There is no risk that those premiums or the surplus of their auto insurer would be used to pay homeowners, or commercial liability claims. Given the regulatory framework in the U.S., this focused legal entity relationship must be the primary source of regulatory protection if the ultimate goal is to protect the policyholder. Similar concerns were included in a Brookings Institution publication that considered the prospect of international group solvency regulation:

					"It is critical to keep in mind that the regulation of insurer financial strength in the United States historically has focused on a fundamental principle under which the premiums and capital or any insurer are meant to pay only the claims of that insurer's policyholders based on the insurer's contract with the customer. To do otherwise – namely to allow state regulators to treat an insurer's capital as the capital of its affiliates or parents – would give regulators in various jurisdictions a license, if not an invitation, to suppress insurance rates below their actuarially appropriate levels, undermining the role of actuarial analysis that underpins the business of insurance. Such a result, while temporarily appealing, ultimately would weaken all insurers in these states, reducing competition among insurers, and ultimately harming insurance consumers." Litan, "Source of Weakness: Worrisome Trends in Solvency Regulation of Insurance Groups in a Post-Crisis World," Brookings Institute (August, 2014). http://www.brookings.edu/~/media/research/files/papers/2014/08/trends%20insurance%20group%20solvency%20regulation%20litan/trends_insurance_group_solvency_regulation_litan.pdf A required assessment of capital at the consolidated group level does little to address one of the primary objectives of the ICS – protection of individual policyholder interests – and it is just one tool in the toolbox for solvency regulation. One of the dangers is that a consolidated group capital standard can result in both over- and under-estimation of the capital needs of a particular legal entity. Both potential views present solvency risks. Without a clear assessment of the capital needs of each legal entity a group supervisor will fail to appreciate the actual strengths and weaknesses posed by the overall group, especially if the business of each entity and its current regulatory framework is not taken into account. We believe that the focus on a consolidated group capital requirement could very well obfuscate the needs of individual legal entities. Notwithstanding the accuracy of the assessment, no "calculation" of group capital should ever result in a supervisor mandating movement of capital (fungibility) of capital across legal entities. As raised in the Brookings Institute paper quoted above, for U.S. property-casualty insurers, any supervisory mandate that capital be moved out of one legal entity to another entity within the group would interfere with the actuarial justification for the rates charged, and would infringe on the corpus itself and the business judgment of both management and the Board of Directors of a legal entity. For example, in the U.S. catastrophe losses have been below normal for the last two-three years.

					This means that property insurer legal entity surpluses are growing. A legal entity insuring property losses in this environment could be perceived as over-capitalized. If a well-meaning supervisor identifying the excess capital determined that it should be shifted to another legal entity in the group to shore up their financial situation, the property entity could be left unable to address the catastrophic losses that may occur in 2015. Since the growth of capital was a result of the premiums paid by the policyholders of the property legal entity, we strongly believe supervisors should not interfere with the capital held by that entity. Such a practice could result in an artificial suppression or increase in rates and, in the event of a catastrophe, the movement of that capital could have a greater impact on systemic risk globally if the capital is not available to the property legal entity. These inadequate rates will ultimately lead to impacts on competition and product availability for all property policyholders. We urge the IAIS to recognize that it is in the best interests of policyholders if regulatory requirements supplement good management instead of disguising and protecting bad management. Looking at capital requirements in isolation of the entire spectrum of issues that impact customers is short-sighted. Instead of a focus on capital alone, we would recommend a solvency assessment system that recognizes a balance between capital requirements, enterprise risk management, insurance product availability, and guaranty fund systems to pay claims of policyholders of companies that fail. Certainly the system described in the U.S. may not be the same as the systems in the EU or Asian insurance markets, but the system we have is based on our political and economic philosophies, U.S. corporate law and insurance law and is supported by our tax codes, and the common law of all 50 states. For U.S. property-casualty groups in general, changing this system to meet the demands of an international consolidated group capital standard would cause significant disruption of corporate structures, result in economic consequences for those companies with catastrophe risks, require new investment strategies as well as new actuarial analyses and rate adjustments. These combined impacts would significantly disrupt the business of insurance. For mutual insurance companies in particular, with limited access to capital markets, the consequences would be even more extreme. Implementation Concerns

					2016 update: Although NAMIC and other stakeholders were given a view into the upcoming consultation on Recovery and Resolution changes anticipate to ICP 12 and that will be part of ComFrame M3E3, the comments were numerous and the document continues to lack a connection between the ICS capital levels and supervisory action. Without this insight we are no closer to having a full understanding of the implementation of the ICS. Please consider these comments for understanding our concerns about implementation. The implementation of the ICS has never been fully discussed in these proposals and the questions about how this standard will be implemented are critically important to the assessment of the design. This is especially true for a design that is detailed, prescriptive and formulaic. The questions we have about implementation include the following: • In the consultation draft is it not clear if the group as a separate entity is expected to hold the capital or if the capital calculation is intended to be compared to aggregated legal entity capital held by respective entities. • There is little information about the intention of the IAIS regarding supervisory authority to require movement of capital (regulatory fungibility) between legal entities. • There is little information in the draft about the range of actions the group-wide supervisor will be expected to take in the event of a breach, or is even authorized to take. We have been told that this is being debated by the ComFrame working group, but stakeholders have no access to those discussions. We request that stakeholder meetings need to be organized around ComFrame as well to incorporate industry input. • Are the limitations on the direct legal authority of designated group-wide supervisors to dictate actions outside of their jurisdiction and beyond the insurance entities well understood? We propose that the only appropriate use of the ICS would be as an indicator for the supervisory college to initiate further discussions about the solvency of the group and its legal entities. We request more complete information about the implementation of the ICS. Cost-Benefit Analysis 2016 Update: In the current proposed ICS 1.0 there is a statement that costs and benefits will be assessed before final promulgation of the standard. However, there is no indication of how or when

					that evaluation will take place. So the reminders about the importance of the costs in the evaluation remains an important issue to put forth for those evaluating this proposal. If corrections are made to the ICS 1.0 regarding discounting for non-life companies, the comments in items 1b of this section can be ignored. Missing from consultation draft is any indication that the benefits of an ICS should be balanced against adding excessive cost to the regulatory system both for companies and regulators. At a minimum such costs must be balanced against the benefits the standard purports to provide. We assert that a balancing of the costs and the benefits is critical to assure that the ICS does not include inefficient, overly complex methodologies intended to address problems that can be more efficiently targeted on a company- by-company basis. In fact, any standard setting effort that ignores the economic realities of the added capital requirement could have unintended consequences of increasing insurance rates, shrinking capacity and driving capital away from insurance. We have concerns that the ICS consultation draft could even increase systemic risk in the well-functioning insurance sector. 1. Costs to Individual Companies to Implement The standards as currently proposed will require companies in countries that have not adopted Solvency II or IFRS to make significant changes in their financial reporting and reserving practices. To comply with the market adjusted valuation methodology requires use of a “current estimate” of liabilities. The concept behind the “current estimate” is defined in the consultation draft as one that “reflects the expected present value of all relevant future cash flows that arise in fulfilling insurance obligations using unbiased, current assumptions.” NAMIC commented on the added cost of applying this market consistent accounting methodology to the IASB in 2013. The proposed valuation methodology in the consultation draft is very similar to the IASB Insurance Contracts Exposure Draft (“IASB ED”) issued that year. U.S. property-casualty insurers, regulators and statement users alike agreed that the proposed changes to insurance accounting did not provide adequate benefits to outweigh the extensive costs that would be incurred. In fact, for property-casualty contracts the view was widely held that international convergence would be much more likely around a GAAP methodology. The adoption of an IFRS-based valuation approach for the ICS will result in very similar costs for insurers not currently reporting on this basis.

