

## Response to IAIS consultation on draft criteria to assess comparability of Aggregation Method and ICS

Our reference:	ECO-SLV-22-281	Date:	17 August 2022
Referring to:	<a href="#">IAIS public consultation on the draft criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the Insurance Capital Standard</a>		
Contact person:	International affairs and reinsurance team	E-mail:	international@insuranceeurope.eu
Pages:	11	Transparency Register ID no.:	33213703459-54

Insurance Europe welcomes the opportunity to provide comments to the International Association of Insurance Supervisors (IAIS) on the draft criteria that will be used to assess whether the Aggregation Method (AM) provides comparable outcomes to the Insurance Capital Standard (ICS). The ICS project is of particular relevance to and has impact for the European industry, given that a significant number of internationally active insurance groups (IAIGs) are European and that European insurers are active globally.

This response is focused on the comparability assessment. Other aspects of the ICS project remain under development and consideration by the IAIS and other stakeholders but are also very important. Insurance Europe's key high-level views on these aspects can be found on its website ([here](#)).

**Insurance Europe supports the objective of the ICS project to create a high-quality and robust global insurance standard that promotes a sound and level global regulatory playing field.** Insurance Europe recognises that the IAIS is developing the ICS with the aim of "creating a common language for supervisory discussions" with the "ultimate goal of a single ICS that includes a common methodology by which one ICS achieves comparable – ie similar but not identical – outcomes across jurisdictions"<sup>1</sup> and that its objective is "to enhance global convergence among group capital standards"<sup>2</sup>.

**Insurance Europe supports the aim of the proposed High-Level Principles and associated draft assessment criteria to take a quantitative approach to the comparability assessment.** A rigorous, quantitative and robust assessment is essential, as those jurisdictions that implement the ICS will have to abide by the standard developed by the IAIS, while the outcome of the AM will be dependent on the underlying solvency regimes, which may not be under the governance or direct control of the IAIS and its members. So, a double standard in supervision is potentially already created simply by considering the AM comparability. It may have significant consequences on, for example, any future assessments under the financial sector assessment program (FSAP) with the jurisdictions that ultimately implement the ICS being under a much more strenuous set-up and held to much higher standards than those implementing the AM. The risk of having a *de facto* double standard in the implementation phase needs to be averted by a robust, quantitatively substantiated comparability assessment

For this to be achieved, the following key elements need be changed/clarified before the criteria are finalised and the comparability assessment begins:

<sup>1</sup> ICS Level 1 document, IAIS

<sup>2</sup> Explanatory Note on the ICS and Comparability Assessment, IAIS

1. **The AM can only be considered as producing comparable outcomes if any group's prescribed capital requirement (PCR) under the AM would be breached at similar points in time as its PCR under the ICS, leading to much the same supervisory outcomes.** Therefore, analysis that would provide evidence of this must be included explicitly in the comparability assessment and be part of the required criteria.

It is not sufficient to base the comparability assessment on the correlation of movements in the ICS versus those in the AM because it is absolute levels of PCR that will trigger supervisory action. Criterion 1.3e goes some way towards addressing this, but a greater focus on comparing PCR breach points is necessary. It is also noted that one of the challenges for an appropriate comparability assessment that is based on comparing points of PCR breach is that, at present, the method and calibration of scalars to generate a group PCR based on the AM has not yet been developed. In fact, the comparability exercise appears to be used to develop the aggregation approach. This appears circular and problematic.

