Public Consultation on Risk-based Global Insurance Capital Standard Version 2.0

Questions for Consultation

Thank you for your interest in the public consultation on the Risk-based Global Insurance Capital Standard (ICS) Version 2.0. The ICS Consultation Tool is available on the IAIS website from 31 July 2018, the date of publication of the ICS Consultation Document, for respondents to provide their responses.

This document is an extract of all the questions in the ICS Consultation Document. It serves to facilitate the collation and organisation of responses by respondents to the questions in the ICS Consultation Document before respondents formally provide their responses via the ICS Consultation Tool. The structure of this document (ie numbering of questions) is the same as the ICS Consultation Document. You may find it helpful to use the "Navigation Pane" function of Microsoft Word when using this document.

Please do not submit this document to the IAIS. All responses to the ICS Consultation Document must be made via the ICS Consultation Tool to enable those responses to be considered.

General comments section

Insurance Europe welcomes the opportunity to provide input on the developments of the global Insurance Capital Standard version 2.0.

Given the ambition to finalise ICS 2.0 by the end of 2019, there is **significant work needed** to ensure the ICS properly reflects the underlying insurance business models and identifies and measures the risks which they face.

While ICS 2.0's purpose is to test the framework, it is important that the ICS is a risk-based framework which uses a consistent, consolidated approach based on a market consistent valuation. It is key that it is appropriately designed and calibrated so that the results of the testing period are meaningful. In fact, the more appropriate the design of the ICS in the confidential reporting phase, the more likely it is that the adoption of an implementable version of the ICS is achievable.

A number of improvements have been made in the design of the ICS over recent years, and these are very much welcome by the European industry. Continuous dialogue and exchanges with the industry in the coming months are key to allow these improvements to be discussed thoroughly so that decisions are well-informed and flaws are minimised.

In response to the draft ICS 2.0, as presented in the consultation paper, Insurance Europe would like to emphasise the following views:

With respect to **valuation**:

- **A market-adjusted valuation approach is supported, but only if the discount rates for liabilities reflect the long-term nature of the insurance business model and the ALM techniques employed by insurers.** When valuing long-term liabilities, an adjustment to the risk-free curve is a prerequisite of a MAV approach.
- **The proposed methodology for deriving the risk-free yield is appropriate.** The liquid part of the curve should be based on swaps/government bonds and the illiquid part determined by extrapolation towards a Long-Term Forward Rate (LTFR).
- **The LTFR does not need to be updated annually**. It is intended to be a stable, long-term parameter. Annual updates only serve to introduce spurious accuracy into the framework.
- **The IAIS should further investigate potential ways of addressing forced selling risk.** Several features of the IAIS's current proposals (application ratios, eligibility criteria, cashflow matching etc.) have been included to address the risk of forced asset sales but there may be better approaches to dealing with this risk.
- The bucketing concept for valuation has the advantage of enabling IAIGs to calculate portfolio specific adjustments where individual liability characteristics warrant this.
- **Significant improvements continue to be needed to develop an adjustment** to the risk-free curve which achieves the IAIS's objective of developing an adjustment "to reflect the long-term nature of insurance contracts and mitigate potential excessive volatility in capital resources"
- **The own assets / own spreads approach is the appropriate proposal for the Top Bucket.** However, some of the eligibility criteria should be relaxed. In particular, there should be an option to use internal credit ratings, and asset eligibility criteria should permit the use of a wider range of long-term assets to back long term liabilities.
- **The current design of the Middle Bucket provides a good starting point for further development, but significant improvements are required.**
    - The adjustment should recognise the contribution of long-term equity, property, infrastructure and other non-fixed income assets within prudentially sound ALM approaches.
    - The eligibility criteria are too onerous and too narrowly defined.
- Given the high degree of basis risk inherent in the use of a reference portfolio, **the IAIS should aim to minimise the liabilities that are eligible only for the General Bucket**. The

proposed Basis Risk Mitigation Mechanisms are a welcome inclusion in the General Bucket approach.

- **An adjustment to the LTFR** should also be included which is reflective of the investment returns which insurers can be expected to earn over very long time horizons.
- **The IAIS should undertake extensive testing of any proposed valuation approaches** to ensure that they work as intended both in the current economic climate but also in stressed market environments. Testing against periods of financial stress should be performed by the IAIS, with no additional burden on companies.

With respect to **MOCE**:

- While Insurance Europe acknowledges the need to ensure an orderly transfer in case of failure, it doubts whether MOCE is the appropriate way to perform this function. Insurance Europe believes that the introduction of a MOCE could lead to potentially unfavourable consequences.
- Insurance Europe does not support the IAIS approach on the C-MOCE aimed at increasing the liabilities for all companies at all times. Instead, if it was decided that MOCE is needed, it should be assessed against the existing capital requirements.
- A company should calculate its MOCE and its MCR; as long as the MCR is higher than MOCE, supervisors should be reassured that MOCE is available to support transfer in case of failure (and supervisory intervention at MCR).

With respect to **capital resources:**

- The recognition of Tier 2 non-paid-up capital resources should not be restricted to mutuals. Tier 2 non-paid-up capital resources should form part of the tier 2 capital resources, and should be subject to the normal capital composition limits. Further, the current 10% limit for Tier 2 non-paid-up capital resources is overly restrictive.
- The restriction in tier 2 financial resources for residual maturities less than 5 years is very restrictive and could lead to uncertainty, so it should be removed.
- There should be no distinction in capital composition limits for mutuals and non-mutuals, in order to avoid an unlevel-playing field.
- Tier 1 limited capital composition limit of 10% of the ICS capital requirement is too onerous. 20% of total unlimited capital resources would be more appropriate.

With respect to the **tax treatment**

- The ICS approach capping the post-shock net DTA at the net DTL is too stringent and does not reflect economic reality. The ICS approach should recognise the loss absorbency of deferred taxes and the ability of future profits to support this, subject to insurers demonstrating that these future profits will be available.

With respect to the design and calibration of **capital requirements in the standard model:**

- **The risk charges for the ICS should measure and calibrate capital requirements by identifying and investigating the actual risks that insurers are exposed to**. It is key to recognise in the calibrations the difference in risk exposures based on whether a company is exposed to forced sales of assets or not.
- **The current design of the interest rate risk submodule is unnecessarily complex and its calibration is too onerous.** The combination of the impacts of multiple scenarios does not reflect any real economic outcome and the aggregation across multiple scenarios makes it challenging to interpret and communicate. The aggregation of the interest rate risk in multiple currencies is also not appropriate.
- Long-term investors in corporate bonds, such as insurance companies, are exposed to default risk and not spread risk. Therefore, **the calibration of the capital requirements for loans and bonds should not be based on measuring exposure to spreads**.
- The calibration of the capital requirements for loans and bonds based on measuring exposure to spreads is more consistent and economically correct where the impact of changes in spreads is recognised in both the assets and liabilities.
- The current design of the equity risk submodule requires improvements:
    - The equity segmentation should take into account existing evidence that **a tailored calibration of capital charges** is more appropriate where the nature and risk profile of a particular asset differs from the “basket” that it is placed in.
    - **The prudential treatment of equity infrastructure investments and long-term equity should be aligned** to the true risks to which insurers are exposed via the introduction of separate sub-risk modules tailored to these asset classes.
    - **The equity implied-volatility shock is not appropriate and should be removed** as the market price shocks implicitly include volatility.
    - **An anticyclical tool should be introduced** within the equity risk submodule**.**
- Offsetting effects within the mortality stress should be considered**.** The shock should be applied to all policies and both positive and negative impacts on NAV should be taken into account.
- **The application of homogenous risk groups within the mass lapse stress is excessive**. In addition, offsetting effects should be considered, the capital charge for lapse risk should be determined at entity level and not at the level of homogeneous risk groups.
- **Capital charges for currency risk should not include currency translation risk.** This risk neither impacts policyholder protection nor financial stability.
- **The current approach to aggregation and diversification is overly simplistic for IAIGs and** has the potential to misstate capital requirements.
- **The use of management actions should not be unduly restricted**. There should be an appropriate recognition of premium increase management actions for life reinsurance business, repricing, MVA and dynamic investment strategies, provided that they reflect the product features and current practice.