					a. Cost of Converting to Unbiased Probability-Weighted Cash Flow Reserving For non-life companies, the requirement to move to a "current estimate" liability approach is not unlike the unbiased probability-weighted cash flow reserving in the IASB ED. This change alone will have a significant impact on cost and will provide the least benefit for non-life companies. The proposed unbiased probability-weighted cash flow methodology is not a comparable substitute for existing incurred reserves under a management's best estimate (MBE) approach. The existing MBEs have been developed using a variety of deterministic projection methods. The substitution of the time-tested and validated variety of actuarially accepted projection methods with one stochastic model that has not been actuarially validated for non-life purposes will not be beneficial to supervisors or companies. For implementation, both companies and supervisors will have to hire more actuaries, accountants and systems experts or engage more consultants because the reserving process itself will require a complete overhaul for most property/casualty insurers. Currently, reserving processes focus on determining the ultimate nominal loss and, from that, the appropriate loss reserve to book. In other words, the focus is on the ultimate loss and not the timing or amounts of incremental losses. Property/casualty actuaries will need to develop, test and validate new methodologies to address these reserving estimation requirements. More accounting experts will be required to track the many new variables introduced and explain the complex drivers of financial results to regulators and other users. Companies will need to change IT systems and processes to shift to a cash flow approach. Many new information technology systems, software and employees will be required to set up and monitor the new processes and track the new variables required by the consultation draft. Even after implementation, companies will continue to incur added costs to reestablish the significance of the data reflected by the new information produced. It will take at least a decade to gather enough historical data using this new methodology to provide meaningful loss development information. From an accounting perspective there will be added cost for investment professionals, auditing and actuarial validation. The need for talent to address the reserving changes will be not only a transitional, but an ongoing and expensive cost consideration. The exact costs are very difficult to determine with accuracy, but it will likely be much greater than anyone is currently anticipating.

					b. Cost to Determine Appropriate Discount Rates Discounting liabilities to achieve the market consistent valuation adds another cost consideration. The current business model for short-duration property/casualty insurers is inconsistent with a discounting requirement. Insurers are not able to settle claims with policyholders on a present value basis, therefore the discounting of reserves would result in an inflation of equity that will report more dividend capacity than should exist. Overall, application of discounting required by the consultation draft is fraught with uncertainties, assumptions and formidable challenges that will result in significant cost. But the industry will also pay from a solvency perspective. Property/casualty insurers and regulators have always managed claim reserves on a more conservative, nominal, undiscounted basis using management's best estimate approach. Reserves are an important feature that protect the policyholders and assure that the money needed to pay claims is available. Insurers holding inadequate reserves often struggle to meet their claim obligations when they are due. A.M. Best reports that inadequate reserving is the number one reason for insurer insolvencies. NAMIC members care about this issue because insurance insolvencies affect all companies in the U.S. All insurers doing business in every state are assessed for the costs of the policyholder claims filed against insolvent insurance companies through the guaranty fund system. Trends toward a present value measurement will not produce more adequate reserves. Instead these trends may lead to less reserve discipline. Appropriate discount rate setting is not a precise science and minor errors in assigning the appropriate rate can have disastrous results in this industry. 2. Costs to Policyholders While Principle 2 sets out the goal of protecting policyholders, it has been shown time and time again that increased capital requirements will have a direct impact on prices paid by consumers. Economic studies conducted on the impacts of increased capital requirements for both property-casualty (Shapiro and Mathur, Unnecessary Injury: The Economic Costs of Imposing New Global Capital Requirements On Large U.S. Property and Casualty Insurers," http://www.sonecon.com/docs/studies/Report_on_Capital_Standards_for_PC_Insurers-Shapiro-

					Mathur-Sonecon-Final-November-15-2014.pdf (November 2014)) and life insurance products (Oliver Wyman, "The Consumer Impact of Higher Capital Requirements on insurance Products," http://responsibleregulation.com/wp-content/uploads/2013/05/Pricing-impact-study-Oliver-Wyman-April-10-2013.pdf (April 10, 2013)) predict significantly increased pricing of products and/or reduction in capacity or products offered. The same has been proven in the banking and mortgage industries as well. Changing one factor impacting an industry like capital requirements may in the short-run appear to provide more economic protection from companies failing, but if those same companies can no longer compete on price or must shrink their insurance offerings, the IAIS may not have achieved any goal except the disruption of a well-functioning industry. A consideration of policyholder protection should also include protection of their access to a competitive, innovative industry that offers a broad array of products that meet their insurance needs. 3. Costs to the Economy and Potential Relationship to Systemic Risk The macroeconomic effects on the industry will be equally problematic. The decision to designate some insurers as GSIIs or SIFIs was made based on a conclusion that their failure would create or add to systemic risk. The group of insurers segmented by ComFrame as IAIGs were not selected as a result of their potential effect on the economy, but based on their size and operations in more than three countries. There is no assertion that the failure of any of these companies would create systemic risk. And yet the decision to subject these companies to additional capital requirements was made. Additional capital requirements will primarily serve to shrink capacity to write new business and will likely impact investment practices. Higher capital charges in restricted capital resources could well reduce IAIG investment returns. Lower profitability in the insurance sector could then render insurance less attractive to investors and lenders. If there is reduced capital flowing toward insurance underwriting capacity will shrink. Capital requirements that are not consistent with the risks of the IAIG have consequences as well. Overstatement and understatement of the risk of various segments can lead to insolvencies and product availability crisis. Consolidation in the industry is a definite possibility in such a situation as small and medium-sized insurers are more affected by regulatory costs and additional capital requirements. [Insurance Europe, "Why Insurers Differ from Banks"]. This is especially true for mutual insurers with limited sources of new capital.

					All of these effects of higher capital requirements are counter-intuitive as a solution for systemic risk. Insurers have a role in the economy as a risk absorber and an institutional investor providing counter-cyclical stability in sectors that can be subject to market fluctuations. High and/or inappropriate capital requirements that will lead to shrinking capacity, limited investment diversity and industry consolidation will have an overall negative effect on the economy and will increase the potential of systemic risk not reduce it.
RAA	United States and many other jurisdicitons	Other	No	Yes	The RAA appreciates the opportunity to comment on ICS Version 1.0. Our members support and recognize the importance of this project and we believe it requires a carefully considered and iterative approach for its successful completion. We appreciate the many stakeholder meetings that the IAIS has held to discuss the project and the several public presentations made to introduce this latest consultation draft. Overall our members view the current calibration of the ICS as overly conservative. In particular the premium and reserve risk factors for property casualty business are too high relative to their own analysis. While we understand that the issue of full internal models is excluded from this consultation, many of our member believe that approved full internal models provide the most consistent and comparable measure of their risks and available capital resources of an IAIG. Similarly excluded from the consultation is the discussion of transition. Respecting this, we feel compelled to comment that given the significant differences in the proposed ICS approach from current practices and existing regimes, the discussion of transitional measures should be made a priority in subsequent discussions. In the area of capital resources in particular, grandfathering or a long term phase out of recognition of certain capital instruments will be necessary. We welcome the holistic consideration of income tax effects in the ICS. The loss absorbing impact of deferred taxes could have a very material impact on the ICS capital requirement and should be considered. Finally, we are naturally very interested in the treatment of reinsurance and other risk mitigation instruments in the proposed ICS standard. While we believe that this consultation generally does a fair job of recognizing the effect of these contracts/instruments, it is important that the final standard fairly and appropriately measures the risk mitigation and capital effect of these transactions.

American Academy of Actuaries	United States of America	Other	No	Yes	Dear Secretary General Kawai, On behalf of the Risk Management and Financial Reporting Council's Solvency Committee of the American Academy of Actuaries, I appreciate the opportunity to provide comments on the International Association of Insurance Supervisors' (IAIS) Risk-based Global Insurance Capital Standard Version 1.0 public consultation document, dated July 19, 2016. If you have any questions or would like to discuss these issues in more detail, please contact Nikhail Nigam, the Academy's policy analyst for risk management and financial reporting, at +1-202-785-7851 or nigam@actuary.org. Sincerely, Novian E. Junus, MAAA, FSA Vice Chairperson, Solvency Committee Risk Management and Financial Reporting Council American Academy of Actuaries
American Insurance Association	United States of America	Other	No	Yes	AIA COMMENTS ON RISK-BASED INSURANCE CAPITAL STANDARD VERSION 1.0 PUBLIC CONSULTATION DOCUMENT The American Insurance Association (AIA) appreciates the opportunity to submit comments on the International Association of Insurance Supervisors (IAIS) July 19, 2016 Public Consultation Document entitled "Risk-based Global Insurance Capital Standard Version 1.0." (ICS Consultation or 2016 Consultation). AIA represents approximately 325 major U.S. insurance companies that provide all lines of property-casualty insurance to consumers and businesses across the United States and around the world. AIA members write more than $127 billion annually in U.S. property-casualty premiums and approximately $225 billion annually in worldwide property-casualty premiums. AIA's membership includes U.S. insurers that write insurance only within the U.S., U.S. insurers that write insurance inside and outside the U.S., and the U.S. subsidiaries of multi-national insurers. Our

