



CENTER FOR CAPITAL MARKETS COMPETITIVENESS

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The Honorable Randy Quarles
Vice-Chair, Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue
NW Washington, DC 20551

The Honorable Steven Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Raymond G. Farmer
President
National Association of Insurance Commissioners
444 North Capital Street NW, Suite 700
Washington, DC 20001

The U.S. Chamber of Commerce (“the Chamber”) appreciates the opportunity to comment on the Insurance Capital Standard (“ICS”) currently under development by the International Association of Insurance Supervisors (“IAIS”). The ICS is an effort to define comparable standards and determine solvency levels for Internationally Active Insurance Groups (“IAIGs”). The Chamber published a report in September 2019 finding that absent improvement, the ICS could result in unintended consequences such as reducing the availability of critical insurance products, making it more difficult for the insurance industry to continue to serve as a source of stable investment back into the economy and increasing costs for insurance firms to the detriment of policyholders and shareholders.¹ The IAIS could take steps to address these concerns, and make the ICS more workable in jurisdictions where it may be adopted, by conducting the economic impact assessment sooner, ensuring the economic impact assessment is independent, and lengthening the monitoring period to account for lost time due to COVID-19.

The Chamber’s diverse membership includes purely domestic, as well as international and globally active insurance companies headquartered both in and outside of the United States. Perhaps more importantly, we have both member companies that rely on insurance products and members that rely on the larger role insurers play as investors in our global economy. Therefore, we are broadly supportive of the goal of promoting safe and vibrant insurance markets.

The IAIS continues its work to develop the Global Risk-based ICS, which is intended to serve as a common language for supervisory discussions of group solvency and minimum Prescribed Capital Requirement (“PCR”) for Internationally Active Insurance Groups. The

¹ U.S. Chamber of Commerce. Insurance Capital Standards and the Aggregation Method (Summer 2019), available at https://www.centerforcapitalmarkets.com/wpcontent/uploads/2019/09/CCMC_InsurancePaper2_v4-DIGITAL.pdf

Chamber continues to believe the Aggregation Method (“AM”) would serve as the most appropriate framework for a global group capital standard. Although the Chamber does not believe the ICS is appropriate for the U.S. insurance market, we continue to engage on this important development given the potential impact it could have on the foreign operations of U.S. insurance groups and financial markets and economies more broadly.

The Chamber believes it is critically important that the IAIS use the 2020 – 2024 Monitoring Period to conduct a meaningful review of the ICS and take action to resolve as may be needed to ensure such unintended consequences are avoided. The economic impact assessment the IAIS has committed to conduct during the Monitoring Period can and should play a meaningful role in accomplishing this objective. However, the impact assessment is scheduled to begin until the third quarter of 2023 and conclude in the second quarter of 2024, which would only provide the IAIS one quarter to consider the outcomes of the assessment and take action to resolve any material flaws and unintended consequences identified before conducting a final vote on the framework.

The Chamber does not presume to know the findings of the economic impact assessment, but our research has identified product availability, compliance costs, and investment activity for infrastructure, housing, and corporate debt, as issues that merit robust consideration, which have grown in importance in light of the strains COVID-19 may create for government budgets and the real economy. We do not believe the current timeline would provide the IAIS adequate time to meaningfully consider and take action to resolve issues that may be identified. In light of this, the Chamber requests that you advocate for the IAIS to reposition the economic impact assessment to start in the third quarter of 2021 and conclude in the second quarter of 2022. Such placement within the Monitoring Period would ensure there is adequate time for the IAIS to thoughtfully consider of how to best resolve the underlying source of any material flaws or unintended consequences identified and perform quantitative testing to confirm the effectiveness of any subsequent adjustments made to address the concerns. The Chamber also believes it is critical that the economic impact assessment be conducted by an independent authority to ensure it is objective and credible. As a final point on the economic impact assessment, the Chamber believes the Aggregation Method should be included in the scope of the review. We believe this would help illustrate the benefits of the Aggregation Method, including its ability to serve as a meaningful and more appropriate tool for facilitating supervisory discussions on group level solvency of IAIGs.

The ICS monitoring period should be extended for at least one year. The monitoring period, which is critical for understanding the anticipated effectiveness of the ICS, is scheduled to conclude at the end of 2024 upon which the ICS will be adopted. While we appreciate the IAIS’ decision to modify its timeline for voluntary reporting of ICS data in 2020, we believe the impacts of COVID-19 necessitate a broader reassessment of the ICS work plan and development timeline given the reduced ability to review data in light of travel restrictions and limited discussion in supervisory colleges.

As noted above, the Monitoring Period, which is critical for understanding the anticipated effectiveness of the ICS, is scheduled to conclude at the end of 2024 upon which the ICS will be adopted. While we appreciate the IAIS’ decision to modify its timeline for voluntary reporting of

ICS data in 2020, we believe the impacts of COVID-19 – including limiting the ability for insurers, their supervisors and the IAIS to engage substantive review of and discussion on the results reported in 2020 – necessitate a broader reassessment of the ICS work plan and development timeline. Specifically, we believe the Monitoring Period should be extended by one year to conclude in 2025. We believe this would help ensure there is adequate opportunity for thoughtful review and discussion of the results among the key stakeholder groups regarding the appropriateness of the framework before it is finalized.

We appreciate you considering our views about the development of the ICS. We believe these changes to the economic impact assessment and monitoring period are crucial for insurance firms, their customers, and global financial markets.

Sincerely,

A handwritten signature in black ink, appearing to be 'TK' followed by a long horizontal flourish.

Tom Quadman