- **The IAIS should permit the use of internal credit ratings where external ratings are not available.**

With respect to **internal models**:

- **Allowance of internal models in the monitoring period is very much welcome.** Internal models bring significant value to both companies and supervisors by providing a deep understanding of a company's business and capital management.
- The monitoring period will be the opportunity to note how internal models can play a role in strengthening the whole standard, by allowing to capture complex risks and structures not addressed by the standard method. In that respect, internal models are a key tool and should be a permanent part of the ICS framework, as a necessary alternative to the standard method.

With respect to **reporting**:

- The current templates were designed for data collection aimed at further developing the framework. They are very detailed, granular and complex, and create significant burden on companies. Insurance Europe doubts that supervisors are able to review this very detailed information on a timely basis. It suggests reducing the volume of required information (including granularity) and re-focusing the templates on the main issues needed for confidential reporting.
- In fact, Insurance Europe urges the IAIS to develop reporting templates for the monitoring period of ICS 2.0. These templates should be less granular, detailed and burdensome for IAIGs, and should be publicly consulted on ahead of finalisation by the IAIS.

More broadly on the **ICS development**, Insurance Europe reiterates its key views as follows:

- A fundamental aspect of having a global capital standard is the concrete **translation of the standard in all jurisdictions**. An international standard can achieve its aims only if it is implemented consistently across jurisdictions.
- The IAIS, representing the global supervisory community, should enhance its discussions on the strategic objectives related to the ICS. It should aim to have thorough discussions on the potential positive or negative impact of the ICS on:
    - **competitiveness of global market players**: ICS should not lead to the creation of competitive disadvantages for some jurisdictions vs others.
    - **performance of the ICS in times of financial market turbulence**: ICS should be designed and tested against normal market conditions, but also against stressed periods to ensure that it would support policyholder protection and financial stability at all times. For example, while simplified types of design (on eg valuation) may not raise particular concerns in normal times, the IAIS should question whether such simplifications would not trigger concerning results in turbulent times – due to the

measurement simplifications and not due to actual problems in the financial position of a company.
- **the ability of insurers to continue to invest in long-term economic growth**: the ICS should aim to support asset/liability management and appropriately measure actual investment risks faced by insurers in their investment. Unnecessarily conservative calibrations of capital requirements on investments will lead to artificial distortions of insurers asset allocations and will ultimately impact their natural ability to support long-term investment and growth.
- **availability and cost of products**: the IAIS should put all necessary efforts in ensuring that the ICS is appropriately representing the insurance business models and should avoid unnecessarily conservative measurement of the business, which could in many cases make products valued by consumers unviable.

- The IAIS should make proposals for simplifications and the possibility of applying a proportionality approach to the various reporting elements, in line with the risk exposures of undertakings.
- The IAIS should acknowledge in its timetable and planning that further work would likely be needed before ICS is finalised **for adoption**. The IAIS needs to foresee appropriate time to consider the conclusions and results of the 5-year confidential reporting period in the design and calibration of the ICS.
- Ahead of implementation, ICS needs to consider transitional and grandfathering provisions.

The European insurance industry considers Solvency II to be the most conservative and sophisticated prudential regime in the world, and thus expects that a **reviewed version of Solvency II** would be considered as an **appropriate implementation of the ICS**. Any implementation of ICS in Europe would eventually be considered by European co-legislators through the lens and tools of the existing prudential regime, which in fact applies to all European insurers, not just IAIGs. From this perspective, it is key that ICS is designed in a **way that works for companies other than IAIGs**.

Insurance Europe appreciates the comparability objective of the ICS. It therefore notes that a supervisory agreement on implementation should refer to a common set of key elements (eg consolidated group approach, market-adjusted valuation, risk-based capital calculated on a 99.5% 1-year VaR).

Incremental costs and benefits

Q1 What are the incremental costs associated with the changes that would have to be made solely for the adoption of the ICS as a PCR?

Insurance Europe welcomes that the IAIS is taking interest in the cost of implementation of the ICS. It notes that:

- While the question is perfectly valid and should remain a focus for discussion in the coming years, it is very difficult to make an overall assessment of costs today, given that implementation costs will very much depend on what needs to be implemented, and this is not clear as ICS is being developed.
- From a European perspective, the current regime (Solvency II) is already a very conservative implementation of existing IAIS ICPs so any cost of implementation would be judged as an incremental cost, based on assessing the differences between the implementable ICS and the Solvency II regime.
- Today the ICS already requires substantial resources from companies engaged in field testing.
- In principle, costs of implementation of any regime are linked to the wide set of actions that are needed to transform a theoretical framework into a practical one, including those related to installing necessary IT systems and setting up processes at group level.
- European insurers do not support any scenario in which two capital regimes would run in parallel. Not only that such a scenario would cause a significant distortion in business management and steering, but it would also lead to unnecessary high costs that would put significant pressure on the industry and its ability to play its key role in the economy and society.

Insurance Europe notes that the IAIS should take interest in investigating potential consequences of current proposals on wider policy objectives. For example, ICS creates disincentives to infrastructure investment because of the lack of recognition of internal credit ratings. This leads to inappropriate capital charges and an inappropriate recognition in the discount rate for the valuation of liabilities.

Q2 Are there any other benefits of adopting the ICS as a PCR? Please explain.

☐ Yes ☒ No

Insurance Europe encourages the IAIS to provide insights and details into its assessment of benefits.

The IAIS statement noting that it expects benefits for IAIGs, policyholders, financial stability, consumer protection is very general and broad. The industry would appreciate a better understanding of how the benefits are assessed and looked at. Such details are also important to allow for a cost-benefits analysis of the ICS, which would eventually be part of policymakers' decisions with regards to implementation.

Role of the group-wide supervisor

Q3 Is the role of the GWS during the monitoring period appropriate? Please provide feedback on how the role should be refined.

☐ Yes ☒ No

The IAIS should encourage as much as possible consistency in the approaches by the GWS. Specifically:

- Insurance Europe is seeking clarification on “additional reporting during the monitoring period” – in its reading, this refers to the additional reporting agreed in the KL agreement, such as reporting of internal model data. Such clarification is needed to avoid that this text is read as meaning “discretion” by the GWS in the ICS process.
- Simplifications and approximations should be allowed during the monitoring phase, and they should be discussed by the GWS collectively, so that clear and common guidance is provided to all IAIGs.
- Confidentiality of participation in the monitoring phase is fully supported. However, it should be acknowledged that some IAIGs may decide to reveal to the public, on own initiative, information about their own participation.

Role of the IAIS

Q4 Is the role of the Working Group within the IAIS during the monitoring period appropriate? Please provide feedback on how the role should be refined.

☒ Yes ☐ No

Insurance Europe welcomes the IAIS intention to maintain interaction with IAIGs, and encourages the IAIS to use such opportunities to discuss not only the reference ICS, but also other relevant issues such as the use of simplifications, approximations, additional data - discussed and allowed by GWS.

Q5 Is the role of the forum of supervisors with the IAIS during the monitoring period appropriate? Please provide feedback on how the role should be refined.