2. **All criteria are considered to be essential and all should be sufficiently met to achieve comparability.** High-level principles should not be considered to be achieved when only a subset of the criteria is met. This should be clearly stated as a prerequisite of achieving comparability.
3. **Short-term market fluctuations cannot be excluded from the assessment.** Short-term market fluctuations are a reality and if they lead to volatility of the PCR they can result in supervisory intervention and therefore need to be included in the comparability assessment.
4. It is vital to **compare outcomes under a suitable range of scenarios.** The additional scenarios mentioned in criterion 1.3 must include the wide range of market and other scenarios, in particular those that have been experienced, including the very high spreads (eg, those during the financial crisis) and the high and low (negative) interest rates.
5. **A suitable sample of real company data should be included in the study.** In addition, it **may be necessary to also apply scenarios to model companies.** In this respect, the IAIS may want to consider the approach taken and work done for the June 2022 Insurance Policy Advisory Committee's report to the Federal Reserve Board of Governors (IPAC report).
6. It is essential to **clarify in advance what will guide the IAIS when drawing a final conclusion**, for example:
  - How will the terms "similar(ly)" and "quantum of change" be defined? What are acceptable ranges for variation in the "quantum of change"?
  - How will the term "business cycle" be defined and applied when calculating the correlations? What time intervals will be used for data points within the business cycle?
  - How will the required level of correlation be decided. What will it be? What correlation metric will be used? How does this relate to the key point of triggering supervisor action (ie, PCR breaches)?
  - How will prudence be defined and measured? What metrics will be used to assess "offsetting" of prudence between valuation, capital requirements and capital resources?
  - How will the different elements of the assessment be combined into a final decision?
  - How will the results from different companies be aggregated, eg, if the AM and ICS appear comparable for some companies but not all, or comparable under some scenarios but not all?
7. **The ICS 2.0 is not final.** The standard must evolve after the monitoring period ends in 2024, and in particular in response to the shortfalls identified and raised by Insurance Europe and those highlighted in the recent IPAC report. Therefore, the comparability assessment will need to be updated using the

improved ICS. It should be made clear how this will be achieved in the comparability assessment process and timetable.

8. Finally, if the AM is found to be comparable following this assessment, Insurance Europe believes that the **assessment would need to be updated on a regular basis to provide assurance over time (model drift) and capture evolutions in the ICS and the AM frameworks**. Therefore, the high-level principle should be strengthened to ensure that the two standards remain comparable in the long term or, if not, to enable the IAIS to take appropriate measures. To this end, it is proposed to include the following governance principle: "In the event of change in the global ICS and/or the regimes on which the aggregation method is based, clear and transparent governance and processes are put in place to reconsider the comparability of the outcome. Such processes shall include dialogue with stakeholders." If the principle is not updated, Insurance Europe asks the IAIS to elaborate on how assurance over time will be provided.

Ultimately, the credibility of the IAIS will be impacted by the suitability of the ICS framework and the quality of the comparability assessment. Therefore, it is very important that an ICS is finalised that is suited to the long-term nature of insurance and any comparability process is rigorous, quantitative and evidence-based.

### Comments on criteria for High-Level Principle 1

HLP 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.

#### Criteria:

**1.1** The ICS and AM results are significantly correlated, changing similarly in response to changing economic and financial market conditions over the business cycle (as per the sensitivity analysis referenced in criterion 1.3) excluding short term market fluctuations.

#### Comments in the explanatory note:

- With respect to the reference to "significantly correlated", the assessment team will undertake a technical analysis of the degree of correlation between the AM and ICS results; the IAIS will then apply judgment in considering whether the degree of correlation is sufficient to meet the comparability outcomes.

Insurance Europe supports a technical analysis of the degree of correlation between the AM and ICS results. However, criterion 1 needs to be elaborated to clarify how the IAIS will use the results from the technical analysis to evaluate if the required level of correlation is achieved. Currently, criterion 1.1 only describes the IAIS's approach to the assessment of correlation and thus is insufficient to guide the technical analysis and the IAIS's judgement. For it to serve as a real criterion and to avoid it enabling a black-box exercise, it must specify:

- the characteristics of the correlation determination and provide sensitivity analysis linked to methodological choices, eg, on the reference period used and the weight of significant data points;
- a description of scenarios and sensitivity analysis; and,
- the minimum required level of correlation which is defined as "significant".

The ICS trigger for supervisory action is the PCR breach, which should be the outcome-equivalent measure for the comparability assessment. Analysis of the correlation between the points of the PCR breach should be explicitly included in the criteria.