					membership includes companies that have been designated global systemically important insurers (G-SIIs), companies that are considered internationally active insurance groups (IAIGs), companies that write insurance internationally but do not qualify under the IAIG definition, and companies that only do business domestically in the United States. This membership diversity gives AIA the ability to analyze issues from many perspectives and enables us to draw on the global experience and expertise of our companies with many forms of insurance regulation. This mixture of membership also promotes a healthy discussion of alternative viewpoints. For purposes of this submission, and in order to provide some direction to the U.S. regulatory contingent of the IAIS, our response is mainly centered on those AIA members that are based in the United States, and approach the ICS from the perspective and experience of the state-based insurance regulatory system. Non-U.S.-based groups with a U.S. property-casualty presence will express their views on the ICS through their interaction with their respective group-wide supervisory systems, as will those groups that have been designated as G-SIIs. Regardless of perspective, AIA and its members have a strong common interest in the development and implementation of the ICS, as it has the potential to influence local jurisdictional capital standards and approaches that our companies must navigate as they conduct business in markets around the world. In particular, AIA's goal is to ensure that the ICS, as it evolves, is consistent (and not in conflict) with local jurisdictional capital standards, as well as existing financial regulatory schemes and accounting standards that already apply to our member companies. It would be unfortunate and counterproductive if the ICS resulted in layered and conflicting capital requirements for IAIGs. Indeed, our aim – and we hope the IAIS' aim as well – is to promote an appropriate group capital standard that supports a level competitive playing field and private market growth, ensuring that capital is deployed to the greatest extent possible to efficiently provide coverage to insurance consumers. SUMMARY As detailed below, AIA's submission both responds to questions of concern to our members, as well as highlights some key conceptual issues that need further debate and resolution to ensure that the process yields an ICS that meets the goals outlined above, and is able to be implemented. In brief, we are focused on the following:

					Foundational Issues. This ICS Consultation should have covered foundational issues, rather than skipping ahead to questions on the technical specifications of the ICS. Specifically, the Consultation should have included questions: (a) regarding the relationship and interaction between an IAIG's local jurisdictional capital framework and accounting standards and the framework envisioned by the ICS; (b) how the ICS should address the lack of fungibility of capital across jurisdictions, and (c) the juxtaposition of ICS principles governing comparability of outcomes and those advocating a balance between risk sensitivity and simplicity. To the extent that other foundational issues not covered in this Consultation arise in response to specific questions, AIA will address those issues as well. Scope of Group. The IAIS should reconsider the scope of the group covered by the ICS. AIA could support the concept, defined appropriately, of an insurance-led financial conglomerate. If the scope of the group is appropriately limited to insurance and insurance-related entities, then the process of adjusting for different jurisdictional considerations of insurance risk becomes easier and the goal of comparability is enhanced. This is consistent with our views on this issue in response to the 2014 consultation and tracks our comments to the Federal Reserve on its group capital rule, including how to structure the capital approach to identify insurance and insurance-related entities in relation to the capital treatment of other non-insurance financial and non-financial entities within the group. Valuation. AIA's U.S.-based members do not support a market-adjusted valuation (MAV) approach and the proposed GAAP Plus approach is currently only a concept that requires additional analysis to sort through the challenges to its development. We would strongly encourage the IAIS to continue providing choices in the valuation basis. More specifically, as it has done in field testing to provide a surrogate for non-GAAP filing IAIGs, we encourage the IAIS to consider an aggregation-calibration methodology alongside the development of GAAP Plus. There are many benefits to doing so, as it would allow "ground up" insights to accompany the "top-down" approaches under current development by the IAIS. In response to the Consultation questions in this area, we have provided the example of the U.S. capital treatment of subordinated debt instruments as one area where the addition of an aggregation methodology will help ensure a consistent valuation outcome. Capital Resources. In response to questions in this area, we are opposed to applying the concept of tiered capital, which is principally a banking construct. If this concept endures, it would make sense

					to classify those financial instruments with loss absorbing capacity as Tier 1 capital. Like our position on valuation, AIA would point to the appropriate treatment of subordinated debt instruments in the U.S. as valuable qualifying capital resources for IAIGs. ICS Capital Requirement Standard Method – Risks. For the property-casualty insurance sector, risk segmentation should be sufficiently granular that jurisdictional differences (both in geographic location and by definition) are recognized. Further, consideration of internal models will help to further refine risk sensitivity as models are tailored to the circumstances of each IAIG. Specifically with respect to catastrophe risk, AIA would support the use of natural catastrophe risk models as the principal mechanism for quantifying that risk, but we do not support the inclusion of "latent liability risk" within the scope of catastrophe risk as they do not have the predictability (nor the immediacy from a claims perspective) of natural catastrophes. In fact, the emergence of historic latent liabilities is already embedded within the reported loss triangles of carriers and therefore, inherent in the loss development factors applied in establishing loss reserves. To layer on an additional charge within the definition of catastrophe risk would be an unnecessary doubling of latent liability risk. Again, this is an area where the ICS development process would be well-served by providing flexibility for incorporation of an aggregation-calibration approach to provide insight into jurisdictional differences. Because they are overarching concerns that are largely absent from the ICS Consultation, we have provided some background and explanation for AIA's positions on the foundational issues and scope of group considerations. The balance of our submission's focus – valuation, capital resources, and risks –specifically responds to certain questions posed by the ICS Consultation. DISCUSSION The ICS Consultation Should Not Exclude Or Delay The Discussion And Resolution of Key Foundational Issues. This ICS Consultation follows a period of field testing, and is the first formal request for public input on the ICS since the December 2014 Consultation. In response to that earlier consultation, AIA provided a comprehensive submission, which addressed a number of fundamental issues and

					recurring themes, including (1) identification of the right balance between risk sensitivity and comparability; (2) alignment of the regulatory objective of a global ICS with the IAIG's business model; (3) capital location, fungibility and the primacy/impact of local jurisdictional laws and regulations; (4) relationship between the ICS and local capital regimes; (5) establishment of the ICS as a regulatory "minimum" and the role of the quantitative tool in the context of broader capital adequacy assessment; and (6) the consequences of breaching the ICS "floor." F/N 1. We are surprised and disappointed by the 2016 ICS Consultation's explicit omission of many of these fundamental areas from comment. F/N 2. The IAIS rationale for their exclusion seems to be based on those issues not being mature enough for public feedback. Yet, by forging ahead to gather public input on specific details of the ICS, the IAIS risks developing a capital standard that will be rejected by local jurisdictions because it does not align with prevailing laws and regulatory standards that currently govern IAIGs and their subsidiaries, affiliates, and/or branches. In fairness, we note that the IAIS has published two documents that purport to respond to or resolve some of these concerns. F/N 3. A comprehensive review of those documents, however, reveals a generally consistent IAIS pattern of either: (a) reframing the question in the context of existing IAIS development of the ICS, (b) deferring a response or resolution of the concern to a later time, or (c) indicating that the issue will be resolved through the development of ICS Version 2.0. For example, numerous concerns were raised in the initial consultation regarding the interaction between local jurisdictional capital requirements and the ICS, but the IAIS consistently countered those concerns by deferring consideration of the issue or pointing to the ICS process itself as responsive. Reacting to questions about the consistency of the ICS valuation approach with the prevailing group-wide supervisory or local jurisdictional accounting standards for an IAIG, the IAIS did not directly address the concerns, but pointed instead to the importance of comparability as an ultimate goal of the ICS. Further, the IAIS response indicated that ICS Version 1.0 would "be based on the two identified valuation approaches" and that ICS Version 2.0 aspired to "reduce differences in valuation." F/N 4. Similarly, in response to related valuation concerns in the context of ICS Principle 1, the IAIS reinforced that its two approaches being field-tested (MAV and GAAP Plus) reflected the two prevalent supervisory views of valuation, without addressing the broader issue of ICS valuation consistency with jurisdictional accounting approaches. F/N 5.

