IAIS Consultations

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Q-Nr.	Reference	Question
		2. Executive summary
Q-1	**2.**	General Comments on Executive Summary
Q-2	**2.1**	Comments on Overview Paragraph 10 (17 & 73); Comparability of property/casualty claim liabilities is helped because nearly all jurisdictions currently require the use or disclosure of undiscounted claim liability estimates without risk margin. While this still leaves unaddressed the relative reliability (e.g., different optimism and different assumptions) of such estimates across companies, this is not new to either the rating agency, accounting or regulatory bodies. The expected present value estimates of claim liabilities mentioned in Section 2.2 (Paragraphs 17 & 73) are not currently readily available for property/casualty claim liabilities in many jurisdictions, and may not be available in the future for those not subject to IFRS and/or Solvency II. Thus, some companies may not have such estimates and will have only the undiscounted central estimates. As such, a more achievable/practical measure, in looking forward to an ICS (at least for the short term), could be the undiscounted central estimates currently being recorded. The one approximation that will occur here is that comparability will be lost between countries with different levels of interest rates for general insurance claim liabilities with a long enough duration where discounting becomes material.
Q-3	**2.2**	Comments on Approach
Q-4	**2.3**	Comments on Generic example
Q-5	**2.4**	Comments on Key risks addressed Paragraph 27; We understand that non-insurance, non-financial risks will be excluded if they can be shown to be non-material to the insurance operations in that they are not backed or provided with any kind of guarantee or promised financial support. For those instances where such support is included, we do not see where any guidance has been provided. But we do appreciate that this possible gap will be best reviewed via the field testing process.
Q-6	**2.5**	Comments on Other Considerations

		Paragraph 31; It is not clear why the pre-calibrated factors such as the U.S. NAIC RBC formulas were not included here. That delineation is also factor based, allows for more granularity than Solvency I and is more risk sensitive
Q-7	**2.6**	Comments on Conclusion and next steps
		Paragraph 38 2nd bullet point; Establishing whether insurers that create systemic risk to the global financial system are weakly capitalized via the BCR is different from determining whether an IAIG is weakly capitalized. Many IAIGs may not create material risk to global financial systems due to an entirely different set of risk exposures from those in a G-SII. In particular, some IAIGs will be largely or wholly non-life insurers, with little if any exposure to financial risks or impact on the global financial system. But, since some IAIG’s are also included in the field testing project, this should be easy enough to verify. There is a spectrum of solutions that range from providing simple comparability and accepting that the comparison is approximate (the focus of the BCR) to having appropriate risk sensitivity (ICS). A US solution adopted many years ago (and not too dissimilar from what was later done for Solvency II) uses a formula based approach for statutory requirements. The solution starts with formulas that are "approximately" right, supplemented by an actuarial cash flow testing and reporting requirement to assess when and if there might be material differences or gaps. We think a similar, multi-faceted, approach would be of value in reporting on the BCR as well as understanding and building an improved ICS. We provide more detail on this topic later in our response.

3. Context

Q-8	**3.**	General Comments on Context
Q-9	**3.1**	Comments on Background
Q-10	**3.2**	Comments on The BCR mandate
Q-11	**3.3**	Comments on Scope of application
		Paragraph 49 2nd sentence; If the G-SII/IAIG designates supporting capital and holds capital at the parent level for its subsidiaries´ possible use, then all non-traditional, non-insurance (NTNI) activities under the parent would impact the group´s insurance operations as this capital could be used to support NTNI needs.
Q-12	**3.4**	Comments on Principles
		Paragraph 53 3rd sentence; We agree that this is an issue for G-SIIs. We note that this does not necessarily remain a concern regarding IAIGs. While many G-SIIs’ activities may overlap with banking activities, there will be many IAIGs with little to no overlap.
Q-13	**3.5**	Comments on Role of a “basic” BCR
Q-14	**3.6**	Comments on Qualifying capital resources
Q-15	**3.7**	Comments on Non-insurance activities

4. Comparability of valuations

Q-16	**4.**	General Comments on Comparability of valuations

Q-17	**4.1**	Comments on Valuation of liabilities – current estimates
Q-18	**4.2**	Comments on Valuation of assets