The exclusion of short-term market fluctuations does not appear to make sense. Analysis under scenarios with short-term fluctuations (for example of the type seen during the 2007-2013 financial crisis) seems in fact to be one of the key areas for comparison as it might lead to different triggers for supervisory action.

The IAIS needs to clarify what is meant by business cycle. At present, this is not clear. For example, it could mean that scenarios representing the full range of economic situations and claims events should be covered by the analysis. Or it could imply some averaging of the outcomes that would not be appropriate.

Scenario analysis should include as many scenarios as needed and be based on essential data gathered from volunteer companies. Beyond this, using simplified modelled companies to make ancillary analysis can be considered beneficial to the robustness of the assessment.

**1.2** The ICS and AM results are significantly correlated, changing similarly in response to changing economic and financial market conditions over the business cycle (as per the sensitivity analysis referenced in criterion 1.3) excluding short term market fluctuations.

- a. This analysis considers direction and quantum of change together over the business cycle to understand how the ICS and AM respond to changing economic and financial market conditions.
- b. This analysis considers direction and quantum of change together over the business cycle to understand how the ICS and AM respond to changing economic and financial market conditions.

Comments in the explanatory note:

- *With respect to references to "the business cycle" and "short-term market fluctuations", this will be an issue that the IAIS will return to after the development of scenarios for the sensitivity analysis, to check whether through the development of the scenarios these concepts are sufficiently clear, or whether further work is needed on definitions.*
- *Regarding "quantum of change", draft criterion 1.2 a. reflects that the analysis considers direction and quantum of change together over the business cycle to understand how the ICS and AM respond to changing economic and financial market conditions.*

The new reference to "direction" as another key element in technical analysis of the correlation of results is a positive addition. However, as currently drafted, the criteria would still allow inconsistent outcomes between the ICS and AM. Even when the direction of travel is the same, supervisory actions may be triggered at different points in time, and result in a lack of comparability. Therefore, significant correlation should not be recognised if the timing of supervisory action is different. The high-level principles and/or criteria should be updated to include the comparability of PCR breaches and supervisory triggers and to make clear that "the AM should trigger supervisory action no later than the ICS".

The reference to the risk of false indications due to short-term market fluctuations in criterion 1.2 and the proposal to attempt to exclude such impacts is very concerning because short-term market fluctuations could lead to supervisory action. If either the ICS or AM shows sensitivity to market movements that would create false indications of solvency, then this is a fault in the design/calibration of those measures and should be fixed by improving the measure and not ignored by the analysis. Comparability criteria should not be tweaked to bypass problems inherent in a framework.

Specifically, regarding criterion 1.2a, it is welcomed that the analysis considers changing economic/financial market conditions to be key in the comparison. At the same time, however, leaving the meaning of the key term "business cycle" undefined and unclear means that the appropriateness of the criteria cannot be assessed. Therefore, the intended meaning of the term business cycle needs clarification, as well as how it will impact the comparability assessment.

The draft criteria also state that the results will be assessed over “the business cycle as a whole”. The intention of this statement is again unclear and should be clarified. Comparability should not be considered to be achieved if the analysis indicates comparable outcomes for only a subset of testing scenarios.

**1.3** Each Volunteer Group in the representative sample conducts sensitivity analysis using the same scenarios (representing different economic and financial market conditions over the business cycle) for both the ICS and AM.

- a For AM, sensitivity analysis is conducted by legal entities representing at least two-thirds of total AM required capital, with legal entities from at least three jurisdictions. In determining the two-thirds level, material legal entities (ie those with the largest total AM required capital) should be included. For the remaining one-third, an approximation or simplified approach may be used to determine the impact of the sensitivity analysis. This allows for a more proportionate approach through the use of a materiality threshold.
- b For ICS, the sensitivity analysis is conducted on the consolidated group.
- c In addition to the data on the ICS and the AM based on current market conditions (the “base scenario”), Volunteer Groups in the representative sample provide ICS and AM data for a limited number of additional scenarios representing different points in time, which are intended to help inform the analysis of correlation of results over the business cycle.
- d These additional scenarios are standardised and differentiated according to business models. For life business, the scenarios include changes to equity values, interest rates, credit spreads, mortality rates and lapse rates. For non-life business, the scenarios include changes appropriate to the nature of the business, like changes on non-life insurance risks.
- e Volunteer Groups also provide the following information to inform the analysis:
  - i. description of an economic and/or underwriting scenario that would cause AM capital resources to become less than AM capital requirement at the group level and an estimate of AM capital resources and capital requirement under this scenario, as well as the corresponding impact on the ICS.
  - ii. a description of an economic and/or underwriting scenario that would cause ICS capital resources to become less than ICS capital requirement at the group level and an estimate of ICS capital resources and capital requirement under this scenario, as well as the corresponding impact on the AM.