					Other stakeholder concerns in response to the 2014 consultation underscored the difficulty of implementation and raised the use of internal models. In response, the IAIS – like this ICS Consultation – deferred an answer until the development process matured. For instance, at its June 2015 global seminar, the IAIS responded to numerous stakeholder questions regarding partial or full internal models by noting that their use was "[t]o be considered in further development of the ICS." F/N 6. With regard to implementation, a consistent stakeholder theme urged the IAIS to exercise flexibility in implementation of the ICS, so that differences with local or group-wide supervisory standards could be accommodated. The IAIS stated that: "[t]he issue of implementation remains under consideration. After ICS Version 2.0 is adopted there will be an implementation period while jurisdictions embed the ICS into regulatory requirements and supervisory practices. During a period of implementation monitoring by the IAIS, lessons will undoubtedly be learned and used as progress is made along the path of convergence to future milestones. By virtue of the fact that the ICS is a group-wide, consolidated insurance capital standard, it is not intended as a legal entity requirement and is not intended to affect or replace existing arrangements or capital standards for legal entity supervision in any jurisdiction." F/N 7. Instead of addressing the issue directly, this statement leaves unanswered serious issues concerning implementation, such as how to overcome local legislatures that may not be able or willing to change the law so that the ICS can be "embedded" into insurance regulation, or how to reconcile legal differences between the ICS and other local group capital or prudential standards. Delaying a thorough debate and substantive response to such questions, while continuing to move forward on the technical specifications of the ICS, is a missed opportunity to consider these issues as well as potential solutions and will not further the long-term goals envisioned by the IAIS. To the Extent That This Consultation Cites To Principles For ICS Development As Background, Those Principles Should Invite Continued Discussion And Resolution of Foundational Concerns. To provide context for the technical questions, Sections 2.1 and 2.2 of the ICS Consultation outline the major components of the ICS, its role in ComFrame and as part of an IAIG's overall capital adequacy assessment, and the ten principles for ICS development. While there are no stakeholder questions associated with these subsections of the Consultation, their inclusion offers an opportunity to highlight fundamental issues that have still not been adequately addressed during the

					ICS consultation process. Relationship between Local Capital Standards and the ICS As noted above, the IAIS has avoided dealing with the interaction between local jurisdictional capital requirements and the ICS by emphasizing the differences between day-to-day regulation and group-wide supervision, as well as the differences between legal entity and group capital standards. This failure to resolve inherent conflicts between local jurisdictional and group-wide standards continues to be implicit in ICS Principles 1 and 2, which set forth the aspirational goal of an ICS that is risk-reflective “irrespective of the location of [an IAIG’s] headquarters” while simultaneously achieving the twin supervisory objectives of policyholder protection and contribution to global financial stability. Where new global standards are contemplated, the most fundamental problem faced by IAIGs is whether the new group capital initiative can be harmonized with the legal standards and regulatory enforcement authority in their local (“home”) jurisdictions, including fungibility, or lack thereof, of capital between jurisdictions. While these issues are particularly acute in the U.S. state-based insurance regulatory system, they also exist for the insurance thrifts and domestic insurers that have been designated as non-bank systemically important financial institutions (SIFIs) that are subject to federal prudential group supervision under the Dodd-Frank Act. Indeed, our current experience with the evolution of insurance group capital rules for those prudentially-supervised insurance firms under the Dodd-Frank Act shows that it can function as a model of respect for, and harmonization of, state and federal supervisory roles and responsibilities to be emulated by the IAIS in its development of the ICS. The Dodd-Frank Act provides for distinct treatment of insurance entities within a group, both in terms of Federal Reserve prudential supervision under Title I (through differentiated capital standards regulations and other prudential measures) and where the Federal Deposit Insurance Corporation (FDIC) may apply its orderly liquidation authority under Title II to insurance entities within a group. The Dodd-Frank Act reflects an intention to preserve state insurance regulation or, at minimum in the case of Federal Reserve prudential supervision, to ensure that the standard reflects objectives appropriate to the “business of insurance” and that are a central part of state-based financial regulation. This intention does not mean that the Federal Reserve abdicates its financial stability mission when developing a capital standard for insurers under its jurisdiction; it only means that the standard appropriately respects

					the insurance business model and state insurance regulatory prerogatives throughout the supervisory process. The Federal Reserve's promulgation this past summer of an Advance Notice of Proposed Rulemaking (ANPR) to carry out the group capital provisions of the Dodd-Frank Act largely reflects the intent of the Dodd-Frank Act. The ANPR has proposed – for public input – a bifurcated approach to group capital for prudentially supervised insurance firms that calls for an aggregation and calibration methodology (the so-called "building blocks" approach) to apply to insurance thrifts and for a consolidated methodology (termed the "consolidated" approach) to apply to insurance SIFIs. While there are numerous issues to be resolved in the ANPR, the initial concepts are a reflection of the U.S. regulatory climate for insurers. Similarly, AIA continues to strongly urge that the IAIS balance local jurisdictional standards in developing a global capital standard. The ICS should harmoniously complement and adapt to prevailing jurisdictional approaches so that the ICS meets its principal objective (policyholder protection) without creating regulatory inefficiencies by becoming an added capital layer that conflicts with or usurps local regulatory jurisdictions, creating jurisdictional "winners and losers." Maintaining a balanced and complementary approach to the ICS is critical: where the ICS skews toward a monolithic and rigid standard, it may unintentionally end up concentrating risk by channeling IAIGs in a single direction. On the other hand, it may also create false incentives for firms to operate outside the regulatory confines, opening up the possibility of increased shadow financial activity and the attendant risks to the financial system that follow. Finding The Right Balance Between Risk Sensitivity And Simplicity While Achieving An Acceptable Level Of Comparability. The ability of the IAIS to follow ICS Principle 5 (comparability of outcomes) may be undermined by adherence to ICS Principle 8 (balancing simplicity with risk sensitivity), particularly where comparability is sought "across jurisdictions." We agree with ICS Principle 5's focus on outcomes, but the aspirational goals of this principle should be tempered by the risk calibrations which are necessary to understand the different definitions and treatment of risk in various jurisdictions. This is particularly important for many property-casualty insurance lines, which are not homogenous risks across jurisdictions. The IAIS, to this point, has chosen to evaluate two valuation approaches that

					depend on a consolidated, group-wide perspective. As a result, the challenge is how to move from a simple, high-level risk segmentation process to a more granular risk-sensitive approach that accurately reflects the risks of a multi-jurisdictional IAIG that is significantly engaged in the property-casualty business. AIA's experience with a different regulatory perspective (a state-based regulatory system that focuses on financial regulation from the "ground up" on a legal entity basis), combined with the financial crisis that yielded the federal Dodd-Frank Act, suggests that there is room for consideration of an aggregation approach as part of the ICS discussions. In October 2014, we proposed that approach – in basic terms – as an interim measure that could be considered by the IAIS for U.S.-based IAIGs. We advanced the interim concept of an aggregation approach because it reflects a balance of risk sensitivity, can be harmonized with prevailing insurance financial regulation and accounting standards, and provides enough flexibility to evolve over time as supervisors work through the granular nature of different jurisdictional views of risk and understand each other's regimes more clearly from a financial solvency and global stability perspective. AIA continues to believe that such an approach deserves serious attention during the ICS process for the reasons set forth in our October 2014 submission and more recently in our public comments to the Federal Reserve on its ANPR. Equally important, while AIA is – of course – not a participant in ICS field testing, our understanding is that an aggregation method has been used to approximate a U.S. GAAP consolidated balance sheet "as a starting point to derive GAAP Plus" for U.S. mutual IAIGs that are not GAAP filers. F/N 8. Thus, the IAIS may have already experimented with a rudimentary version of the aggregation-calibration approach as a way of providing some baseline equivalence for non-GAAP U.S. IAIGs to IAIGs that already produce GAAP consolidated balance sheets. In reality, whether one approaches the ICS dynamic from a consolidated or aggregation perspective, difficult questions of the proper balance between simplicity and risk-sensitivity must be confronted and resolved over time through adjustments and calibration. The aggregation-calibration approach starts from a capital perspective that captures all of the specific insurance risks throughout the enterprise and makes decisions on the level of insurance specificity in order to provide a group picture of capital, while the MAV and GAAP Plus approaches start from a consolidated, enterprise-wide capital perspective and makes decisions on how that perspective

