

Consultation on Insurance Capital Standard as a Prescribed Capital Requirement

Survey response 1

Information

Please provide your information:

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Name of jurisdiction: - International

Name of organisation: - International Actuarial Association (IAA)

Do you agree with your responses being made public on the IAIS website?

Yes

Section 3 - General Guiding Principles

1. Do you have comments regarding the general guiding principles of the ICS?

In general, the IAA has little experience currently of the detailed impact of ICS due to the confidential reporting of results to the group-wide supervisor. However, the IAA welcomes the introduction of a global capital standard and will continue to consider its impact as experience of the ICS becomes more widely discussed.

At this stage it is difficult to give specific comments on the details of the calculations. However, we are aware of one comment on the factor for the long-term single-payment (category 2) morbidity/disability risk in Japan which has increased from 8% to 15% in the proposed ICS. This may reflect the increase in claims as a result of the COVID-19 pandemic. In Japan, some COVID-19 patients are forced to stay in places other than hospitals (for example their own homes or hotels reserved by local governments). Insurers paid morbidity claims as they deemed such stays as hospitalizations. The increase of the claims can be seen as caused by the one-time change of the policy of the government, so it is questionable whether to reflect it to the risk factor as normally claims are mainly of hospitalization and hospitalization (category 1) factor which have not changed. So, it may not be the case. Whilst this is just one example, there is a principle of how and what experience should be reflected in the risk factors, and what the process is to change the factors.

Section 4 - Perimeter of the ICS Calculation

2. Do you have comments regarding the perimeter of the ICS calculation?

Section 5 - Market-Adjusted Valuation

3. Do you have comments on the introduction of a term structure of credit spreads for discounting?

4. Do you have comments on the revised eligibility criteria for the Middle Bucket?

5. Do you have comments on the introduction of a modulation factor?

6. Do you have other comments regarding the Market-Adjusted Valuation?

Section 6 - Capital Resources

7. Do you have comments on the changes regarding eligibility criteria for Tier 1 Limited and Tier 2 financial instruments? Please explain your response based on actual terms and conditions of instruments commonly issued by insurers.

8. Do you have comments on the introduction of a limit on non-controlling interests, such as the one specified in section 6.4.4?

9. Do you have other comments regarding capital resources?

Section 7.1 - ICS Risks and Calculation Methods

10. Do you have comments regarding the ICS risks and calculation methods?

Section 7.2.1 - Grouping of policies for life insurance risks

11. Do you have comments regarding the grouping of policies for life insurance risks?

Section 7.2.2 - Calculation of Life risk charges

12. Do you have comments regarding the calculation of the Life risk charges?

Section 7.2.3 - Calculation of Non-Life risk charges

13. Do you have comments regarding the calculation of the Non-life risk charges?

Section 7.2.4 - Calculation of Catastrophe risk charges

14. Do you have comments regarding the calculation of the Catastrophe risk charges?

Section 7.3.1 - Calculation of the Market risk charge

15. Do you have comments regarding the list of market risks considered in the ICS, the general principles to calculate them and the way to aggregate them?

Section 7.3.2 - Interest Rate risk

16. Do you have comments regarding the Interest Rate risk?

Section 7.3.3 - Non-Default Spread risk

17. Do you have comments regarding the Non-Default Spread risk?

Section 7.3.4 - Equity risk

18. Do you have comments on the differentiated treatment for investments in infrastructure equity?

19. Do you have comments on the inclusion of the Equity risk counter-cyclical measure (NAD)?

20. Do you have comments on the proposed design of the Equity risk counter-cyclical measure?

21. Do you have comments on whether the Equity risk counter-cyclical measure should allow for more granular calibrations to reflect geographical market specificities?