Criterion 1.3 should be clarified to explain that the analysis includes sensitivity and scenario analysis (including reverse testing in 1.3.e), which are two different tools, and to explain more clearly the methodology and testing protocol for each of those tools.

For the scenario analysis in particular, outcomes should be compared under a full range of scenarios. The additional scenarios mentioned in criterion 1.3e must include the wide range of markets and other scenarios that have been experienced. Back-testing of the impact of historical peak market events should be included so comparability is ensured in any of the observed events, such as the very high spreads experienced in 2008-2012 and the high and low (negative) interest rates experienced during the last 50 years.

Such scenarios should include those that would trigger supervisory interventions. Many supervisors have performed stress-testing exercises, and insights from these exercises could also be used to inform the assessment.

Regarding the specific criteria:

- **Criterion 1.3a):** While it makes sense to conduct the AM sensitivity analysis at entity level, the aggregate consolidated group PCR that is produced by the methodology must also be assessed so that it can be compared to the ICS PCR, which is only produced at consolidated level. The application of any proportionate approach should ensure that entities that have a significant impact on the total

PCR under the AM are not excluded from the analysis. The sensitivity of an entity's required capital, as well as its size, should be a factor in the materiality assessment.

- **Criterion 1.3c):** While it is noted that there is a practical need to have only a "limited" number of additional scenarios representing different points in time due to the workload for volunteer groups, this is unlikely to allow enough scenarios to be tested to establish comparability. In order to assess comparability under a suitable range of different economic and other scenarios (ie, during financial crisis spread movements), it may be beneficial to apply scenarios to model companies in addition to simulations run by volunteer groups. Here, the IAIS may want to consider the approach taken by and work done for the June 2022 IPAC report.
- **Criterion 1.3d):** The scenarios should be designed to test the synchronicity and intensity of supervisory intervention under stressed conditions and be calibrated to reflect past real-world peak events.
- **Criterion 1.3e):** Comparing breaches of PCR and supervisor trigger points is fundamental for assessing comparability and the criteria need to reflect this. This criterion goes some way towards addressing this, but a greater focus on comparing PCR breach points is necessary in this and/or other criteria. In particular the term "information to inform the analysis" is worrying because it implies that the comparison of PCR breaches and triggers for supervisor action is secondary. It should be made clear that it will form a core and primary part of the assessment.

## Comments on criteria for High-Level Principle 2

HLP 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 based on 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.

Criteria:

**2.1** When carrying out the analysis of individual elements of a group solvency approach, ie valuation, capital resources and capital requirement, prudence in one element may be used to offset less prudence in another element. The analysis should consider interaction between valuation (eg insurance liabilities), capital resources and capital requirement.

Insurance Europe agrees that it is important to assess how each component of the PCR (liability valuation, asset valuation, overall capital resources and capital requirements) reacts to changes in economic conditions and what the key drivers of such changes are.

However, it is not clear how prudence will be measured and how "offsetting" of prudence will be assessed in this context.

Each of those items should be individually analysed through the correlation assessment and under the sensitivities and scenarios (including reverse testing) and the level of correlation be disclosed. Such an analysis

should be done at the level of the three core items (valuation, capital requirements and resources). Criterion 2.1 should clarify this before allowing taking into consideration cross-component aspects.