					must be adjusted to reflect the insurance risk in the various legal entities without addressing whether capital in the various legal entities can be moved elsewhere within the group in times of financial stress. AIA's respectful recommendation to the IAIS is that the ICS provide room to accommodate the aggregation-calibration method for U.S.-based IAIGs. Because the discussion on adjustments starts from a system and standards that are currently utilized and familiar to both regulators and insurers, it may be easier for supervisors to work towards a simpler, yet risk sensitive, approach over time. The Scope Of The Group Should Be Defined To Encompass Only The Insurance And Insurance-Related Entities Within The ICS Perimeter. The ICS Consultation poses four questions that go to the appropriate parameters of the "group" that would be subject to the ICS calculation. The Consultation refers to an "insurance-led financial conglomerate," but that term is neither defined nor explained. More importantly, if the financial or insurance holding company of an IAIG or insurance-led financial conglomerate does not prepare a consolidated balance sheet, it appears that such an entity would not be contemplated by the scope of group calculation. So, while we can agree with the concept of isolating the ICS calculation on insurance and insurance-related entities in an IAIG, the terms used by the IAIS are not sufficiently transparent or well-defined. As the ICS is specific to the insurance activities of an IAIG, the development of this standard should focus on those entities within the group that are engaged in the "business of insurance." For diversified IAIGs that include entities that engage in non-insurance financial activities, presumably those entities and activities are subject to appropriate capital standards that reflect their non-insurance financial business (and can be "aggregated" with the ICS to develop an overall group capital standard for the diversified IAIG). Such non-insurance appropriate capital standards must be considered to support non-insurance obligations of diversified IAIGs. More importantly, the role of the ICS is to evaluate the capital requirement for the insurance activities of an IAIG, and therefore should be different than that of the Higher Loss Absorbency (HLA) requirements for G-SIIs. Therefore, the standard should not include a capital surcharge for systemically risky activities that impair financial stability. Our views expressed here are consistent with our comments on the Federal Reserve's capital treatment of insurance and insurance-related entities for purposes of its group capital approach for prudentially-supervised insurance thrifts and insurance SIFIs. In that submission, we noted that:

					"it is critical to classify… entities based on their activities and relationship to other functionally regulated companies within the group. For regulated insurance companies and entities that operate on behalf of or for the benefit of an insurance company ("insurance-related" entities), the appropriate scalar-compatible insurance capital standard should be used. For insured depository institutions, the federal bank capital standard should prevail. With respect to "non-insurance, non-bank" entities that are also not insurance-related entities, the Federal Reserve would need to determine the appropriate capital charge. [In developing a workable approach to capital treatment], [i]t will be important to maintain a clear definitional distinction between 'non-insurance, non-bank' entities and otherwise unregulated entities that support or are related to insurance firms so that an inappropriate capital charge is not applied to insurance-servicing entities." F/N 9. AIA recommends that the IAIS consider a similar construct in developing the ICS. Equally important, if the IAIS has not contemplated it, there should also be a component of the scope of group analysis that includes materiality and exclusion tests so that insignificant entities can be carved out of the ICS calculation where appropriate. F/N 10. CONCLUSION Thank you again for the opportunity to comment. AIA believes that it is critical for the IAIS to confront and resolve key foundational issues now, and not put them off to a later time. Resolution of such issues, particularly the relationship between an IAIG's home jurisdiction financial regulatory framework and accounting standards and the approaches advanced in this ICS Consultation, will be critical to the successful development and implementation of an appropriate ICS. AIA looks forward to continuing its participation in the IAIS consultation process on these and other critical regulatory issues. Respectfully submitted, /s/ J. Stephen Zielezienski Senior Vice President & General Counsel American Insurance Association 2101 L Street, N.W.

					Suite 400 Washington, DC 20037 202-828-7100 szielezienski@aiadc.org F/N 1: See Response of the American Insurance Association to IAIS December 17, 2014 Consultation – Risk-Based Global Insurance Capital Standard (submitted via IAIS Consultation Tool on Feb. 16, 2015). F/N 2: The Consultation expressly excludes the following key foundational issues that AIA raised in its response to the 2014 consultation: (1) implementation, (2) the use of partial or full internal models, (3) assessment of the ICS's comparability, (4) interaction between local legal entity capital requirements and the ICS as a consolidated group-wide standard, (5) capital fungibility, and (5) consistency of local jurisdictional capital requirements with the ICS. F/N 3: See ICS Consultation Document Responses Global Seminar (June 19, 2015) and ICS Consultation Document Resolution of Comments – October Stakeholder Meeting (November 26, 2015). F/N 4: ICS Consultation Document Resolution of Comments – October Stakeholder Meeting, Slide 4. F/N 5: ICS Consultation Document Responses Global Seminar, Slide 5. F/N 6: Id. at Slides 24-26; see also Slides 22 – 23. F/N 7: ICS Consultation Document Resolution of Comments – October Stakeholder Meeting, Slide 3. F/N 8: ICS Consultation at p. 55 (para. 153). F/N 9: AIA Comments in Response to the Federal Reserve Board Advance Notice of Proposed

					Rulemaking on Capital Requirements for Supervised Institutions Significantly Engaged in Insurance Activities (Docket No. R-1539 & RIN 7100 AE 53) (September 16, 2016), at p. 17. F/N 10: Id. (suggesting an “immateriality” definition and an exclusion threshold based on aggregated assets/revenues).
Prudential Financial, Inc.	United States of America	Other	No	Yes	Prudential Financial, Inc. (Prudential Financial) thanks the International Association of Insurance Supervisors (IAIS) for the opportunity to comment on the July 19, 2016 Risk-based Global Insurance Capital Standard (ICS) consultation document. We remain committed to the further development of global regulatory standards – including a group capital standard – for insurance provided they appropriately account for the diversity of insurance markets around the globe and the economics of the life insurance business. The further development of the ICS – including future Field Tests – must be carried out in a phased, measured and comprehensive manner and account for ongoing developments in jurisdictional regulatory frameworks. As examples, implementation of Solvency II and subsequent 2018 revisions as well as the Federal Reserve’s creation of a group capital framework in the U.S. offer the IAIS real world insights that can and should influence both the direction and substance of the ICS. The diversity in existing jurisdictional capital frameworks warrant an ICS that promotes comparability across jurisdictions and impacted firms rather than one that aims to achieve 100% global consistency. While the IAIS may believe a uniform ICS would better facilitate communication among supervisors, it must not lose sight of the potential for unintended consequences. Diversity in insurance regulatory regimes in large part reflects the varying societal and financial needs of consumers in individual markets around the globe. Heterogeneity in the insurance business and societal needs is a core differentiator of the insurance sector from other financial services activities. Pressure – be it real or self-imposed – to adopt a uniform ICS threatens to homogenize a business model that thrives in heterogeneity. Further, the IAIS must not lose sight of the fact that the ICS is intended to be one facet of the broader Common Framework for the Supervision of Internationally Active Insurance Groups

					(ComFrame). As such, the ICS should not attempt to address all prudential concerns of insurance supervisors but rather complement other elements of ComFrame such as those related to corporate governance, enterprise risk management, actuarial and other key control functions. The IAIS must be more transparent in clearly identifying the connections between the ICS and ComFrame and demonstrate the capital / solvency component takes key risk management and governance processes into account. Prudential appreciates the IAIS' continued openness and responsiveness to feedback from stakeholders. It is clear that substantive, data driven stakeholder engagement resulted in the exploration of multiple approaches to various design elements in the current consultation and 2016 Field Test specifications. While the inclusion of these various alterations isa positive step, further changes are necessary before ICS Version 1.0 is finalized. Below we provide a summary of key areas of concern to Prudential that are expanded upon in our responses to the consultation questions. Prudential believes the IAIS is conflating capital and liquidity concerns in the current form of the ICS and notes that it is not appropriate for a capital standard to attempt to address liquidity concerns such as the potential for a "run on the insurer". This conflation and redundant layers of conservatism – including the approach to insurance liability valuation, inclusion of a consistent and comparable margin over current estimate (CC-MOCE) and the excessively punitive structure and calibration of the Standard Method stresses – must be addressed. The following points highlight Prudential's key concerns with the current form of the ICS, which are expanded upon in our responses to the individual questions included in the consultation: + Valuation – Prudential believe that the IAIS can – and should – use two distinct valuation approaches to achieve substantially similar, risk sensitive outcomes. That said, further enhancements are needed to provide for symmetrical treatment of insurance liabilities and assets thereby minimizing non-economic volatility and producing a more appropriate measure of available and required capital. -- Market Adjusted Valuation (MAV) – While Prudential Financial strongly prefers the GAAP with Adjustments (GAAP Plus) approach given its foundation of existing and auditable measures, we continue to offer constructive feedback on MAV. Symmetry on a market basis can be achieved by reflecting a representative portfolio based spread and appropriate long term forward rates that