22. Do you have other comments regarding Equity risk?

Section 7.3.5 - Real Estate risk

23. Do you have comments regarding Real Estate risk?

Section 7.3.6 - Currency risk

24. Do you have comments regarding Currency risk?

Section 7.3.7 - Asset Concentration risk

25. Do you have comments regarding Asset Concentration risk?

Section 7.4 - Credit risk

26. Do you have comments on the differentiated treatment for investments in infrastructure debt?

27. Do you have other comments regarding Credit risk?

Section 7.5 - Operational risk

28. Do you have comments regarding Operational risk?

Section 7.6 - Aggregation / diversification of ICS risk charges

29. Do you have comments regarding the aggregation / diversification of ICS risk charges?

The IAA believes it would be helpful for the IAIS to provide greater transparency on the calibration of diversification in the candidate ICS and to seek comment on key aspects of the calibration prior to finalizing the ICS. For example, it would be good to understand how the interest rate risk charge was calibrated, given that it may have been calibrated in a 'low for long' interest rate environment which has radically changed in nearly all the markets in which insurers conduct their activities.

In addition, the IAA would refer the IAIS to the work of the IAA "Working Party on Risk Aggregation with Correlation Matrices". This shows that, dependent on marginal distributions and copulas involved, the linear correlations to be put into the standard methods' correlation matrix may differ by a factor of 2. More specifically, 25% correlation for normal margins and copula produces the same effect as 12% correlation for more extreme (skewed) margins and copulas (more tail dependence). This indicates that applying a one size fits all correlation approach may well be inappropriate in the context of insurers absorbing the tail risks they are exposed to.

Section 7.7 - Non-insurance risk charges

30. Do you have comments regarding the optionality given to group-wide supervisors to require a calculation based on the Basel III approach for calculating risk charges for non-insurance non-banks financial entities?

31. Do you have comments regarding the optionality given to group-wide supervisors to require an additional risk charge for non-insurance, non-bank financial entities without a sectoral capital requirement where an operational risk charge would not capture all material risks?

32. Do you have other comments regarding non-insurance risk charges?

Section 8 - Tax

33. Do you have comments regarding the use of a simplified utilisation approach for tax?

34. Do you have comments regarding the option given to the supervisor to require a more complex approach for tax?

35. Do you have other comments regarding tax?

Section 9.1 - General principles

36. Do you have comments regarding Other Methods for the calculation of the ICS capital requirement?

Section 9.3 - Supervisory Owned and Controlled Credit Assessments (SOCCA)

37. Do you have comments regarding SOCCA processes?

Section 9.4 - Internal models

38. Do you have comments on the overall requirements (section 9.4.1)?

39. Do you have comments on the general provisions on the use of an internal model to determine regulatory capital requirements (section 9.4.2)?

40. Do you have comments on the criteria for internal model approval (section 9.4.3)?

41. Do you have comments on the additional considerations (section 9.4.4)?

42. Do you have comments on the general provisions on the use of partial internal models (PIM) (section 9.4.5)?

43. Do you have other comments regarding the use of internal models?

Section 10 - General feedback

44. Do you have additional comments on the ICS?

Section 11.1 - Impact on product availability

45. Do you anticipate any impacts from the implementation of the ICS on the new business strategy of IAIGs? If so, please explain the potential impacts.

46. Do you anticipate any impacts from the implementation of the ICS on the pricing of products of IAIGs and/or across the insurance industry? If so, please explain the potential impacts.

47. Do you anticipate any impacts from the implementation of the ICS on the range of product features available in the market (for example investment guarantees)? If so, please explain the potential impacts.

48. Do you anticipate any impacts from the implementation of the ICS on the duration of products written (eg offering products with shorter-term guarantees)? If so, please describe the products that might be affected and the potential impacts.

49. Do you anticipate the implementation of the ICS resulting in an IAIG's withdrawal from writing specific types of products? If so, please describe the products that might be affected and the potential impacts.

50. Do you anticipate the implementation of the ICS requiring changes to risk appetite of IAIGs? If so, please explain the potential impacts.

51. Do you anticipate any circumstances in which the implementation of the ICS might create or help resolve protection gaps (eg due to changes in product availability)? If so, please explain the potential impacts.

52. Do you anticipate that any reduction in product availability from IAIGs could be filled by other market participants? If so, please explain the potential impacts.

53. Do you anticipate any opportunities for an increase in the range of products available in the insurance market as a result of the implementation of the ICS? If so, please explain the potential opportunities.

