

# IAIS Consultation

Print view of your comments on "Public Consultation on draft criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the Insurance Capital Standard" - Date: 15.08.2022, Time: 21:15

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Question	
<b>Answer</b>	<p>Q1 Comment on criterion 1.1</p> <p>The IAA is concerned that the data collected over the monitoring period is insufficient for the use of this criterion. Business cycles vary in length and can vary over time, so a robust evaluation of the AM vis-à-vis the ICS would require evaluation of multiple business cycles.</p> <p>In addition, the monitoring period includes two unusual shocks that make the current business cycle very atypical. Those shocks are the COVID pandemic as well as the Ukraine invasion. The current climate change initiatives also make the current business cycle unique.</p> <p>Capital requirements derived from both regimes (ICS and AM) should be risk sensitive in particular to stressed conditions. Therefore, the IAA regards correlated behaviour in the current business cycle as a necessary condition for comparability, but the current business cycle should not be taken as a representative one.</p> <p>It might be useful to try to write what the word "short term (market fluctuation)" means more clearly.</p>
<b>Answer</b>	<p>Q2 Comment on criterion 1.2</p> <p>As discussed in the comment on criterion 1.1, the IAA does not believe the data collected during the monitoring period is sufficient for the use of this criterion.</p>
<b>Answer</b>	<p>Q3 Comment on criterion 1.2a)</p>
<b>Answer</b>	<p>Q4 Comment on criterion 1.3</p> <p>The IAA notes that the term "representative sample" is not sufficiently defined or explained until Criteria 5.1 and 5.2. The IAA suggests that more discussion of the required sample be included before the discussion in this criterion.</p> <p>The IAA believes that if the same scenario identifies a material risk for either the ICS or the AM but not the other, then a material issue may exist beyond the evaluation of the AM. If the ICS identifies a valid risk that is not observed in the AM, then it implies a deficiency in the capital requirements of at least one of the jurisdictions that are material to the AM calculation. This should be reported back to the jurisdiction at issue so that it can be appropriately addressed. Likewise, a valid risk identified by the AM that is not observed in the ICS would indicate a deficiency in the ICS. Issues would also exist if either of the approaches identified a risk that was determined not to be a valid risk.</p>

With regard to the scenarios chosen, it might be valuable to expose the scenarios for this evaluation for public consultation. Given the relatively small number of IAIGs that might be involved in this analysis, the scenarios chosen would have to be chosen with particular care. (E.g., there are only 9 IAIGs currently identified with a U.S. domicile, with that number even smaller for the life vs. non-life segments.)

Q5 Comment on criterion 1.3a)

**Answer**

Q6 Comment on criterion 1.3b)

**Answer**

It is not clear what this criterion is requesting when it says, "the sensitivity analysis is conducted on the consolidated group", as the application of a scenario for the ICS would have to look at the impact on the existing balance sheet, and that impact may vary based on the location of the assets and liabilities. Therefore, even if the results under the ICS would require producing consolidated impacts, the determination of the impact of the scenario may require a more granular analysis with the results of the granular analysis being consolidated.

Q7 Comment on criterion 1.3c)

**Answer**

As mentioned in an earlier comment, it would be helpful to expose via a consultation the additional scenarios being suggested. It is difficult to provide much comment without knowing more about the suggested scenarios.

Q8 Comment on criterion 1.3d)

**Answer**

The IAA would anticipate difficulties in the production of "standardized" scenarios given the small number of groups potentially included in the sampling, as well as material variations in business practices within that small sample. For example, among the small number of predominately non-life IAIGs in the U.S., the proportion of investments made in equity instruments ranges from nearly 50% to under 5% (based on 2 of the larger U.S. IAIGs based on non-life earned premium). As such, it may not be possible to produce standardized scenarios for this purpose.

Q9 Comment on criterion 1.3e)

**Answer**

Q10 Comment on criterion 2.1

**Answer**

Q11 Comment on criterion 2.2

**Answer**

Q12 Comment on criterion 2.3

**Answer**

In calculating "the proportion of non-risk-based regimes", the IAA notes that various regimes have introduced risk-based criteria over the last several years, with this trend continuing. This changing trend over time may cause some confusion over how or when this criterion will be measured.