					account for jurisdictional differences in investment strategies and markets. Haircuts to the amount of credit spread recognized including the use of bucketing requirements, inappropriate long term spread and forward rate assumptions, and insufficient granularity are flaws with the current reference methods and options that must be addressed. -- GAAP Plus – Symmetry on a book yield basis can be achieved by excluding all unrealized gains/losses on invested assets. Prudential appreciates the inclusion of an adjustment to exclude portions of accumulated other comprehensive income (AOCI) from available capital, which can be further improved by including non-fixed income investment elements of AOCI – which also contribute to non-economic volatility. Further, Prudential believes application of the AOCI adjustment directly to the balance sheet would be more appropriate than a back-end adjustment to ICS capital resources and result in a better measure of risk under the GAAP Plus approach. + CC-MOCE – We appreciate the IAIS outlining its views on potential conceptual bases for MOCE in the consultation however, we fundamentally disagree with the arguments put forward. Uncertainty of liability cash flows should be captured through required capital not numerous additional layers of conservatism throughout the ICS. Prudential disagrees that the ICS Standard Method capital requirement is calibrated to a 99.5% VaR over a one year time horizon as the IAIS claims, but rather believe that the ICS reflects a long term horizon, as evidenced by the application of stresses over the entire life of liabilities which for certain insurance products extends many decades, and therefore continues to believe that the MOCE – which is intended to represent a provision for risk beyond one year – results in a double counting of risk. + Standard Method Stresses – While Prudential supports the development of a transparent, risk based Standard Method the current design and calibration of certain stresses, particularly those which are the most impactful for long term insurance liabilities, is deeply flawed. -- Interest rate risk is severely overstated in the current framework and would be improved by modulating tail shocks to reflect the reduced relevance of short term interest rate movements on future rates and by aligning the valuation of assets and insurance liabilities. -- Risk-mitigation techniques employed by life insurers – including dynamic hedging for products such as variable annuities and foreign currency forward contracts and swaps – that are in force for less than the next 12 months should be recognized. Exclusion of such hedging will result in a flawed assessment of required capital. -- The mortality/longevity stress should be targeted at the trend component of the risk, which is the

					primary way the risks manifest themselves for insurers with significant, credible claims experience – not stresses to base rates. Further, it is excessive to require simultaneous runs of both base and trend shocks. -- The health module fails to accurately capture the way morbidity risk manifests itself, which is through deviations in incidence and termination and would likely prove challenging for industry to implement. The alternative morbidity / disability module is a more appropriate framework for capturing this risk. If insufficiently addressed, the concerns noted above will result in an ICS that hinders insurer´s ability to provide sound life insurance and retirement products and associated long term capital investment. Such a framework and outcome would be the antithesis of the goals of the IAIS and the principles guiding the development of the ICS. We believe these items can and will be addressed over time through the IAIS' continued dialogue with stakeholders, public consultation, and Field Testing. Prudential looks forward to continuing to help the IAIS achieve its ICS goal and deliver a tool that is beneficial to insurance supervisors, the insurance industry, financial markets, and most importantly policyholders and consumers around the world.
U.S. Chamber of Commerce	United States of America	Other	No	Yes	On behalf of the U.S. Chamber of Commerce, please find below our submission on the insurance capital standards consultation. To Whom It May Concern: The U.S. Chamber of Commerce is the world's large business federation, representing the interest of more than three million businesses and organizations of every size, sector, and region. Our members include insurance companies that operate only in the United States as well as internationally active insurance groups ("IAIGs") headquartered both in and outside of the United States. Perhaps more importantly, our membership includes non-financial companies that rely on insurance products, and we are mindful of the larger role insurance plays as an investor in a globally interconnected economy. The Chamber appreciates the opportunity to comment on the Risk-Based Global Insurance Capital

					Standard ("ICS") Consultation Document issued by the International Association of Insurance Supervisors ("IAIS") in July 2016. Our concerns highlighted in our 2015 submission persist, particularly as an ill-designed ICS will impact the traditional role of insurance as investors, ultimately harming capital formation. In addition to our earlier comments, the Chamber through this comment letter wishes to raise the following concerns: • Accommodation for and respect of jurisdictional differences through a principles-based approach. • Need for alternative valuation approaches. • Lack of consideration of impact of derivatives reform on capital standards. • The impact of poorly-designed capital standards on bond markets. Accommodation For and Respect of Jurisdictional Differences Through Principles-Based Approach The IAIS importantly notes that although the ICS is a group-wide, consolidated insurance capital standard, it is neither intended as a legal entity requirement nor to affect or replace existing arrangements or capital standards for legal entity supervision in any jurisdiction. Any jurisdiction choosing to reference the ICS in the development of its domestic solvency framework for insurance legal entities does so at its sole discretion. However, this statement ignores the fact that insurers, particularly IAIGs, operate across borders and will likely have to comply with more rules than that of their home country. In this respect, the ICS is likely to be restrictive and have a direct impact on the ability of an insurer to grow or meet the needs of its policyholders. The IAIS' development of an ICS should facilitate insurance companies doing business across jurisdictions, and at all costs avoid becoming an impediment to cross-border competition. As a result, we recommend that the IAIS adopt a principles-based approach to any ICS that respects different jurisdictional approaches to meeting important insurance capital requirements. For example, in the United States, the Federal Reserve is moving forward with different capital

					approaches for savings and loan holding companies ("SLHCs") and insurers designated as systemically important insurance companies ("SIICs"). One approach, referred to as the building block approach ("BBA"), aggregates the insurance capital requirements of each entity, and could be used for both SLHCs and SIICs. Such an approach is modeled on the concept that insurance regulation in the United States should not be "monolithic" and that capital standards need to reflect the differences of the companies found in U.S. insurance market. The currently envisioned ICS, as a group-wide standard, reflects the opposite viewpoint and is inflexible in accommodating the various existing regulatory frameworks that exist globally today, including the planned U.S. approach. Moreover, other jurisdictions are similarly in varying stages of calibrating their own insurance standards. For example, Solvency II will be coming under review in the European Union at the end of next year. There will likely be untold modifications to Solvency II. Consequently, for the ICS to be useful it must be complementary to rather than attempting to replace the various regulatory frameworks put into place by different jurisdictions, while also facilitating the ability to compare capital levels between insurance companies. A principles-based approach is best suited to achieve such a desirable outcome. Need for Alternative Valuation Approaches The Chamber is also concerned with the impact of potentially only adopting a market adjusted valuation ("MAV") approach for the ICS. In particular, we believe that a MAV approach does not measure assets and liabilities appropriately, may not be auditable, and tends to be "procyclical" over the normal course of economic expansions and contractions, meaning that potential funding mismatches can be exaggerated. This "procyclicality" is a tool often used in banking regulation to prevent excessive credit bubbles. Furthermore, we stress that insurers have fundamentally different product risks than banks and should not be treated in the same manner. Indeed, for the insurance industry, this type of treatment is distortive, particularly because some insurers match assets and liabilities over a long-term horizon. This makes insurance fundamentally different from banking and argues against the MAV approach.