5. Factor-based approach

Q-19	**5.**	General comments on Factor-based approach
Q-20	**5.1**	Comments on Context
Q-21	**5.2**	Comments on Major risks Paragraph 100; One possible risk factor to consider is to split pre- and post-claim event liabilities. The pre-event risk includes event risk, underwriting risk, and pricing risk. The post-event risks involve mostly estimation risk. For claim liabilities with a longer settlement lag the post-event claim liability ends up with a high concentration of the more problematic claim liabilities (more so than the pre-claim liability). The easier to settle claims are normally settled faster, so the claim liability at any point in time tends to include many policy years of claim tails. Paragraph 101; The risk factors should reflect pass-through features, such as those seen with participating policies.
Q-22	**5.3**	Comments on Factor-based approach calculation
Q-23	**5.4**	Comments on Level of granularity
Q-24	**5.5**	Comments on Generic example
Q-25	**5.6**	Comments on Field testing process Paragraphs from 116 to 123; We appreciate the balance between extra work on the field test and being able to understand the impact of the proposals. And we appreciate that the field testers and regulators are best suited to decide this. Would it be of value to include a team of contributors (or have it be included in the additional data request) to back test via assessing the historical results of known stressful periods (i.e. 2007-2009)?
Q-26	**5.7**	Comments on Next steps

General Questions

A second consultation in mid-2014 will specifically invite comments on a range of questions regarding the BCR and its relationship with other existing and proposed regulatory measures affecting G-SIIs and Internationally Active Insurance Groups (IAGs). You may comment below if you wish to provide input on any of these general questions in advance of the second consultation:

Q-27		1. Is the purpose of the BCR clear enough?

We have combined some responses that might also have been made in earlier sections as well as in Questions 5, 6 or 8 below in order to make a more succinct submission. We think there are some important, not fully developed, aspects to this project, in regards to this question. Much of the initial input from our members showed that the objectives and desired outcomes need clarification. Thus we provide the following comments: 1. Which regulatory function(s) is the BCR intended to serve? Three important functions are surveillance, enforcement and modification of industry activities. The intended weighting of each of these is not clear and impacts the following questions: a. Is the intent to only act as an approximate early warning system that would invite further review and dialogue between supervisors and the company? Rating agencies and many local jurisdictions have developed their own sets of factors and indicators. But these are confidential to the regulator and to the company. When triggered, they invite dialogue and in some cases there are sound reasons why the trigger/factor was not reflective of the underlying soundness of the company. And in other cases, it does indicate an important area of concern. This would be an example of a surveillance type focus. b. Or is the intent for the measures to be public and to result in regulatory actions being taken (also in a public manner and with an enforcement type focus)? c. A third focus could be to assess why and when false indicators occur (or when there was no indicator that appeared such as for new NTNI activity). This would result in actions to impact the kind of behaviors, products and risk activities of the companies and/or to modify the framework. 2. Another question left open is what is meant by the objective to set the BCR to a going concern level. This usually implies a much higher level than that of just meeting policyholder obligations and, perhaps, is driven by the desire to avoid a G-SII that might fail its creditors. Given that factors are being used that are simplifications of risk, this might suggest setting a lower BCR to avoid false positive indicators. Other factors we expect to impact the setting of the standard include: a. There is no diversification credit contemplated. Yet there are non-financial insurance risks that are independent of the markets. b. If and how a factor is set for interest rate risk and the value of options and guarantees. c. Possible exclusion of operational risk. While this is very difficult to translate to a factor, it is an additional risk exposure to the company and may or may not be well addressed via a capital charge. 3. This pertains also to Question 5 & 8 – (Will the proposed approach to valuation of assets and liabilities provide sufficient global comparability & How should supervisors enforce the BCR in a consistent manner across jurisdictions?) We appreciate the challenges inherent in this project. We expect the standards will evolve and be reviewed not only over the next couple of years, but even more so after implementation in order to understand and enhance comparability. We would suggest the following principles to be considered in setting the reporting bases. a. Are there Robust Rules? b. Is there Reliable Reporting? This means that there are adequate company controls and expertise to prepare the information in a consistent manner. c. Is there a Rigorous Review? d. And most importantly, is there a Report that includes the context around what the numbers mean/don´t mean or the key assumptions they are based on? As the BCR and ICS Rules are developed the other three principles can be used to assess the soundness of the framework. For example, there will always be important considerations in setting best/central estimates to assess the comparability across organizations. The IAA has already organized a group to define the professional actuarial role for actuaries that are preparing information needed for an IAIS defined reporting requirement in order to support principles c and d above. Any framework put forward will be a compromise between what is ideal vs. practical with simplifications that will miss something important or magnify something to be more important than it should be. Thus items c and d become important safeguards to ensure that the framework can evolve appropriately over time. We point out, for example, an important consideration for many non-life non-financial hazard risks. For example, the risks associated with motor insurance in Mexico with national health care are very different from the risks associated with motor insurance in the U.S. without national health care. Similarly, the risk from commercial property business written on the coast of Australia may not be "comparable" to commercial property business written in an inland location like the U.S. Midwest. As a result, comparability may not be directly achievable in the manner envisioned in this paper for non-life non-financial risk. The risk factor applied to the premium for a certain product in one jurisdiction may not be appropriate for the premium for the same product in another jurisdiction. Mitigating this problem requires evaluating the riskiness of each product separately by jurisdiction, as opposed to applying the same factor to a product's premium regardless of jurisdiction This is an issue for groups in which financial market risk may not be material. And is an excellent example of the kind of information that could be provided via an actuarial report on the appropriate context to be given to the reported BCR numbers, The focus should be the identification of G-SIIs that are in vulnerable financial condition, rather than the comparison or ranking of strong G-SIIs. A focus on comparing strong G-SIIs is a different goal than the identification of weak G-SIIs and will lead to a different BCR. The IAIS will need to be more explicit on the level of expenses it expects to employ, focusing on direct versus indirect and then again in wind-up versus going concern. In addition, is comparability realized at the minimum level, or is it meant to apply across the scale? Achieving comparability at the base level is likely doable, at best, in only an approximate sense. Trying for comparability