☒ Yes ☐ No

Role of the supervisory colleges

Q6 Is the role of supervisory colleges during the monitoring period appropriate? Please provide feedback on how the role should be refined.

☐ Yes ☒ No

Insurance Europe would appreciate if the IAIS can confirm that all IAIGs under the scope of the ICS monitoring period are part of a supervisory college.

Scope of the group: Perimeter of the ICS

Q7 Are there any practical difficulties foreseen (such as the identification of the Head of the IAIG) in calculating the ICS capital ratio on the basis of the consolidated balance sheet of the Head of the IAIG that should be addressed in the design of the ICS? Please explain.

☒ Yes ☐ No

It is unclear what definition of materiality is to be used in order to exclude an entity (first bullet point paragraph 79).

If entities are excluded, paragraph 80 states that the value of equity and debt should be excluded from the capital resources. This raises some additional questions:

- On what valuation basis should the equity be deducted (GAAP or MAV)?
- In para 80, debt is also to be deducted. This can only be done if that debt is actually part of the equity of the group. Otherwise there will be a mismatch because equity is already deducted.

By requiring a deduction, the "costs" will outweigh the "benefits", IAIGs will have to manually change their consolidation systems in order to apply the deduction.

Q8 With reference to the types of entities described in paragraph 82b, is full consolidation an appropriate approach to capture insurance and financial risks for ICS Version 2.0?

☐ Yes ☐ No

Comment Box

Q9 With reference to the types of entities described in paragraph 82c, is a line-by-line proportional consolidation an appropriate approach to capture insurance and financial risks for ICS Version 2.0?

☐ Yes ☒ No

The approach should be more consistent with the manner in which consolidation is built:

- For those entities where the ultimate parent has a capital interest of more than 20% but less than 50% and no control is exercised, a proportional approach is not appropriate for the balance sheet. There are other shareholders who have control and would include these entities on their balance sheet.
- For those entities where the ultimate parent has a capital interest of more than 50% and control is exercised a full consolidation with the recognition of a minority interest is appropriate.

Market adjusted valuation (MAV) approach

Q10 With reference to both paragraphs 82b and 82c, would another approach (for example, making line-by-line proportional consolidation a requirement where further specific conditions exist, or where required by the GWS) be more appropriate?

☐ Yes ☐ No

Insurance Europe would support a limit to the available consolidation methodologies, and notes the IAIS's proposals for proportional consolidation contained in Paragraphs 79 and 82c of the consultation.

Q11 Are there any other material areas of divergence across existing GAAPs (or statutory accounts) that should be subject to adjustments when constructing the MAV balance sheet? If "yes", please provide details.

☒ Yes ☐ No

The balance sheet is the starting point for a risk based prudential regime. In this sense, the valuation principles should support this regime by addressing the appropriate risks. In constructing the balance sheet, the overriding principle should be "substance over form".

The valuation base should be consistent with the manner in which the capital requirements are determined.

In addition, Insurance Europe notes the following material areas of divergence:

(1) For ICS a top-down approach for deferred tax is applied, whereas for existing GAAP and statutory accounts, it is calculated bottom up.

(2) Intangible assets are written off for ICS (with the exception of an allowance for software costs). Insurance Europe would welcome the inclusion of the value of intangible assets in the ICS where they meet specific criteria agreed with its supervisor.

Q12 Is the current specification of the treatment of expenses in the calculation of current estimate sufficiently detailed to ensure consistent calculations among IAIGs? If “no”, please suggest which points could be further refined.

☐ Yes ☐ No

Insurance Europe proposes that expenses should be set as best estimate, and should be aligned to other metrics (eg. IFRS 17).

Q13 Are the non-life premium liability simplifications appropriate to provide an approximation of the current estimate liability? If “no”, please provide details on how the simplifications could be improved.

☐ Yes ☐ No

Comment Box

Q14 Should the IAIS modify the treatment of premium receivables, as proposed? Please provide sufficient detail and rationale.

☐ Yes ☐ No

Comment Box

Q15 Are there any other further comments regarding the MAV approach (excluding the discounting component) that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

☒ Yes ☐ No

Regarding contract boundaries, economic substance should prevail over legal form. IAIGs should be allowed to reflect all future premiums in the technical provisions if they are able to demonstrate that these premiums are likely to be paid.

Q16 Is the set of criteria appropriate to support the choice of instrument for Segment 1 of the base yield curve? If “no”, please provide details.

☐ Yes ☐ No

Comment Box

Q17 Is the LOT defined for each of the 35 currencies appropriate? If “no”, please provide details.

☒ Yes ☐ No

Comment Box

Q18 Is the methodology to determine the convergence point (end of Segment 2) appropriate for ICS Version 2.0? If “no”, please provide details.

☒ Yes ☐ No

Comment Box

Q19 Is the revised methodology to determine the LTFR appropriate for ICS Version 2.0? If “no”, please provide details.

☐ Yes ☐ No

Comment Box

Q20 Is the methodology to reflect LTFR updates in the IAIS base yield curves appropriate for ICS Version 2.0? If “no”, please provide details.

☐ Yes ☒ No

Insurance Europe notes that the LTFR is intended to be a stable long-term parameter used to derive the illiquid part of the risk-free curves. Annual changes to the LTFR are unnecessary and only serve to introduce spurious accuracy into the framework.

There is no evidence to suggest that annual changes to the LTFR will help the ICS meet its main objectives of policyholder protection and contributing to financial stability.

Insurance Europe believes that updates to the LTFR should only be made after a sufficient period of time, eg 10 years, has passed which could influence any change in this parameter.

Any changes required after the reassessment should be introduced incrementally with a maximal annual change of 10 basis points to maintain the stability of this parameter.

Q21 Are there any further comments regarding the base yield curve methodology that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

☒ Yes ☐ No

The current yield curve methodology where the liquid part of the curve is based on swaps/government bonds and the illiquid part is determined by extrapolation towards a LTFR (using the Smith Wilson methodology) is the appropriate solution and has to be maintained.

Q22 Are any practical difficulties foreseen in the implementation of the proposed multi-bucket approach (eg issues with products that are close to the boundaries of the buckets)? If "yes", please explain.

☒ Yes ☐ No

Insurance Europe strongly supports the development and inclusion of an appropriate adjustment to the risk-free curve to reflect the long-term nature of insurance contracts and to mitigate artificial balance sheet volatility. An adjustment to the risk-free curve is a prerequisite of a MAV balance sheet approach as it creates the necessary link between the insurer's assets and liabilities which is fundamental to the life insurance business model. It is essential that the adjustment incentivises good ALM practices and is reflective of the economic reality. Any eligibility criteria and restrictions should be proportionate to the prudential concerns that they aim to address.

Insurance Europe recognises the efforts that the IAIS has taken to develop the Three Bucket Approach as an adjustment to the prescribed risk-free rates which recognises firms' ALM practices.

Insurance Europe therefore considers that the bucketing approach, with suitable refinements, could ultimately fit well specific liability profiles and insurers. It also notes that some insurers manage risk and run ALM at a global business level without segmenting liability profiles; for these insurers, the current approaches for the general and middle buckets appear unlikely to be able to reflect appropriately their ALM strategies and the economics of their business. Against this background, the IAIS should ensure that ICS 2.0 works across jurisdictions and product types.

Insurance Europe notes that the proposed bucketing approach has the potential advantage of enabling IAIGs to calculate portfolio specific adjustments where individual liability characteristics warrant this. However, the IAIS should continue to investigate other approaches given the additional complexity introduced of using multiple buckets.

Insurance Europe continues to support an own assets / own spreads approach, with appropriate guardrails, for the Top Bucket, along the lines of that tested as part of the 2018 field testing exercise. Such an approach ensures that insurers can construct a bespoke adjustment that reflects their business model within a prudentially sound framework.