					Therefore, we are encouraged that the IAIS is pursuing development of the alternative GAAP plus adjustments approach to valuation and urge the IAIS to continue to flesh out this approach and adjustments that are appropriately designed to avoid introduction of levels of non-economic volatility similar to the MAV approach. At this stage of ICS development, we suggest the IAIS permit use of different valuation alternatives, such as either a GAAP+ approach or the MAV approach. In addition, the IAIS should consider allowing the BBA as another alternative—or at least as an interim measure—because it incorporates the capital standards of the local regulatory regime and provides greater transparency into the capital adequacy of both the group and the insurance entity. Lack of Consideration of Impact of Derivatives Reform on Capital Standards The IAIS approach to the ICS also fails to appropriately support risk mitigation strategies. We believe the ICS needs to award full credit for hedging activities that support capital requirements. Limited credit under the ICS acts as a disincentive to market participants to mitigate their risks, and ignores the recent global implementation of derivatives reforms. Reforms undertaken in the United States and around the world have made the financial system more transparent, resilient and stable. Reporting of swap data has also helped market participants and the public understand the extent of each participant's derivatives exposures. But, failure to fully credit hedging practices, such as dynamic hedging, may result in a perverse incentive not to mitigate these risks in the markets whatsoever. Such an effect clearly would undermine the stability of our financial system, an objective counter to the stated goals of the ICS. The Impact of Poorly-Designed Capital Standards on Bond Markets Businesses rely on the corporate bond markets to raise capital. While not as liquid as equity markets, the bond markets provide a stable form of financing, benefiting businesses and investors alike. As insurers are significant investors in the bond markets, the implementation of poorly designed capital standards could reduce funds available for investment in the corporate bond markets. Equally important, local governments and communities rely on financing provided by infrastructure investments that help those communities fund improvements to transportation systems, communication, sewage, water and electric systems, providing a benefit to both the

					residents in those areas as well as the businesses that operate there. The Chamber's concern is that the ICS, combined with the impact of other global financial regulatory initiatives such as the enhanced prudential standards that will be applicable to SIICs, may have a significant impact on the ability of many businesses to raise capital and local governments to access needed financing. In part, the Federal Reserve has recognized this in its plans to design separate capital standards for SLHC insurers and SIICs. While recognizing that differences in major product lines may justify a different approach and strict comparability may not be possible, the IAIS ICS should seek to "level the playing field" among similarly situated insurers by insuring similar outcomes.. Providing for such flexibility is yet another reason to the IAIS should seek to adopt an ICS that is principle based. Conclusion The Chamber appreciates the difficulty IAIS has in convening the global discussion regarding capital standards for insurance given the number of regulators and stakeholders involved. However, for the IAIS' work to be effective, it must result in an ICS that is complementary to and adaptable for multiple jurisdictions, not only to ensure that insurance companies are adequately capitalized, but also to ensure that it promotes capital formation for economic growth. Accordingly, the Chamber urges IAIS to undertake careful deliberation, avoid completion of an ICS on any artificial timetable, and most importantly develop an ICS that is principle based, providing the necessary flexibility to accommodate different jurisdictions. Sincerely, Andres Gil Director Center for Capital Markets Competitiveness U.S. Chamber of Commerce
Liberty Mutual Insurance Group	USA	Other	No	Yes	Nearly three years ago the IAIS announced plans to develop a risk-based global insurance capital standard and almost two years have passed since the IAIS released the first ICS consultation.

					During that time much has occurred that is related to the IAIS's plans. In particular, the United States Federal Reserve Board released an initial draft capital standard for insurance groups under its jurisdiction, consisting of firms designated as SIFI's by FSOC and insurance depository institution holding companies. This draft standard uses an aggregate or building block approach and disfavors a risk-factor approach for non-SIFIs. The National Association of Insurance Commissioners is working on a group capital assessment mechanism that contemplates a similar aggregated capital approach in a tool that will take an inventory of a group's required and available capital. Meanwhile, in Europe, the implementation of Solvency II has naturally led to review and discussions about capital levels required under Solvency II and other aspects of the Solvency II legislation. Logically, the IAIS should reconsider both the current consolidated design for the ICS as well as the need for it as a matter of public policy as a result of these clear signals from key regulators and public policymakers in major markets. Instead of recognizing this point, after nearly three years of work that has included both formal consultations and informal stakeholder sessions, the most recent version of the proposed ICS shows very little change from its initially proposed form. As a result, Liberty Mutual and many other commenters continue to point out significant technical flaws and misguided public policy choices contained in much of the Proposed ICS. The basis for our opposition is not new, because as noted immediately above, the Proposed ICS has not materially changed, either. The Proposed ICS continues to ignore important policy decisions that simply must be considered now, not later, as the IAIS suggests in Section 1.2 of the Consultation Document. These issues include analyzing cost-benefit issues, properly addressing consequences that follow from the lack of global insurance accounting and solvency regimes, respecting the prerogatives of local insurance supervisors, achieving the primary goal of policyholder protection, answering practical questions regarding the enforceability of an ICS, and determining what the consequences will be if an insurance group is found to have insufficient capital. Because the IAIS is ignoring these policy issues, the current form of the Proposed ICS simply will not be workable nor acceptable in many jurisdictions around the world. In its current form, the Proposed ICS is misleading to supervisors, unhealthy for insurance markets, and costly to

					consumers without a commensurate increase in consumer protection. In short, as we have observed before and repeat here it is important that the technical matters the Proposed ICS addresses be guided by the resolution of policy, first, not the other way around. The technical specifications that ultimately are selected may not be reconcilable with these policy considerations if the latter are delayed. As noted above, the Proposed ICS continues to be plagued by several major technical problems. These problems include, but are not limited to, the following issues, which any capital standard must fully reflect: 1. The Proposed ICS continues to contain elements that are not necessary for policyholder protection and, consequently, the overall structure of the Proposed ICS reflects a “going concern” point of view. Although the IAIS claims this is consistent with IAIS’s “mission” to maintain insurance markets for the benefit and protection of policyholders and to contribute to financial stability, the fact is a traditional insurance group poses no risk to financial stability, which is a point the IAIS has time and time again agreed with. 2. The IAIS appears committed to requiring an entirely new system of valuation – either a Market Adjusted Valuation approach or a local GAAP with adjustments approach. This will impose large administrative costs on the IAIGs to which the IAIS envisions the Proposed ICS will apply, without any return in increased protection to policyholders. The Building Block Approach that the Federal Reserve is developing is much a more logical and cost-effective proposal to evaluate insurance group capital. 3. The IAIS continues to view a consistent and comparable MOCE as an essential element of the Proposed ICS. This ignores the fact that a MOCE is fundamentally irreconcilable with the financial accounting system used by all U.S. non-life insurance reserves. 4. The IAIS has rejected stakeholder comments urging it to abandon using a tiered capital assessment approach. Tiering capital is irrelevant for purposes of assessing the availability of capital for policyholder protection purposes, which should be the sole determiner of whether capital qualifies for purposes of the ICS. Of particular concern in this regard is the IAIS’s continued

					apparent reluctance to acknowledge that the proceeds of subordinated debt and other surplus financing vehicles are fully available as Tier 1 qualified capital to protect policyholders. 5. The stress approach/factor-based approach for measuring risk to be used for determining consolidated capital requirements in the Proposed ICS is needlessly complicated. As the Federal Reserve has observed, such an approach may be valid with respect to assessing the capital requirements of systemically important insurers, but for the vast majority of the IAIGs, a simpler approach, such as the Building Block Approach favored by the Federal Reserve will be more effective. 6. The Proposed ICS remains silent regarding the use of internal models. The IAIS indicates it will consider this topic when it begins working on ICS Version 2.0 in 2017, but when pressed for details as to what those plans might be, the IAIS's responses are vague, at best. 7. The potential consequences of insufficient capital are particularly unclear. On the one hand the IAIS insists that the Proposed ICS will not apply to legal entity insurance companies, but given that most insurance group capital is held by a group's insurance entities, any adverse finding related to overall group capital is implicitly a finding that there must be insufficient capital at one or more of the group's insurance entities. Hand in hand with this flaw in the IAIS's approach is that the IAIS recognizes there are issues regarding the fungibility of capital, but it has declared in Section 1.2(h) of the Consultation Document that topic as out of bounds for interested stakeholders to comment on at this time. 8. The Proposed ICS goal of comparing an insurance group's capital against other insurance groups is unattainable given the variety of insurance groups and their business models. Strong risk assessment and management practices are more critical to an insurer remaining solvent than the insurer's gross amount of group capital. There is no effective substitute for supervisors understanding all risks presented across a group, acknowledging that risks necessarily differ from group to group, and assessing capital needs appropriate to that group. Thus, a consistent supervisory approach to capital assessment of individual groups can be achieved, but the mathematical comparability among groups the IAIS seeks cannot. Liberty Mutual will continue to work with all supervisors and interested stakeholders to improve