	across the full spectrum of BCR possible values is not likely to be meaningful.
Q-28	2. At what level should the BCR be calibrated compared to existing national benchmarks? Given the business model behind both the business and regulation of insurance, it has been our experience that regulatory capital targets work best when set as a floor based on policyholder protection of guarantees. The nature of insurance as a conservative approach to managing risk means that companies will target their business operations at a going concern level well in excess of regulatory action requirements to maintain the ratings and sales goals needed to remain a viable, ongoing operation. Regulators and companies research, set up and track early warning indicators that are more aggressive/sensitive so they can more clearly distinguish between measures that are truly emerging risks and those that just trigger false noise. We suspect that a floor set at a lower level heightens the focus and awareness of all involved to be on the lookout for emerging indicators. A target set too high leads to micro managing of the business (and regulatory process) and a lessened focus on more fundamental emerging risks
Q-29	3. Is the BCR expected to be a temporary measure, until the risk-based group-wide global insurance capital standard (ICS) is in place, or will it continue to apply?
Q-30	4. Should a backstop capital measure be introduced to complement the proposed ICS, in addition to or instead of the BCR? If so what should the purpose of such a backstop capital measure be, compared to the BCR?
Q-31	5. Will the proposed approach to valuation of assets and liabilities provide sufficient global comparability?
Q-32	6. Can a reasonable balance of risk sensitivity and simplicity be achieved using a factor based approach? Mere summing of individual risks assumes perfect correlation of all risks with financial market risk. The formula as written disregards interactions between risk measures. As such, we suggest including an adjustment to recognize that claims and financial risks are not correlated or recognizing this issue in setting either the level of the BCR factors or in assessing a HLA.
Q-33	7. How should the BCR be integrated into national or regional frameworks which are in the process of being implemented or modified?
Q-34	8. How should supervisors enforce the BCR in a consistent manner across jurisdictions?