



CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland

Re: Public Consultation on the draft definition and high-level principles to inform the criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the Insurance Capital Standard

The U.S. Chamber of Commerce's Center for Capital Markets Competitiveness ("CCMC") appreciates the opportunity to comment on the public consultation from the International Association of Insurance Supervisors (IAIS) on the draft definition and high-level principles to inform the criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the Insurance Capital Standard.

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 safeguarding our financial system.

CCMC appreciates the opportunity to offer comments on the draft definition and high-level principles to inform the criteria that will be used to assess whether the Aggregation Method (AM) provides comparable outcomes to the Insurance Capital Standard (ICS). Transparency in the comparability assessment, including public consultations to design a fair process, is important to ensuring that the AM is not precluded from the opportunity, nor provided a "free pass," for producing comparable outcomes to the ICS.

Comment on draft definition of comparable outcomes

"Comparable outcomes to the ICS means that the Aggregation Method (AM) would produce similar, but not necessarily identical, results over time that trigger supervisory action on group capital adequacy grounds."

We support the draft definition of comparable outcomes. Importantly, the approach emphasizes a comparison of *outcomes*, which recognizes the objectives of the ICS can be

achieved in multiple ways. We also appreciate that the definition of comparable outcomes does not rely on a quantitative evaluation or require identical results (i.e. capital ratio) for the AM to be measured against the ICS. The assessment of comparability for the AM should principally rely on if it meets the IAIS' stated objectives for the ICS.

Comment on draft High-Level Principle 1

“AM and ICS results are significantly correlated in that they change similarly in response to changing economic and financial market conditions over the business cycle, not short-term market fluctuations, although the quantum of change may differ.”

We are concerned about the inclusion of the phrase “significantly correlated” in the principle given it implies a quantitative comparison. “Significantly correlated” is not defined in the principle but has widely understood meaning in statistical analysis. “Correlated” is typically defined by the presence of a positive correlation coefficient and “significantly” is typically defined as having a probability value (i.e. chance of obtaining the correlation coefficient by chance) of less than 0.05.

We believe this principle should be amended to express the importance of both the ICS and AM providing for the appropriate indication of risk under different market conditions.

We appreciate the principle recognizing the “quantum of change” may differ, which we believe acknowledges that appropriate signaling of risk can be produced by both the AM and the ICS.

Comment on draft High-Level Principle 2

“Individual elements of a group solvency approach, ie valuation, capital resources and capital requirement, will be analysed; however, the decision on comparable outcomes will consider the elements in totality.

The following will be assessed in undertaking the analysis of the individual elements:

The AM captures the same underlying risks as the ICS, even if this is achieved differently within the quantitative calculation of the group capital requirement. The overall AM capital requirement and ICS capital requirement provide a similar level of solvency protection.

The overall quality and eligibility of capital resources allowed in the AM is similar to the ICS and is assessed considering the same five key principles identified for ICS capital resources: loss-absorbing capacity, level of subordination, availability to absorb losses, permanence and absence of encumbrances and mandatory servicing costs.”

We support the assessment considering the individual elements of group solvency approach in totality. Each element – valuation, capital resources, and capital requirement – provides a level of solvency protection; however, emphasis of one would detract from proper consideration of the others. Furthermore, failure to consider in totality would obfuscate the overall objective of promoting solvency.

Comment on draft High-Level Principle 3

“The AM could be more but not less prudent than the ICS, which is being developed as a minimum standard.”

We believe this principle overemphasizes a quantitative comparison between the capital adequacy ratios under the AM and the ICS and whatever measure of prudence the IAIS assigns them. We believe the focus of the assessment should instead be on the ability of the AM and the ICS to appropriately signal risks and support communication and cooperation among supervisors. To the extent “prudence” is a point of consideration, the IAIS must account for the fact that supervisory conservatism is embedded in the AM and the ICS in different manners (e.g. the AM includes conservatism in reserves, through asset admissibility, etc.)

Comment on draft High-Level Principle 4

“The AM and ICS use the same scope of the group, consistent with that set out in ComFrame.”

We support this principle. ICP 23 – Group-wide Supervision – states, “The group-wide supervisor, in cooperation and coordination with other involved supervisors, identifies the insurance group and determines the scope of group supervision.” The comparability assessment should consider legal entities within the group that could pose material risk to insurance operations.

Comment on draft High-Level Principle 5

“A representative sample of Volunteer Groups, covering a diversity of business models, provide both ICS and AM data under various economic and financial market conditions over the business cycle.”

We support the inclusion of this principle, but believe some clarification is warranted. The representative sample should be from the U.S. and interested jurisdictions given some jurisdictions will not report AM data.

Comment on draft High-Level Principle 6

“The AM and ICS are similarly transparent, in terms of facilitating understanding and comparability, within and across jurisdictions, of the group solvency position through public disclosure and reporting to group-wide supervisors.”

We fail to see why public disclosure is a relevant point of consideration for the comparability assessment. To our understanding, the IAIS never indicated its expectation that IAIGs should disclose information about group solvency to any parties other than the group-wide supervisor and immediate supervisors of a group through forums like supervisory colleges. Similarly, to our understanding, the IAIS never indicated its expectation that the group-wide supervisor should publicly disclose an IAIGs group solvency ratio. Further, reporting during the monitoring period is on a confidential and voluntary basis and public disclosure of results will not occur during this phase. For these reasons, we request that the phrase “public disclosure” be removed from this principle.

General comment on the draft definition of comparable outcomes and the draft high-level principles to inform the criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the ICS

The Chamber is concerned the comparability assessment appears to assume the ICS is a baseline for alternatives to be measured against. We believe the basis for the comparison should instead be the ability of the AM – as well as the ICS – to achieve the objectives of the IAIS’ work on group capital including the protection of policyholders and ability to facilitate communication and cooperation across supervisors of an IAIG. We highlight the following items as support for why it is inappropriate – or, at minimum, premature – to anchor the assessment to the ICS:

- The industry and IAIS members have raised concerns regarding the lingering design flaws in the version of the ICS adopted in Abu Dhabi. The Office of the Superintendent of Financial Institutions for Canada stated “...the Standard in its current form is not fit for purpose for the Canadian market,”¹ and the Federal Insurance Office at the U.S. Treasury Department noted, “The current form of the ICS could also risk limiting U.S. consumers’ access to important long-term saving products;”²
- The IAIS has yet to conduct the economic impact assessment and additional public consultation, which will both serve as important steps for obtaining insights on the appropriateness of the ICS; and
- The IAIS has yet to engage with and meaningfully consider feedback regarding the appropriateness or usefulness of the tool from the frontline prudential supervisors the ICS is supposed to serve as a resource.

The Chamber appreciates the IAIS providing the opportunity to comment on the draft definition and high-level principles to inform the criteria that will be used to assess whether the AM provides comparable outcomes to the ICS.

Sincerely,

¹ <https://www.osfi-bsif.gc.ca/Eng/osfi-bsif/med/Pages/ics20191114-nr.aspx>

² <https://home.treasury.gov/news/press-releases/sm830>

A handwritten signature in black ink that reads "William R. Hulse". The signature is written in a cursive style with a prominent initial "W" and a long horizontal flourish at the end.

Bill Hulse
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Center for Capital Markets Competitiveness
U.S. Chamber of Commerce