While the current design of the Middle-Bucket provides a good starting point for further development, significant improvements are required. These improvements should address the following key issues:

- **All long-term liabilities**, which are not eligible for the Top Bucket but which are subject to prudent asset-liability management, **should be eligible for the Middle Bucket Adjustment**. The criteria governing the Middle Bucket can be designed to incentivize good risk management without being unnecessarily restrictive.

- The Middle Bucket Adjustment should **recognise the contribution of long-term equity, property, infrastructure and other non-fixed income assets** within prudentially sound ALM approaches.
- There should be an appropriate allowance within the Adjustment for reinvestment of assets to reflect the long-term spreads which an insurer can earn.

Insurance Europe encourages the IAIS to explore different methodologies to derive the Middle Bucket Adjustment, for example, by deriving an adjustment which reflects the illiquidity of liabilities per currency. One possible option could be to adapt the concept of the IFRS17 bottom-up approach to fit within the ICS framework.

Given the high degree of basis risk inherent in the use of a reference portfolio, **the IAIS should aim for as few liabilities as possible to only be eligible for the General Bucket**. Insurance Europe welcomes the inclusion of the Basis Risk Mitigation Mechanisms to mitigate the balance sheet volatility in periods of localised market stress.

Insurance Europe further believes that any proposed adjustment methodology needs to be tested, both in current market conditions as well as in stressed market environments. This is necessary to ensure that the proposal works as intended and any potentially unintended consequences can be avoided.

Additional comments on the IAIS's proposals are detailed below.

Q23 Are the eligibility criteria defined for the Top Bucket appropriate for ICS Version 2.0? If "no", please explain.

☐ Yes ☒ No

In general terms, the eligibility criteria for the Top Bucket are appropriate to guarantee prudent asset-liability management. However, Insurance Europe considers that some of the criteria should be relaxed, in particular, the asset eligibility criteria should permit the use of a wider range of long-term assets to back long-term liabilities.

Please also see response to Q27 regarding the use of internal credit ratings where external credit ratings are not available.

Q24 Are the eligibility criteria defined for the Middle Bucket appropriate for ICS Version 2.0? If "no", please explain.

☐ Yes ☒ No

The eligibility criteria for the Middle Bucket are too onerous and too narrowly defined. This has resulted in the Middle Bucket not being tested or tested with significant uncertainty.

Insurance Europe proposes the following changes for further investigation:

(1) Removal of criterion (b) from the 2018 Field Testing Technical Specifications (requirement to manage assets and liabilities separately). Optimal ALM practices dictate the management of assets on an aggregate level rather than an individual product level.

(2) Replacement of strict cash-flow matching as per criterion (c) with the requirement to demonstrate and evidence the use of sound ALM policies with appropriate governance, or asset adequacy testing with the use of an easier to calculate metric of key rate duration matching.

(3) Reconsideration of criterion (f) (requirements on surrender options and lapse risk). There is insufficient justification for these criteria as currently designed. They are also impractical to evidence in practice.

(4) Extension of the asset eligibility criteria: the approach taken for the Middle Bucket needs to be consistent with economic reality and appropriately reflect assets held, as basis risk is introduced as soon as a firm moves away from own assets. It is essential that the approach adopted also recognises and incentivises prudent asset liability management. In doing so, IAIS should ensure that it does not create incentives that would deter insurers from investing in assets that are appropriate to hold within a portfolio to match the liabilities of business such as equity and infrastructure assets.

Q25 Is it appropriate for the Top Bucket to consider the application of an adjustment based on own spreads until the run-off of the insurance liabilities, whereas the cash flow matching requirements are only assessed up to the LOT? If "no", please explain.

☒ Yes ☐ No

Q26 Is the application ratio considered for the Top Bucket appropriate for ICS Version 2.0? If "no", please explain.

☒ Yes ☐ No

Insurance Europe believes that an application ratio of 100% is absolutely appropriate.

Eligibility for application of the Top Bucket adjustment requires liabilities to meet a strict set of criteria (see response to Q23). Furthermore, each portfolio-specific adjustment is based on own assets and own spreads which helps ensure that the valuation appropriately reflects the risk profile of an IAIG, and encourages effective asset-liability management. As noted by the IAIS, these factors should create a high degree of confidence that the insurer will be able to earn the returns implicit in the adjustment. Any residual ALM risk will be immaterial and does not justify a reduced application ratio.

Q27 Are there any further comments regarding the Top Bucket methodology? Please explain with sufficient detail and rationale.

☒ Yes ☐ No

ICS Version 2.0 does not allow for the use of internal ratings where there is no external credit rating. This will act as a disincentive for insurers to invest in the real economy, including in infrastructure and sustainable growth.

The use of internal ratings is permissible under other international frameworks such as the Basel framework and IFRS. It is essential that insurers should be able to use internal ratings in both capital calculations and (where appropriate) the valuation of liabilities, to enable insurers to play their role as long-term investors in the economy and in particular to support infrastructure projects.

For many critical asset classes that support economic development (eg. private debt and collateralised mortgage loans) and many emerging market jurisdictions, reliable Credit Rating Agency (CRA) ratings are not readily available. In this case, internal ratings subject to robust governance should be permitted, in line with the framework described under ICP 15.

This is also important to ensure that insurers can play their role in helping the G20 achieve its growth objective. Insurance Europe believes that IAIS policy proposals should be consistent with G20 aims.

Q28 Is the application ratio considered for the Middle Bucket appropriate for ICS Version 2.0? If “no”, please explain.

☐ Yes ☐ No

The application ratio applied to the Middle Bucket should reflect the residual ALM risks which are not addressed through the eligibility criteria.

Q29 Is the list of eligible Assets specified for the Middle Bucket (which also applies to the Top and General Buckets) appropriate for ICS Version 2.0, taking into consideration the objective of the MAV spread adjustment? If “no”, please provide sufficient detail and rationale.

☐ Yes ☒ No

The current list of eligible assets for the Middle Bucket approach is very narrow, and should be expanded to include at least convertibles, equity, property and infrastructure investments. A suitable approach needs to be found, not to unduly disincentive insurers investing in such assets. Simply excluding them from the spread approaches has precisely that effect.

When assessing the appropriateness of investments, the IAIS should assess whether yields are earned and should not just regard assets based on their form. For example, convertibles can be significantly out of the money (also after the stress scenarios) or the conversion date has passed and the convertible is in essence a bond. In both instances, the convertible should be included in the reference portfolio.

See also our responses to Q24.

Q30 Are there any other comments regarding the Middle Bucket methodology? Please explain with sufficient detail and rationale.

☒ Yes ☐ No

The current eligibility criteria for the Middle Bucket are difficult to evidence, in particular the cash flow matching requirement

Insurance Europe believes that cash flow matching is not necessary to be able to earn an illiquidity premium and therefore it should not be an explicit criterion. Instead, a qualitative check could be performed on the strength of firms' ALM practices/policies.

The requirements to manage the Middle Bucket portfolio separately from other lines of business is challenging to evidence – the IAIS should provide more specific information on what this means in practice.

The current requirements on surrender options and quantifying lapse risk are not justified, and there are also practical difficulties in evidencing these.

Q31 Is the design of the shared currency basis risk mitigation mechanism appropriate for ICS Version 2.0? If "no", please explain.

☐ Yes ☐ No

Insurance Europe supports the inclusion of the currency basis risk mitigation mechanism. While the current design appears to be reasonable, Insurance Europe encourages the IAIS to undertake thorough testing of the proposal to ensure that it works as intended in all market environments and does not create cliff-edge effects on IAIG's solvency positions.

