

# Feedback on ICS Version1.0 for extended field testing



The Life Insurance Association of Japan

# Agenda

(1) Usage of ICS

(2) Disclosure of ICS ratios

(3) Discount rate for insurance liabilities

(4) Different risk factors for each country/region

(5) Internal models

(6) Closing remarks

# (1) Usage of ICS

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- ✓ We are concerned that the application of ICS may have an unintended impact on the solvency of insurers.
- ✓ It's essential to announce, at an early stage, what type of measures the IAIS would connect with the ICS in the supervisory process.

## Our Proposal

### **(Pre-implementation)**

- To set a certain trial period during which the ICS is used as a communication tool among supervisory authorities.



### **(Post-implementation)**

- To start as a soft standard such as monitoring indicators and to refine them subsequently.

## (2) Disclosure of ICS ratios

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GAAP Plus and MAV will remain under consideration for the time being, and we will also need to assess their advantages and disadvantages carefully.

### Our Viewpoint

#### **(Pre-integration)**

- Under this situation, the calculation results under the ICS should not be disclosed, at least as long as GAAP Plus approach and MAV approach exist in parallel.

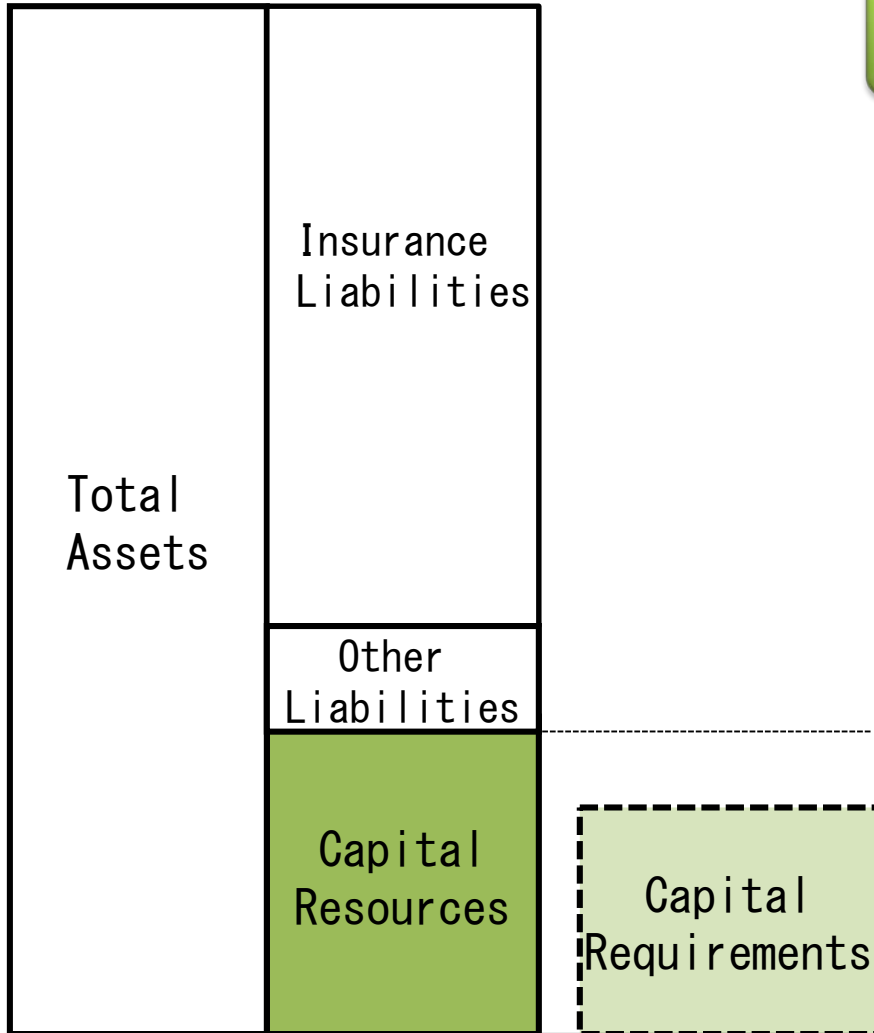


#### **(Post-integration)**

- The disclosure of the calculation results should be carefully considered where there exist differences between global and local capital regulatory regimes.

# (3) Discount rate for insurance liabilities

<B/S(MAV based)>



we support OAG, because:

## Our Viewpoint

- Basically life insurers hold ultra-long-term insurance liabilities, so it's reasonable to hold equities as assets backing liability cash flows that cannot be matched with fixed income assets.
- The Equity risk is counted as Capital Requirements. In contrast future excess profits from equity holdings are not reflected in Capital Resources.
- Therefore, excess spread earned on assets such as equity should be reflected in the discount rates.

# (4) Different risk factors for each country

We still believe the application of different risk factors for each country or region could be worthwhile to consider (e.g. Lapse risk).

## 2016CD/LIAJ's comments

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.**

## ICS Version 1.0

**328.** During 2016 Field Testing, the IAIS undertook a voluntary data collection exercise with Volunteer Groups with the aim to validate the stresses...

**329.** Overall, there was limited participation from Volunteer Groups, although more data was received from certain regions compared to others. There were also some issues related to the length and quality of submitted data. **Analysis of data received did not indicate the stresses set out in 2015 and 2016 Field Testing were inappropriate.**

# (5) Internal models

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With regard to internal models, we would like to suggest as below.

## Our Viewpoint

➤ First of all, it's important to refine the standard method for calculating the ICS capital requirements as further as possible. Nevertheless, the standard method may have limitations in fully reflecting insurers' reality.



➤ In such cases, internal models can be considered as a complementation. However, in order not to cause disadvantages for insurers in a particular jurisdiction and to ensure a level playing field, a sufficient preparation period needs to be set.

## (6)Closing remarks

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- Although we commented on lots of issues during the consultation in 2016, most of them remain to be resolved.
- We support the development of ICS Version 2.0, but, given this situation, the roadmap for the implementation of the ICS Ver. 2.0 may need to be redesigned. And reconsideration of its timeline should not be ruled out.