Q13 Comment on criterion 2.4

**Answer**

	Q14 Comment on criterion 2.4a)
<b>Answer</b>	
	Q15 Comment on criterion 2.4b)
<b>Answer</b>	
	Q16 Comment on criterion 2.4c)
<b>Answer</b>	
	Q17 Comment on criterion 2.4d)
<b>Answer</b>	
	Q18 Comment on criterion 3.1
<b>Answer</b>	The IAA notes that this criterion is with regard to legislation and/or regulation that would utilize the AM or ICS, and not with regard to the AM or ICS metrics themselves. Therefore, the IAA suggests that this criterion either needs to be reworded to address the metrics themselves (i.e., AM vs. ICS calculations), or needs to be deleted.
	Q19 Comment on criterion 3.1a)
<b>Answer</b>	
	Q20 Comment on criterion 4.1
<b>Answer</b>	
	Q21 Comment on criterion 5.1
<b>Answer</b>	The very small number of current IAIGs in the U.S., especially for the Life sector, may make it difficult to obtain a "representative sample". In particular, there is only one IAIG domiciled in the U.S. with a business model focused on life reinsurance. This situation makes criterion 5.1 difficult, if not problematic, to apply in practice.
	Q22 Comment on criterion 5.2
<b>Answer</b>	
	Q23 Comment on criterion 5.2a)
<b>Answer</b>	
	Q24 Comment on criterion 5.2b)
<b>Answer</b>	
	Q25 Comment on criterion 5.2c)
<b>Answer</b>	The criterion for "a relatively large sample" is problematic given only three IAIGs in the U.S. with large life/annuity operations (and only one with a life reinsurance focus).
	Q26 Comment on criterion 5.2d)

<b>Answer</b>	<p>It is not clear that non-life operations would be more homogeneous, given that the industry is defined as an "all other" with regard to insurance. In any event, it is clear that investment portfolios can differ materially within this grouping, for example, in the US two of the largest non-life predominate IAIGs have equity instruments ranging from under 5% of the investment portfolio to nearly 50% of the investment portfolio.</p> <p>Given only six U.S. domiciled IAIGs with non-life operations, there needs to be more definition of the sample requirements than "representativeness", especially given the variability in business models for those six groups.</p>
Q27 Comment on criterion 5.2e)	
<b>Answer</b>	
Q28 Comment on criterion 5.3	
<b>Answer</b>	
Q29 Comment on criterion 6.1	
<b>Answer</b>	<p>The IAA notes that this criterion is with regard to legislation and/or regulation that would utilize the AM, and not with regard to the AM metric itself. Therefore, the IAA suggests that this criterion either needs to be reworded to address the metric itself (i.e., AM calculation), or needs to be deleted.</p>
Q30 Comment on criterion 6.2	
<b>Answer</b>	<p>The IAA notes that this criterion is with regard to legislation and/or regulation that would utilize the AM, and not with regard to the AM metric itself. Therefore, the IAA suggests that this criterion either needs to be reworded to address the metric itself (i.e., AM calculation), or needs to be deleted.</p>
Q31 Please provide any feedback on the design and parameters of scenarios that the IAIS could use to conduct the sensitivity analysis envisaged in criterion 1.3 in order to adequately capture different economic and financial market conditions over the business cycle.	
<b>Answer</b>	<p>The IAA would advise against using the experience during the monitoring period as the basis for testing "over the business cycle", given the unique set of circumstances over that period (e.g., COVID, Ukraine invasion).</p>
Q32 Please provide feedback on the appropriateness of the analysis to determine representativeness of the sample as described in criterion 5.2, including the appropriateness of the indicators and the level of homogeneity of the non-life market for the US and other interested jurisdictions (5.2 d).	
<b>Answer</b>	<p>The requirement for a large sample for life insurer IAIGs cannot be met with regard to the U.S. jurisdiction given only three life insurers predominate IAIGs in that jurisdiction.</p> <p>The requirement for a smaller "representative" sample for non-life would need to reflect the material variation in business model, including investment portfolios, for the non-life IAIGs in the U.S. As such, that requirement may not be operative.</p>
Q33 General comment on the draft criteria to inform the criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the ICS	

**Answer**

The AM and ICS are metrics. These metrics or measures need to be viewed separately from how they are used by supervisors or regulators based on implementing legislation or regulation.

The IAA questions whether the concept of a "representative sample" can be applied where the universe of possible candidates for the sample is very small. For example, there is only one IAIG domiciled in the U.S. with a business model focused on life reinsurance.