Priorities of the testing exercise should focus around the timely activation of the mitigation mechanism (i.e. prompt reaction to market spread movements), the persistence of the measure (i.e. the measure should remain activated during the entire period of stress) and the avoidance of cliff effects; disregarding these key aspects could negatively impact the effectiveness of the measure and insurer's investment strategies, leading potentially to perverse incentives in their asset allocations.

Q32 Is the design of the foreign assets basis risk mitigation mechanism appropriate for ICS Version 2.0? If "no", please explain.

☐ Yes ☐ No

Comment Box

Q33 Is the application ratio considered for the General Bucket appropriate for ICS Version 2.0? If "no", please explain.

☐ Yes ☒ No

Insurance Europe notes that the IAIS has not provided justification for the 80% factor. In theory, the risk-corrected spread can be earned by insurers in total. Applying a reduction factor, therefore, contradicts the market value based approach.

Q34 Are there any further comments regarding the General Bucket methodology? Please explain with sufficient detail and rationale.

☐ Yes ☐ No

Insurance Europe notes that some insurers manage risk and run ALM on a global and consistent basis and therefore will put all their liabilities in a single bucket without unbundling their balance sheet into several buckets.

The current general bucket without refinements is not suitable for this purpose. Therefore, suitable refinements of the general bucket should be explored in order to transform it into an approach that can be effectively and consistently used by all IAIGs.

Insurance Europe notes that in the field test specifications paragraph 152, the IAIS uses a hypothetical 15-year bond. Insurance Europe believes it would be more appropriate to use the point based on the average duration of the insurance liabilities as this is the duration over which the adjustment is applied. Furthermore, in paragraph 153, a duration of 10 years is used. Insurance Europe believes this is inconsistent and it could lead to the recognition of additional basis risk.

Q35 Should the ICS include an adjustment above the base yield curve at the LTFR maturity? If “yes”, how should it be calibrated? Please provide sufficient detail and rationale.

☒ Yes ☐ No

Insurance Europe strongly supports the proposed adjustment to the LTFR. This would enable life insurers to more accurately reflect the true economics and future investment returns that they will be able to earn.

Insurance Europe believes that the valuation of liabilities should reflect the true economics of the (life) insurance business model. Requiring life insurers to discount at a risk-free discount rate does not appropriately reflect the asset-liability management techniques which insurers use to manage their liabilities. The recognition of an illiquidity premium which reflects the level of returns insurers are able to generate is vital for the viability of long-term guarantee products.

Q36 What is the most appropriate technical approach to address the issue identified? Please provide sufficient detail and rationale.

Comment Box

Q37 Are there any other comments on the MAV discounting methodology, taking into account, for example, the data collection on additional methods for the base yield curve adjustments, which

the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Insurance Europe supports a methodology to derive the discount rate which avoids the introduction of artificial volatility and which has mechanisms in place to provide sufficient time to transition in any changes in parameters which could have a significant impact on the outcomes (eg LTFR, LOT).

Q38 Are there any further comments on MAV that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Comment Box

Margin over current estimate (MOCE)

Q39 Is the treatment of Premium and Catastrophe risk in C-MOCE appropriate? If "no", please provide justification and specific recommendations.

☐ Yes ☐ No

Comment Box

Q40 Are there any modifications or simplifications to the methodology for the C-MOCE that would make it more appropriate for the intended purpose? If "yes", please explain with sufficient detail and rationale.

☒ Yes ☐ No

Insurance Europe would like to provide the following **general comments regarding the inclusion of a MOCE** in the ICS:

- While Insurance Europe acknowledges the need to ensure an orderly transfer in case of failure, it doubts whether the MOCE is the appropriate way to achieve this. Insurance Europe believes the introduction of a MOCE could lead to potentially unfavourable consequences, eg impacting long-term business.
- Insurance Europe does not support the IAIS approach on the C-MOCE aimed at increasing the liabilities for all companies at all times. Instead, if it would be decided a MOCE is needed, it should be assessed against the existing capital requirements.
- A company should calculate its MOCE and its MCR; as long as the MCR is higher than MOCE, supervisors should be reassured that MOCE is available to support transfer in case of failure (and supervisory intervention at MCR).

Care must be taken to avoid that the calibration of this margin leads to unreasonably high levels.

Regarding **calculation of a possible MOCE**:

- Insurance Europe is concerned by the current design and calibration of the C-MOCE, which would in practice lead to unnecessarily high levels. The 5% cost of capital is too high (see further details below).
- Insurance Europe notes that the P-MOCE appears to require a simpler calculation approach. While it does not fully support the P-MOCE, Insurance Europe highlights the value of investigating more straightforward ways to calculate MOCE.
- Both C-MOCE and P-MOCE require further consideration.

Comments with regard to the C-MOCE

- C-MOCE can be very large, due to the methodology and calibration
- As currently proposed, it impacts in particular long-term products and as such can have a significant impact on companies' provision and pricing of products as well as investment decisions.
- C-MOCE is overly sensitive to changes in risk-free rates, regardless of the level of CoC
- IAIS should check whether C-MOCE levels are reflecting a correct estimation of true transfer costs
- Any diversification benefits recognised in the determination of capital requirements should also be recognised in the MOCE.
- One advantage of the C-MOCE is that it is a consistent approach that it can be applied to all liabilities

Level of cost of capital

- The IAIS should provide justification for the 5% level of CoC. Insurance Europe believes that an appropriate level would be 3%.
- The Cost of Capital (CoC) is a key part of the calculation and calibration of the C-MOCE. Although it is a term used for other purposes (in general finance) It has as very specific meaning and definition for the C-MOCE and as such the CoC for the C-MOCE should not be confused with Costs of Capital used to assess general investments.
- The CoC in the context of the C-MOCE is defined as the return that an investor would to provide capital to support a run-off portfolio transferred from a failed insurer, but where the investment risk has been hedged – so this deviates from a real business because there is no new business risk, and no market risks. The C-MOCE, and the

CoC used to calculate it, is only needed for the risks, specific to insurers, that cannot be hedged in the market – claims risk, operational risk etc.

Q41 Is the current design of the non-life P-MOCE consistent with ICP 14.9? Please explain.

☐ Yes ☐ No

Comment Box

Q42 Are there any modifications or simplifications to the methodology for the P-MOCE that would make it more appropriate for the intended purpose? If “yes”, please explain with sufficient detail and rationale.

☐ Yes ☐ No

Comment Box

Q43 Is the treatment of the P-MOCE, as defined in the Technical Specifications with full deduction from the capital requirement, appropriate? If “no”, please explain with sufficient detail and rationale.

☐ Yes ☒ No

Insurance Europe notes the improvement of the treatment of the P-MOCE in ICS version 2.0.

As described in ICP 14.9, the MOCE reflects the inherent uncertainty related to future cash flows. Consideration of such uncertainty may be appropriate when valuing liabilities for accounting purposes; however, for capital requirements, Insurance Europe believes this approach to be excessive. Therefore, the MOCE should neither be considered as a liability nor should it be categorised as a part of capital resources.

Q44 Is the treatment of the C-MOCE, as defined in the Technical Specifications with no deduction from the capital requirement, appropriate? If “no”, please explain with sufficient detail and rationale.

☐ Yes ☒ No

Please refer to response to Q40

Q45 Are there any other methodologies that would be better suited to calculating a CC-MOCE in the ICS? If “yes”, please explain with sufficient detail and rationale.