					global insurance regulation, including group supervision. An important component of group supervision is an assessment of group capital, meaning the capital needed by an insurance group to satisfy its risk tolerance and to support the business plan of the entire insurance group, not merely at the individual entity level. Thus, we support supervisory group capital assessment, but not a group capital standard. However, similar to testimony that the NAIC has provided to the U.S. Congress, the case simply has not been made that the benefit of conforming global capital standards to more closely resemble European standards is worth the cost of pre-empting existing regulatory regimes, undermining effective consumer protections, and disrupting already competitive and resilient marketplaces. Therefore, we cannot endorse the approach the IAIS is taking in the Proposed ICS. We urge the IAIS to focus on principles, policy guidance and the accommodation of jurisdictional differences where they make sense. An aggregation approach must be seriously considered instead of the IAIS continuing to spend valuable time and resources pushing for a highly technical standard that is unnecessary and not cost-effective for insurers or their policyholders.
MassMutual Financial Group	USA	Other	No	Yes	Please see below the contents of our letter that was submitted separately to the IAIS. Subject: Risk-based Global Insurance Capital Standard Version 1.0 Public Consultation Document To Whom it May Concern: Massachusetts Mutual Life Insurance Company ("MassMutual") is pleased to provide input to the IAIS public consultation document on the Risk-based Global Insurance Capital Standard Version 1.0 ("Consultation") dated 19 July 2016. As a U.S.-based mutual life insurance company and a leading provider of whole life insurance, retirement and protection products, we appreciate the opportunity to comment on this important issue of developing a new international insurance capital standard. We recognize the significant progress that has been made on the Insurance Capital Standard ("ICS") and appreciate the ability to provide input on the important components of the ICS through the Consultation process and through our efforts in field testing. We also appreciate the additional focus on mutual internationally active insurance groups ("IAIGs") within the Consultation, as it is imperative to ensure mutual insurance companies are not penalized in any capital standard. We are

					pleased to continue to work with the IAIS on these matters and offer the following comments in addition to our responses to the Consultation questions. **Consideration should be made to accommodate mutual insurance companies within the ICS and ensure they are not penalized as a result of their mutual structure.** ☐ Mutual companies have unique characteristics, most fundamentally the risk and capital management benefits of policyholder dividends. In the normal course of business, policyholders of U.S. whole life products participate in both the profits and risk experience through the dividend mechanism. It is imperative that the ICS recognizes this inherent risk mitigation feature of participating whole life products by allowing projected cash flows to reflect the pass through of experience. 2 ☐ Surplus notes are a critical component of capital management for U.S. mutual insurance companies. We believe surplus notes should be considered one of the strongest forms of capital resources and recognized in the ICS definition of Tier 1 resources. In the U.S., all surplus note distributions require supervisory approval, and failure to pay a surplus note cannot trigger an event of default for the insurer. We believe the role of the insurance supervisor should be recognized within the ICS and strong supervisory controls over surplus note distributions should result in their Tier 1 classification. ☐ We appreciate the IAIS's recognition of U.S. statutory accounting. As a U.S. mutual life insurance company that does not prepare audited, consolidated GAAP financial statements, we continue to believe that aggregate statutory accounting is appropriate for baseline financial reporting for the insurance group. **We believe more testing should be done on discounting of insurance liabilities before any version of the ICS is adopted.** ☐ Although significant focus was placed on testing discounting approaches during the 2016 field testing exercise, numerous questions and concerns remain unanswered. We recommend additional testing on 1) refinement of the methodology to quantify the credit spread adjustment, 2) measuring the impact of volatility over time from the spread adjustment once an option is chosen, 3) defining an appropriate methodology and spread adjustment for the long term forward rate ("LTFR"), and 4) understanding how cash flows reflect the starting asset portfolio. ☐ We support the IAIS's development of the GAAP Plus valuation approach and believe the liability cash flows and discounting are more appropriately modeled as they do not ignore the company's

					starting asset portfolio. However, we recommend modification of GAAP Plus to incorporate the prescription of reinvestment rates, and would suggest the same reinvestment yield curves can apply to both MAV and GAAP Plus. **Risk management practices, including dynamic hedging, should be appropriately reflected in the ICS.** ☐ Life insurance companies use derivative financial instruments in the normal course of business to manage risks associated with their long-term insurance liabilities. As an example, MassMutual employs a rigorous asset/liability management process to help mitigate the economic impacts of various investment risks, including the reduction of currency, credit, and interest rate imbalances determined through ongoing asset/liability analyses. ☐ The current approach in the ICS applies stresses calibrated over a one year horizon to the balance sheet instantaneously, and as a result ignores an insurance company's existing policies and fundamental risk management practices. 3 ☐ We recommend modifying the application of stresses to allow recognition of risk management practices. We note that this recommendation applies to hedging programs that permit frequent hedge asset rebalancing based on defined hedge asset rebalancing rules that do not require management intervention or approval. These programs can additionally be reviewed by regulators to verify they are working properly. **We recognize and support the progress that has been made on several other critical components of the ICS, and note where further refinement continues to be necessary.** ☐ We strongly support the utilization of NAIC ratings in order to accurately and fairly assess the credit quality of investment portfolios. Excluding NAIC ratings results in treating all private placement bonds as non-investment grade and grossly overstates the credit risk of the insurer's portfolio. ☐ As noted previously, we support the IAIS's development of the GAAP Plus valuation approach, particularly given the inclusion of the AOCI adjustment. We believe the AOCI adjustment appropriately reflects the long-term investment strategy of life insurance companies by removing capital charges for mark-to-market changes on "buy and hold" fixed income assets.

					☐ We recognize the desire for supervisors to include a MOCE within the ICS and believe it should be defined as a margin for uncertainty in the reserves where assumptions are not prescribed. Currently, the cost of capital ("CoC") MOCE includes both operational and credit risk (which do not factor into the calculation of reserves) and catastrophe risk (which is a tail event). We propose excluding these items and instead including only insurance risk associated with reserve assumptions within the MOCE. ☐ The aggregate result of the issues noted above, along with the current calibration of the stresses used within the ICS, creates an overly punitive capital standard. We encourage the IAIS to consider all of the components of valuation and capital requirements holistically to assess and calibrate the resulting impact of the ICS. **Conclusion** MassMutual is supportive of the IAIS's mission 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. We believe that these efforts to assure confidence, strength, and stability within the insurance industry align with our corporate values, namely helping our customers achieve their financial objectives. While we recognize the progress the IAIS's has made on the development of the ICS, much work remains. We remain concerned about the timeframe proposed by the IAIS given the magnitude of issues still unresolved, particularly discounting of long-term liabilities, recognition of risk management practices and calibration of capital requirements. These issues, if not appropriately addressed, have the 4 potential to discourage the availability of long-duration insurance products needed by consumers. We therefore urge the IAIS to take the needed time to fully vet these material issues prior to adoption of any version of the ICS. Thank you for the opportunity to offer our comments and perspective. We look forward to continued dialogue with the IAIS to assist in the shaping of ComFrame and the ICS. We are available if you have any questions or concerns about this letter or our technical responses.
Property Casualty Insurers	USA	Other	No	Yes	1. PCI is very concerned with the Consultation Draft's statement, in paragraph 31, that "the ICS capital requirement, calculated using a risk-based method, is the amount of capital resources needed to cover loss(es) at the specified target criteria of 99.5% Value at Risk (VaR) statistical

Association of America (PCI)					measure." While the 2014 ICS Consultation Draft asked whether 99.5% VaR was appropriate for field testing purposes, we are not aware of any place where the IAIS has asked stakeholders whether this was the appropriate final target level. And the IAIS has made no case for selection of the 99.5% level as the ultimate target. Please clarify whether paragraph 31 is stating the target level for 2016 field testing or whether the IAIS has decided this is the final target level. If the IAIS proposes to adopt this standard for ICS Version 1.0 and following, it should be exposed to stakeholders for comment before any decision is made. We also urge that the 2016 aggregate ICS required capital for all field testing volunteers be compared against their current aggregate jurisdictional required capital, and that if the aggregate ICS required capital level is significantly higher a downward adjustment be exposed for stakeholder comment and adopted. 2. PCI notes that Paragraph 15(j) states, "As the ICS is still being developed, it is too early to say to what extent existing group capital frameworks will be considered consistent with the ICS." We reiterate that existing group capital frameworks that achieve comparable results in policyholder protection to the ICS should be recognized as a suitable implementation of the ICS framework. This will avoid both significant additional implementation costs and conflicts between differing and duplicative group capital assessments.

End of Q236