**2.2** The AM captures the same underlying risks as the ICS. To this end, an analysis of risks is performed to understand and determine how all of the risks covered in the ICS are captured in the AM calculation. This could be either an explicit risk charge (taking into account different risk groupings), prudence embedded in valuation (ie accounting conservatism) or other such quantitative measures (eg scalars). In addition, any material risks captured in the AM, but not in the ICS, should be disclosed.

Insurance Europe agrees this criterion is important and emphasises that while approaches can be different, the overall outcome must be similar on a quantitative basis.

This criterion should explicitly state that drivers of differences between the AM and ICS will be investigated and disclosed by individual elements, namely capital requirements and capital resources, at the appropriate level of aggregation. The differences between the AM and ICS resulting from explicit risk charges should be broken down by major risk category (ie, market, credit, life, non-life, etc.) at the very least.

This analysis should be carried out for the base case for each reporting period and each of the sensitivity analyses and scenarios described under the HLP 1 criteria. In order to support the credibility and transparency of the process, this analysis should be made public at an appropriate level of aggregation, while maintaining confidentiality. Insurance Europe believes it is necessary to give further specifications on how this analysis will be carried out.

Further, the sentence "any material risks captured in the AM, but not in the ICS, should be disclosed" is not precise enough to assess what if any impact this disclosure will have on the comparability assessment, since disclosure does not solve any major discrepancies that may exist. If material differences exist, this should lead to the conclusion that the two regimes are not comparable.

**2.3** The analysis includes whether the overall AM capital requirement provides a similar level of solvency protection as the ICS\*. As part of this analysis, the proportion of non-risk-based regimes as determined by the AM represents less than 5% of available capital.

\* The ICS has a target calibration of 99.5% Value at Risk over a one-year time horizon. The AM capital requirement is computed as the aggregation of scaled risk-based legal entity capital requirements that have a target calibration of at least a 0.5% probability of default.

Insurance Europe welcomes the fact that criterion 2.3 foresees an assessment of the level of solvency protection on a quantitative basis. "Solvency protection" should be interpreted as excluding non-quantitative elements of regimes under the AM when assessing comparability. Regarding the reference to the "similar level of solvency protection", the IAIS should ensure consistency with HLP 3, which notes that the AM cannot be less prudent than the ICS, and clarify that this includes the need for the AM to result in supervisory action before, but not after, the ICS.

It is noted that the AM capital requirement is computed as the aggregation of scaled, risk-based, legal entity capital requirements that have a target calibration of at least a 0.5% probability of default, which is distinct from the calibration of the ICS targeted level, relying on a 99.5% VaR over one year, defined as the maximum possible loss during that time after excluding all worse outcomes whose combined probability is at most 0.5%. The criteria need to be sufficiently detailed to describe how the AM's scaled, risk based legal entity capital requirements will achieve a similar target level to the ICS at group level.

**2.4** The overall quality and eligibility of capital resources allowed in the AM is similar to the ICS for the representative sample. This determination is made by considering the following:

- a. An analysis of capital elements other than financial instruments is performed to determine how the capital resources recognised in the ICS are treated in the AM. Any capital elements recognised in the AM, but not in the ICS, should be disclosed.
- b. An analysis of deductions from ICS capital resources is performed to determine how the AM treats such items. This could take the form of non-admitted assets that have already been removed from the entity level balance sheet.
- c. The financial instruments recognised in the AM are 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.
- d. The capital composition limits in the AM are compared to those of the ICS.

Insurance Europe agrees that the comparability of capital resources between the ICS and the AM is key. These analyses should be made public at an appropriate level of aggregation (in order to ensure the confidentiality of individual results).

While identifying differences in capital resources is important, it does not solve any inherent incomparability. Such differences may result in material differences in the ability and efficiency of groups to manage their capital position. Criterion 2.4(d) should cover how the comparison of capital composition limits, and differences, will be taken into account in the comparability assessment.

Insurance Europe is concerned about the comply or explain procedure for the assessment of capital resources. It is stated in criterion 2.4a) that any discrepancies in the treatment of capital elements other than financial instruments between the two methods need to be disclosed. However, the way those discrepancies will inform the comparability assessment is not specified. It is vital that the AM does not allow recognition of some material capital elements that are not recognised in the ICS method, such as non-subordinated instruments, and that could impact the timing of supervisory intervention.