☒ Yes ☐ No

Please refer to response to Q40

Insurance Europe highlights that the current approach for calculating the MOCE treats all future capital funding requirements as independent payments (ie based on future unconditional capital requirements) and does not take into account any dependency over time. However, any economic

approach to valuing risky payments would have to take into account the dependence of risks over time to avoid inappropriate conclusions – such as, in the case of annuity products, implausibly low mortality rates and the implication that more capital is at risk than the worst-case scenario of policyholders living forever, or in the case of lapses total lapse rates of more than 100%.

Consider a simple illustrative example concerning a five-year product with constant exposure. Applying the Standard Method ICS retail stress of 30% each year implies that the MOCE should fund enough capital corresponding to a total lapse rate of 150%, or every policyholder lapsing more than once.

In fact, the worst possible case for the provider of capital (ie the maximum possible loss) corresponds to a 1-in-200 shock in each and every year – which corresponds to a total lapse rate of 83% over five years (i.e. 1 - (1 – 0.3)^5). Therefore, any capital raised above this level the investor will receive back with certainty – and hence will not charge a premium above risk-free for it (ie this component of the total capital raised requires a corresponding MOCE of zero).

Given this, it is clear that the MOCE calculation should allow for risk dependence over time. Where risk dependence exists that lowers the ultimate risk, the MOCE should be lower in accordance with this reduction in ultimate risk, as represented by a reduction in the maximum possible loss.

The use of a time scaling factor would be the simplest way to achieve this, and would be applied as follows:

$$MOCE = CoC \sum_{t \geq 0} \frac{\lambda^t \times Expected\ Capital\ Required(t)}{(1 + discount\ rate)^t}$$

In this context, λ represents the degree to which the ultimate risk reduces relative to a series of independent risks, and is linked to the reduction in size of future 1-in-200 risks following a 1-in-200 loss in previous periods. This could be set at different levels for each line of business following a calibration exercise, or a single λ could be applied to all lines of business to take account of risk dependence over time.

The key benefit of this approach is that it addresses the severe issues with the current cost of capital approach with respect to long-term business – namely excessive levels and high sensitivity to interest rate changes – without distorting the MOCE on short-term products (eg this would have no impact on one-year policies).

Q46 Are there any other policy measures or supervisory tools that may serve a similar purpose to the CC-MOCE and resolve perceived issues relating to the purpose, construct of the CC-MOCE or its interactions with the capital requirement? If “yes”, please explain with sufficient detail and rationale.

☐ Yes ☐ No

Q47 Are there any further comments on MOCE that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

☒ Yes ☐ No

See answer to Q40

Capital resources

Q48 Are the changes to the Tier 1 Unlimited capital resources criteria appropriate for ICS Version 2.0? Please explain.

☐ Yes ☐ No

Comment Box

Q49 Are the criteria for Tier 1 Unlimited capital resources, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? Please explain.

☐ Yes ☐ No

Comment Box

Q50 Are the changes to the Tier 1 Limited capital resources criteria appropriate for ICS Version 2.0? Please explain.

☐ Yes ☒ No

Insurance Europe welcomes the change in the criteria, to allow for recognition of financial instruments issued by mutuals in Tier 1 limited capital resources. However, Insurance Europe believes the criteria to qualify for Tier 1 are too restrictive. (An instrument can be considered as perpetual, if redemption at maturity can be deferred subject to supervisory approval or a lock-in feature, and if the instrument has an initial maturity of 10 years).

Q51 Are the criteria for Tier 1 Limited capital resources, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? Please explain.

☐ Yes ☒ No

Insurance Europe considers that the criteria are too restrictive (see the answer to Q50 above).

Q52 Is a PLAM an appropriate requirement for Tier 1 Limited financial instruments? Please explain any advantages and disadvantages of requiring a PLAM.

☒ Yes ☐ No

Insurance Europe believes PLAM is an appropriate requirement for Tier 1 limited financial instruments, However, PLAM creates a number of challenges and concerns, given the complexity of the functioning of these Tier 1 limited financial instruments across jurisdictions and in particular

under certain stress conditions.

Q53 If a PLAM requirement is not introduced, what amount should be included in ICS capital resources for instruments that qualify as Tier 1 Limited, to reflect going concern loss absorbency? Please explain.

Comment Box

Q54 Are there other criteria that could be added to enhance the ability of financial instruments to absorb losses on a going concern and / or on a gone concern basis? Please explain.

☐ Yes ☐ No

Comment Box

Q55 If the proposed approach for the recognition of structurally subordinated financial instruments is adopted for ICS Version 2.0, are there any practical difficulties that the IAIG and its GWS may encounter in implementing this approach? Please explain.

☒ Yes ☐ No

Insurance Europe does not consider the proposed approach to be practical, as it will be very difficult to explicitly track the flow of cash linked with a particular funding instrument, given that cash is generally a fungible asset in the Group treasury function.

Q56 If ICS Version 2.0 Tier 2 Paid-Up capital resources includes financial instruments with acceleration clauses that may be triggered outside of a winding up, please explain how policyholder protection is maintained and how other Tier 2 criteria can still be met (eg subordination, priority of claims, etc.).

Insurance Europe believes Tier 2 paid-up capital should not include financial instruments with acceleration clauses that may be triggered outside winding up.

Q57 Are the changes to the Tier 2 Paid-Up capital resources criteria appropriate for ICS Version 2.0? Please explain.

☐ Yes ☐ No

Comment Box

Q58 Are the criteria for Tier 2 Paid-Up capital resources, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? Please explain.

☐ Yes ☒ No

Insurance Europe notes that the restriction in tier 2 financial resources for residual maturities less than 5 years is very restrictive and can lead to uncertainty. According to residual maturity at closing date, this would cause own funds movements and disturb refinancing plans. Therefore, Insurance Europe suggests the removal of the criterion (d)(i).

d) The instrument's availability to absorb losses as it nears its effective maturity is captured by either: ~~***(i). decreasing the qualifying amount of the instrument from 100% to 0% on a straight-line basis in the final five years prior to maturity;***~~

Q59 Is the proposal to restrict the recognition of Tier 2 non-paid-up capital resources to mutual IAIGs appropriate for ICS Version 2.0? Please explain.

☐ Yes ☒ No

Insurance Europe does not agree, It believes the recognition of Tier 2 non-paid-up capital resources should not be restricted to mutuals only. These should form a part of the tier 2 capital resources, and it should be subject to the normal capital composition limits.

The rationale provided – that mutual IAIGs are the only insurers that have access to non-paid-up capital that is external to the group – is erroneous. Other insurers also have access to non-paid-up capital that is external to the group or the entity, such as letters of credit. The IAIS should be wary of drawing conclusions from Field Testing and assuming that they have general application. Participants in Field Testing may not be representative of the wider global insurance industry.

Non-paid-up items should be included in ICS qualifying capital resources, provided appropriate safeguards are set out in the qualifying criteria. Recognition of such items in relation to mutual IAIGs, and the fact that no changes are proposed to the qualifying criteria in the 2016 ICS consultation, suggest that the IAIS accepts this. As non-mutual insurers are in a similar position to mutuals of using external non-paid-up capital as Tier 2 capital, restricting recognition of such capital to mutuals would clearly be wrong.

Q60 Are the changes to Tier 1 and Tier 2 capital elements other than financial instruments appropriate for ICS Version 2.0? Please explain.

☐ Yes ☐ No

Q61 Are the Tier 1 and Tier 2 capital elements other than financial instruments, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? Please explain.

☐ Yes ☐ No

Q62 Is the proposal to limit third party capital appropriate for ICS Version 2.0? Please explain.

☐ Yes ☒ No

Insurance Europe believes no limit should apply to this, since it will be available to support a group's capital requirements.

Q63 In relation to the proposed limit on third party capital within ICS capital resources, what approach should the IAIS take if the information required to calculate and apply the limit is not available? Please explain.

