

Comments on the IAIS consultation on the draft definition and high-level principles for comparable outcomes to the ICS

The Global Federation of Insurance Associations (GFIA) welcomes the opportunity to comment on the draft definition and high-level principles for comparability between the Insurance Capital Standard (ICS) and the Aggregation Method (AM), and more broadly the International Association of Insurance Supervisors' (IAIS) continued commitment to stakeholder engagement.

GFIA believes that the comparability assessment should aim for a high level of robustness and quality, and focus on a high level of policyholder protection – which is ultimately at the core of prudential supervision.

In relation to this consultation, since many of the terms used in the high-level principles are open to interpretation, it is difficult to propose distinct and purposeful criteria without first clarifying with the IAIS the definitions of these terms or what is meant by certain phrasings.

It will therefore be important that both the finalisation of the definition and high-level principles, as well as the subsequent development of more detailed criteria, are intended to be iterative processes to the extent possible with multiple stages of input from industry over time. It would also be useful if, when setting out the criteria for comparability, the IAIS includes an agreed glossary of terms.

To the extent possible, comparability criteria should remain stable and robust enough to withstand any changes in the design of the ICS and AM: for example, by following the IAIS planned economic impact assessment in 2023. At the same time, however, there should be some limited flexibility to amend criteria for comparability later in the monitoring period if unforeseen issues arise.

Q1. Comment on draft definition of comparable outcomes

GFIA supports the overall commitment set out by the IAIS to compare the AM and ICS on the basis of supervisory action and capital adequacy. We strongly believe that the fundamental purpose of capital standards is policyholder protection and so the point at which supervisory intervention is triggered will be important.

It is important that both the ICS and AM offer comparable group capital levels and supervisory intervention. We suggest that the comparison acknowledges the broader context of the supervisory regimes in which the AM and ICS will operate once implemented at the jurisdictional level.

Overall, and with respect to supervisory intervention, both the ICS and AM should provide robust signals that enable all the relevant supervisors involved to take coordinated actions.



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Q2. Comment on draft High-Level Principle 1

GFIA supports the principle that the ICS and AM are correlated in response to economic and financial market conditions, since both regimes should be sufficiently sensitive to these conditions as they develop over time.

There is no standard definition of “business cycle” across jurisdictions and so this should be adequately defined by the IAIS, or removed given the absence of a widely accepted definition today.

It is also not clear what “short-term” means. For example, a three-month fall and recovery in equity markets could be considered short-term in the context of long-term insurance liabilities and assets while it is long-term in other contexts. We would therefore ask the IAIS to clarify when developing criteria for comparability what would be a reasonable definition of short-term. It may be simpler and more useful to define this in relation to supervisory reporting periods.

Q3. Comment on draft High-Level Principle 2

GFIA agrees that valuation, capital resources and capital requirements should be analysed in totality while ensuring that all material risks are captured.

Q4. Comment on draft High-Level Principle 3

“Prudence” is not an easily definable word and is widely open to interpretation.

Q5. Comment on draft High-Level Principle 4

GFIA agrees with this principle.

GFIA further notes that a number of regimes across the world have adopted this principle: for example, the National Association of Insurance Commissioners (NAIC) recently adopted the US Group Capital Calculation (GCC) which has been developed with this principle in mind.

We would also note that this principle is already well defined and approved by supervisors under ComFrame.

Q6. Comment on draft High-Level Principle 5

GFIA agrees that it will be necessary to ensure a diversity of business models to provide both ICS and AM data to ensure an adequate comparison of the ICS and AM across different lines of business. It would be difficult to conduct objective and competent assessments of whether the AM provides comparable outcomes to the ICS unless representative samples of both ICS and AM data are assessed. It may be possible to use hypothetical but representative portfolios to supplement the collection of data from individual Internationally Active Insurance Groups (IAIGs), as well as in the IAIS economic impact study that we think would benefit from assessing both ICS and AM in parallel.

As noted above, the reference to business cycle creates ambiguity.

Q7. Comment on draft High-Level Principle 6

GFIA agrees that the AM and ICS should be similarly transparent and note that this is already well defined under ComFrame. GFIA supports the principle that the ICS and AM should be subject to the same standards and guidance on disclosure under ComFrame.

In terms of assessing transparency, it will be important to recognise that transparency is another subjective term.

About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 41 member associations and 1 observer association the interests of insurers and reinsurers in 64 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than \$4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.