In any case, it should be clear that the PCR is the criterion and under all the scenarios, under both the AM and ICS, the PCR should be breached at similar points in time.

### Comments on criteria for High-Level Principle 3

HLP 3: The AM could be more but not less prudent than the ICS, which is being developed as a minimum standard.

#### Criteria:

**3.1** The AM triggers supervisory action on group capital adequacy grounds\* under similar conditions over the business cycle as the ICS showing that the level of solvency protection in totality could be more but not less prudent than the ICS.

\* A prescribed capital requirement (PCR) is a solvency control level above which the supervisor does not intervene on capital adequacy grounds, as defined in ICP 17.

- a. For purposes of the analysis, the AM and ICS solvency ratios for individual IAIGs are used to understand when the AM triggers supervisory action compared to the ICS; however, the assessment will consider the results of the representative sample in totality. Additionally, to support this understanding, the analysis considers movements in capital resources and capital requirement (as well as their difference - ie excess capital) at different points in time to understand the drivers of the movements in solvency ratios. Material differences in these items (between the ICS and AM) are explained\*\*.

\*\* The explanation of differences will also take into account any changes made to the ICS in response to the public consultation on the final design of the ICS as a PCR



The ultimate comparability test is whether the AM and the ICS would trigger the same supervisory actions at similar points in time.

It should be clarified in the criteria that the basis of assessment will include comparison of the PCR and the point in time at which the PCR would be breached under the AM and ICS. It should also be clarified that the AM could be considered comparable if it triggers supervisory intervention at similar points in time or sooner, but not if it does so later than the ICS. Therefore, in terms of assessing the AM as a potential alternative to the ICS, which leads to comparable outcomes, it could be more but not less prudent.

In addition, Insurance Europe considers that this assessment should be performed at an appropriate level of granularity having regard to the different risk profiles that may underly the representative sample, rather than necessarily at the level of the representative sample in totality, in order to ensure similar triggering of supervisory actions for similar risk profiles at similar points in time.

#### **Comments on criteria for High-Level Principle 4**

HLP 4: The AM and ICS use the same scope of the group, consistent with that set out in ComFrame.

Criteria:

**4.1** The scope of the group for the AM is determined as per ICP 23.2, which is the same as that for the ICS. In particular, all entities in the scope of the ICS calculation are also captured in the AM calculation.

This is a very important principle to ensure a valid comparability assessment.

#### **Comments on criteria on High-Level Principle 5**

HLP 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.

Criteria:

**5.1** The sample of Volunteer Groups providing both AM and ICS results is representative of the business models and risks of IAIGs headquartered in the US and other interested jurisdictions. Representativeness is determined separately for life and non-life operations (as per criterion 5.2) with composite groups being split between their life and non-life operations.

Insurance Europe agrees that, in order to test comparability, a representative and relevant amount of data is necessary. Such data should indeed cover a diversity of business models and business lines, geographical footprints and financial and market conditions, including both normal and stressed market situations. This should be achieved by back-testing the comparability assessment against past data including under a number of stressed market conditions. The primary focus of the comparability assessment should be on the supervisory actions triggered in response to stressed situations. In any case, the comparability assessment cannot primarily rely on using representative portfolios or stylised balance sheet approaches. Such tools could be beneficial as ancillary analysis to the primary assessment made on actual data reported by the Volunteers Group.

In addition to the above, it is important that the comparability assessment (just like any other implementation assessment framework) becomes a permanent part of the framework, with a regular schedule. The comparability assessment at inception should be followed by a monitoring exercise on an ongoing basis, in particular in cases where either the ICS or the AM would suffer changes. The AM cannot avoid being affected by the changes made to local regimes, the relevance of which should be assessed to meet the comparability objective. In the broader context, this also raises fundamental concerns, as those jurisdictions that implement the ICS will have to abide by the standard developed by the IAIS, while the AM frameworks will be stand-alone projects that are not under the governance or control of the IAIS and its members.