Comment Box

Q64 Are the proposed capital composition limits appropriate for ICS Version 2.0? Please explain.

☐ Yes ☒ No

While Insurance Europe welcomes the specification of capital composition limits in ICS 2.0, it believes there should be no distinction in the capital compositions limits for mutuals and non-mutuals. To avoid an unlevel-playing field created by a different treatment of mutuals and non-mutuals the capital composition limits for both types should be the same. Aside from this, Insurance Europe considers the 10% limit for Tier 2 non-paid-up capital resources to be overly restrictive. No evidence is presented on why higher levels would pose unacceptable risks to policyholders. A separate limit for non-paid-up items is unnecessary: the limit on Tier 2 capital resources is sufficient

Furthermore, Insurance Europe notes that the current proposed capital composition limit that Tier 1 limited capital resources will be limited to 10% of the ICS capital requirement is too onerous. Insurance Europe considers that Tier 1 limited capital resources being limited to 20% of total unlimited capital resources would be more appropriate.

Q65 Are there any further comments on capital resources that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☒ Yes ☐ No

Insurance Europe notes the following:

- With respect to own funds Insurance Europe encourages the IAIS to consider issues of own funds transferability.
- The partial - 50% - deduction of assets assigned to defined benefit pension plans from Capital resources is not appropriate and should be corrected. An approach where pension plan assets are netted against benefit obligations is more suitable.
- Transitional measures on tiering for own funds are needed in ICS. This would allow subordinated loans to be eligible for capital coverage.

Risk mitigation

Q66 Should the effect of the renewal be recognised for any other risk mitigation arrangements? If “yes”, please also provide specific examples of such arrangements that should qualify.

☐ Yes ☐ No

Comment Box

Q67 Should any changes be made to the criteria for recognition? Please explain. If “yes”, please also provide:

- Suggestions for how the criteria could be amended; and
- Specific examples of risk mitigation arrangements that would qualify if these changes were made.

☐ Yes ☐ No

Comment Box

Q68 Should there be any change to the calibration and application of the limitation of value? If “yes”, please also provide suggestions on how else the future costs and uncertainty could be adequately captured in the ICS.

☐ Yes ☐ No

Comment Box

Q69 How should the associated expenses and other aspects of the reinsurance contracts be accounted for within the ICS?

Comment Box

Q70 With regard to non-life premium and natural catastrophe risk, are there any changes that should be made to the criteria used for the recognition of renewal of risk mitigation arrangements?

☐ Yes ☐ No

Comment Box

Q71 Should dynamic hedging arrangements be included in the scope of recognised market risk mitigation techniques for ICS Version 2.0? If “yes”, please also comment on:

- The approaches currently used in local jurisdictions or internally within insurance groups to assess the risk mitigation properties of dynamic hedging programmes for the purposes of regulatory or economic capital.
- How these could be incorporated into the ICS as an other method for calculating the ICS capital requirement; and
- The criteria required to be met to allow the use of these other methods.

Yes ☐ No

Insurance Europe welcomes the IAIS' consideration of dynamic hedging arrangements within the scope of recognised market risk mitigation techniques, as hedging is an appropriate risk mitigation technique.

As dynamic hedging cannot be addressed in the standard formula, this points to the need for recognition through internal model approaches.

Q72 Are there any further comments on risk mitigation that the IAIS should consider in the development ahead of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Comment Box

Look-through

Q73 Are there any comments on the look-through approach that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☒ No

Insurance Europe proposes to define a materiality threshold for the application of the look-through approach. Furthermore, where the look through approach is not possible for investment funds, insurers should be allowed to apply a simplified approach based on the underlying target asset allocation and on data grouping.

Management actions

Q74 Are there examples of other instances for which an extension of management actions to allow for the recognition of premium adjustments may be appropriate? Please explain.

☒ Yes ☐ No

There should be an appropriate recognition of the value of premium increase management actions for life reinsurance business in the required capital in line with their economic value.

For reinsurance, the premium increases when they are possible have the same economic impact as a reduction in discretionary benefits on the basis that premiums and claims are paid simultaneously on a reinsurance treaty (by settlement of accounts) and the reinsurance premium increase has the same impact on net cashflow as a reduction in benefits paid. Under the terms of the treaty, the reinsurance claim payments will be met on the basis that reinsurance premiums (increased as appropriate in line with treaty conditions) are paid.

Q75 How should the cap on management actions be applied across risks?

Comment Box

Q76 Are there any further comments on management actions that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☒ Yes ☐ No

Insurance Europe does not support the proposed limitations on management actions and proposes that management actions such as repricing, MVA and dynamic investment strategies are permitted in the ICS, as long as they reflect product features and current practice. This approach would support the risk-based nature of the ICS and would represent a more appropriate reflection of actual business realities.

Mortality and Longevity risks

Q77 The design for Longevity risk in 2017 Field testing balances the need for a risk-sensitive approach and a practical design of the risk charge. Are there any changes to the current design and calibration of the Longevity stress that would significantly improve the reflection of the underlying risk in the ICS? If "yes", please explain and provide examples and/or rationale to support the proposal.

☐ Yes ☒ No

Comment Box

Q78 Are there any further comments on Mortality and Longevity risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☒ Yes ☐ No

Insurance Europe believes offsetting effects should be considered. Currently the shock is applied only to policies where an increase in mortality rates would lead to a decrease in the NAV (paragraph 528 of FT specifications). Insurance Europe believes it would be more appropriate if the shocks would also be applied to policies where an increase in mortality rates would lead to an increase in the NAV.

Furthermore, capital charges for mortality and longevity should not be cumulative. It is highly unlikely that both shocks would materialise together. Therefore, Insurance Europe suggests adopting the maximum of mortality and longevity capital charges.

Morbidity / Disability risk

Q79 Is the simplified segmentation by contract term for Morbidity/Disability risk appropriate? Please explain.

☒ Yes ☐ No

Comment Box

Q80 Should any other modifications be made to the design? Please describe.

☒ Yes ☐ No

Insurance Europe believes the ICS design, providing different shocks on a scenario basis for life, ‘similar to life’ and ‘not similar to life’, is unnecessarily complex. It suggests a simplification of the categorisation for morbidity/disability shock.

Q81 Are the stress levels appropriate for the Long-Term contract segment? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

☒ Yes ☐ No

Comment Box

Q82 Are the stress levels appropriate for the Short-Term contract segment? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

☒ Yes ☐ No

Comment Box

Q83 Are there any further comments on Morbidity/Disability risk, which the IAIS should consider in the development of ICS Version 2.0? If “yes”, please elaborate with sufficient detail and rationale.

☐ Yes ☒ No

Comment Box

Lapse risk

Q84 Are there any comments on Lapse risk that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

☒ Yes ☐ No

Policyholder options are included in the lapse risk definition under the current ICS specification. Policyholders may exercise different kinds of options based on product features including partial withdrawals. As such, there is a risk of expected changes to the rate at which policyholders exercise their option and the extent to which such withdrawals are taken at the optimal level. However, the current technical specification is not clear on the strength of the shock required to assess the risk of unexpected utilisation or partial withdrawal rates because the level lapse stresses are not designed to reflect risks associated with utilisation and partial withdrawals. Insurance Europe believes this should be addressed.

Furthermore, Insurance Europe notes that the application of homogenous risk groups within the mass lapse stress is excessive. Assuming that all policyholders can value the moneyness of the insurer’s obligation towards them (using a valuation basis such as ICS) and that policyholders behave in ways that are most onerous to the insurer, rather than adhering their own needs or circumstances is unrealistic.