Section 11.2 - Impact on IAIGs' business models and capital position

54. Do you anticipate any impacts from the implementation of the ICS on the long-term strategy of IAIGs? If so, please explain the potential impacts.

55. Do you anticipate that the implementation of the ICS could lead to a change in the risk sensitivity of the solvency position of IAIGs? If so, please explain the potential impacts.

56. Do you anticipate that the implementation of the ICS could lead to a change in the profitability of an IAIG's business units or insurance entities focusing on a specific product type or market segment? If so, please describe the products or market segments potentially affected.

57. Do you anticipate any circumstances in which IAIGs will need to raise additional capital (beyond those currently anticipated) as a result of the implementation of the ICS? If so, please explain the potential impacts.

58. Do you have any concerns over the ability of IAIGs to raise capital or issue debt in the future as a result of the implementation of the ICS? If so, please explain the potential impacts.

59. Do you anticipate any circumstances in which IAIGs might change their risk management strategy as a result of the implementation of the ICS? If so, please explain the potential impacts.

60. Do you anticipate any circumstances in which IAIGs might change their approach to risk mitigation as a result of the implementation of the ICS? If so, please explain the potential impacts.

61. Do you anticipate circumstances in which IAIGs would re-structure their business as a direct result of the implementation of the ICS? If so, please explain the potential impacts.

62. Do you anticipate any other changes to the operating model of IAIGs as a result of the implementation of the ICS? If so, please explain the potential impacts.

63. Do you anticipate any changes to risk management practices across the insurance industry as a result of the implementation of the ICS? If so, please explain the potential impacts.

64. Do you anticipate any benefits to the business model of IAIGs as a result of the implementation of the ICS? If so, please explain the potential benefits.

65. Do you anticipate any impacts to the competitiveness of IAIGs relative to non-IAIGs with the implementation of the ICS?

Section 11.3 - Impact on financial markets

66. Do you anticipate any changes to the investment strategy of IAIGs which could lead to greater pro-cyclical behaviour, as a result of the implementation of the ICS? If so, please explain the potential impacts.

67. Do you anticipate any changes to the investment strategy by other market participants which could lead to greater pro-cyclical behaviour, as a result of the implementation of the ICS? If so, please explain the potential impacts.

68. Do you anticipate any impacts from the implementation of the ICS on asset concentration risk, either within IAIGs or across insurance markets? If so, please explain the potential impacts.

69. Do you anticipate the implementation of the ICS altering the investment strategy or investment decisions of IAIGs in response to stressed market conditions? If so, please explain the potential impacts.

70. Do you anticipate the implementation of the ICS resulting in a change in the market demand for specific asset classes (eg AAA / BBB rated corporate or government bonds, equities) driven by IAIGs? If so, please explain the potential impacts.

71. Are there any other areas of the financial markets (eg derivatives or stock lending) that might be impacted – directly or indirectly – by the implementation of the ICS? If so, please explain the potential impacts.

72. Do you have any concerns over the availability of longer-term assets in the market to meet any increase in demand from IAIGs as a result of the implementation of the ICS? If so, please explain the potential impacts.

73. Do you anticipate any increased risk to the broader financial markets (eg from re-allocations into or out of specific asset classes in response to shocks in financial markets) as a result of the implementation of the ICS? If so, please explain the potential impacts.

74. Do you anticipate any specific benefits to the insurance market or broader financial markets as a result of the implementation of the ICS? If so, please explain the potential benefits.

Section 11.4 - Implementing the ICS

75. To the extent that it can be predicted, do you anticipate the insurance industry having to devote resources, including training, to implement the requirements of the ICS? If so, please explain the potential impacts.

76. To the extent that it can be predicted, do you anticipate impediments to implementing the requirements of the ICS? If so, please explain the potential impacts.

77. Could any costs of implementing the ICS be absorbed by or shared with other implementation projects running concurrently (eg IFRS 17)? If so, please explain how this might be achieved.

78. Do you anticipate any other impacts from the implementation of the ICS, not covered above? If so, please explain the potential impacts.