**5.2** For purposes of the determination of representativeness:

- a. a. Volunteer Groups provide relevant and sufficient data for both the ICS and AM data collections necessary to assess the criteria.
- b. Material geographical areas, as determined by the legal entity location, of US (or other interested jurisdictions) IAIGs are included in the representative sample including, as applicable, North America, Europe and South Africa, Japan, Asia and Oceania.
- c. For life, in recognition of the more heterogenous nature of life operations, a relatively large sample is needed. For purposes of demonstrating representativeness, the analysis will consider the minimum ratio of total AM required capital of US (or other interested jurisdictions) IAIGs participating in both the ICS and AM data collections to the total AM required capital of all US (or other interested jurisdictions) IAIGs.
- d. For non-life, in recognition of the more homogenous nature of non-life operations in some jurisdictions, a smaller sample is needed. For purposes of demonstrating representativeness, the analysis will consider indicators such as: material lines of business of non-life US (or other interested jurisdictions); similarity of investment portfolios; the correlation between the net loss ratios of the representative sample and the total net loss ratio for all US (or other interested jurisdictions) IAIGs; and the correlation between the solvency ratios of the representative sample and the solvency ratio for all US (or other interested jurisdictions) IAIGs.  
For non-life, both IAIGs and other Volunteer Groups can contribute to the determination of representativeness (geographical areas and lines of business), when both AM and ICS results are provided.

The minimum proportion of AM required capital of US (or other interested jurisdiction) IAIGs participating in the ICS and AM data collections in relation to the total AM required capital of all US (or other interested jurisdictions) should be specified in the criteria (eg, 95%).

**5.3** The Volunteer Groups providing both AM and ICS data is stable or increases during the monitoring period.

Insurance Europe supports this point as the stability of the sample is necessary in order to define any comparability.

**Comments on criteria for High-Level Principle 6**

HLP 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.

Criteria:

**6.1** When introduced in ComFrame, IAIG capital reporting to group-wide supervisors and public disclosure requirements, including their content, granularity, and frequency, will also apply to the AM.

Should a requirement for public disclosure apply to the ICS, the same should apply to the AM. Insurance Europe welcomes the references to relevant ICPs/ComFrame, in particular ICP 9 (Supervisory reporting) and ICP 20 (Public reporting).

**6.2** The assessment considers preparatory work that shows evidence of a commitment to meet ComFrame public disclosure and supervisory reporting requirements, including, for example, relevant text in the AM Level 1 document.

Comments in the explanatory note:

- Draft criteria have been developed with the perspective of being applicable to the candidate versions of AM and ICS as a PCR, as available at the time of the comparability assessment. The IAIS plans to discuss actions that could be taken, after the implementation of AM and ICS as a PCR, to ensure continuing comparability.
- The draft criteria have been developed with the view of defining representative samples of IAIGs providing both AM and ICS information. Representative samples will be determined so as to deliver robust and credible output.
- It is expected that comparable outcomes would provide a level playing field.

n/a

## Response to consultation questions

Stakeholder feedback is sought on each criterion. (Note: the consultation tool provides a comment box for each individual criterion, as well as a general comment box).

In addition, the IAIS is seeking feedback on some targeted questions related to HLPs 1 and 5.

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.

In order to ensure that the point in time of breaches and supervisory intervention are analysed, more extreme scenarios could be necessary, as it is vital to compare outcomes under a range of scenarios. The additional scenarios mentioned in criterion 1.3 must include a wide range of market and other scenarios covering both periods of contraction and expansion, in particular those that have been experienced, including very high spreads, high and low (negative) interest rates and equity market crashes.

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 (criterion 5.2 d).

Insurance Europe agrees that life business is more heterogenous across jurisdictions and so requires a larger data set for comparison than non-life business.

*Insurance Europe is the European insurance and reinsurance federation. Through its 36 member bodies – the national insurance associations – it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe’s economic growth and development. European insurers pay out over €1 000bn annually – or €2.8bn a day – in claims, directly employ more than 920 000 people and invest over €10.6trn in the economy.*