Finally, Insurance Europe believes offsetting effects should be considered. The capital charge for lapse risk should be determined at entity level and not at the level of homogeneous risk groups (see paragraph 577 of FT specifications).

Expense risk

Q85 The Field Testing Technical Specifications specify expense inflation stresses that grade down to 1% for China, Emerging Markets and Other Developed Markets. Is this appropriate? If “no”, please provide suggestions on the appropriate stresses and grading period together with the supporting rationale. Please explain with sufficient detail and rationale. If “yes”, please comment whether this design is consistent with the approach used to determine the LTFR, where differentiated long-term inflation assumptions are used between jurisdictions, without any convergence.

☒ Yes ☐ No

Comment Box

Q86 Are there any further comments on Expense risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☒ No

Insurance Europe notes that in practice companies are able to manage expense levels, therefore it is unrealistic for the inflation stress to continue indefinitely.

Premium and Claims Reserve risks

Q87 Do the changes described above in the ICS jurisdictional segments and categories properly reflect business specificities within each region? If "no", please provide rationale and alternative suggestions supported by evidence.

☐ Yes ☐ No

Comment Box

Q88 Is the aggregation approach described above appropriate for the determining the non-life risk charge for ICS Version 2.0? If "no", please provide evidence, rationale, such as studies or impact assessments that could support an alternative approach.

☐ Yes ☒ No

Diversification and interactions between risks are difficult to capture using a standard approach when applied to IAIGs with different exposure profiles to jurisdictions, products, and investments.

The proposed diversification benefits are quite limited. A particular concern is that there is no allowance for geographical diversification within the EU.

Q89 Do the factors applied to Premium and Claims Reserve exposures properly capture the unexpected loss, at a 99.5% VaR over a one-year time horizon, for each segment? If "no", please provide rationale, evidence and materiality assessment of the potential impact on the non-life risk charge.

☐ Yes ☒ No

Insurance Europe believes that the following factors reflect an expected loss in excess of the 99.5% calibration objective of the ICS:

Premium risk factors

- EEA and Switzerland/Workers compensation
- EEA and Switzerland/General liability – third party liability
- EEA and Switzerland/Credit and suretyship

Claims reserve risk factor

- EEA and Switzerland/Legal expenses

Q90 Are there some assumptions, such as those aforementioned, which should be reviewed in the coming calibration exercise? If "yes", please provide details, rationale and detailed methodology to apply.

☐ Yes ☐ No

Comment Box

Q91 More specifically, is the simplification of assuming a combined ratio of 100% for Premium risk appropriate? If "no", please comment on whether it is materially different from internal assumptions. Further, please suggest a methodology to refine the calibration and the information needed to do so. If deemed material, but without a methodology suggestion, are there other ways to address the difference?

☐ Yes ☐ No

Comment Box

Q92 Are the assumptions above consistent with the valuation on the balance sheet? Please provide details, rationale and detailed methodology to apply.

☐ Yes ☐ No

Comment Box

Q93 Is it necessary to make "profitability adjustments" to the design of Premium risk to better align it with the ICS balance sheet? If "yes", please provide details and rationale that support the response. If "no", explain how the current design aligns with the Premium risk on the ICS balance sheet as measured using a total balance sheet approach and a one-year time horizon.

☐ Yes ☐ No

Comment Box

Q94 If there were to be a "profitability adjustment" included, how could it be designed? Please provide details, rationale and an example of a possible design for this adjustment.

Comment Box

Q95 Are there any additional amendments to the latent liability design or calibration that are necessary to make it more suitable for the ICS standard? In particular, please address whether the latent liability component better reflects the underlying risks when situated within the Claims

Reserve risk component. If “no”, please provide rationale and alternative suggestions supported by evidence.

☐ Yes ☐ No

Comment Box

Q96 Are the prerequisites for the reporting of ISFs during the monitoring period appropriate? Please explain with sufficient detail and rationale, including any other prerequisites that should be considered.

☐ Yes ☐ No

Comment Box

Q97 Are there specific examples of prescribed methodologies that could be used for the determination of ISF for Premium and/or Claims Reserve risk? Please explain with sufficient detail of the methodology, including the data that would be needed and the formulae that would be used.

☐ Yes ☐ No

Comment Box

Q98 Are there any further comments on Premium and Claims Reserve risks that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

☐ Yes ☐ No

Comment Box

Catastrophe risk

Q99 Is the list of perils for Catastrophe risk appropriate for ICS Version 2.0? If “no”, please provide a list of amendments, including a definition of the peril to include or exclude and any other specific details to support the suggestion(s).

☐ Yes ☐ No

Comment Box

Q100 Are the catastrophe scenarios, as defined in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? If “no”, please provide specific suggestions supported by rationale and evidence to amend the scenario(s).

☐ Yes ☐ No

Comment Box

Q101 What should be the safeguards for using natural catastrophe models as part of ICS Version 2.0? In particular, please address the extent to which the aforementioned list should be expanded. Please also comment on the requirements that should be included, as well as any alternative approach that could be taken if an IAIG were unable to meet the requirements.

Insurance Europe strongly supports the use of natural catastrophe risk models to capture this risk and believes it is the only practical way to adequately quantify such risk exposures.

Supervisory concerns about the use of these models can be addressed through the provision of fit-for-purpose information and model governance, as proposed in the consultation.

Insurance Europe does not agree that it is necessary to set restrictions on the use of the models. This could inhibit appropriate model development and may result in reduced risk sensitivity. It is also unclear who would set the restrictions and how these would be consistently implemented across the IAIGs. If a catastrophe model (and the attendant governance and validation requirements) is allowed within an IAIG's jurisdiction, then it should also be allowed for in the ICS.

Insurance Europe also notes that insurers typically carry out a wide range of assumption testing, validation and impact assessment as part of their model choice and development. A specific provision for self-assessment may therefore be unnecessary.

Q102 For the purposes of the ICS standard method, is the approach taken in 2018 Field Testing adequate to account for diversification effects between Catastrophe risks? If "no", please provide a more appropriate alternative suggestion including rationale, keeping in mind the need to apply a consistent methodology across all jurisdictions, and to balance practicality and materiality with risk sensitivity in a standard method.

☒ Yes ☐ No

Comment Box

Q103 Are there any further comments on Catastrophe risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Comment Box

Interest Rate risk

Q104 Should the IAIS consider employing the AFNS model for ICS Version 2.0? Please explain. If "no", please indicate if the IAIS should continue using the DNS model or suggest an alternative model to the DNS.

☐ Yes ☐ No

Comment Box

Q105 Should the IAIS apply the AFNS model to countries where the AFNS model is applicable, and apply the DNS model to the rest of countries? Please explain.

☐ Yes ☒ No

Insurance Europe supports a consistent approach across all jurisdictions.

Q106 Should the IRR stress on LTFR and the maximum LTFR annual change for current estimate valuation purposes continue to be independently determined by the IAIS, or should both be subject to the same cap? Please explain with sufficient detail and rationale.

☐ Independently determined by the IAIS Comment Box

☒ Subject to the same cap

The capital requirement for the IRR represents the losses to which the insurer is exposed due to unexpected changes in the level or volatility of interest rates over a one year period.

For the calculation of the IRR capital charge to be economically correct, the stress on the LTFR and the maximum annual LTFR change must be consistent. If they are different, then the capital requirement for interest rate risk will not correctly reflect the change in capital resources which would occur if the stress event materialised.

Insurance Europe further questions what the justification would be for having independent calibrations for these components of the framework?

The consultation notes that the shocks for risk drivers are not in any way constrained by the assumptions used to calculate the current estimates. However, this is contradictory to provision 17.14.8 of ICP17 which provides guidance on for insurers using an internal model to calculate regulatory capital requirements and states that "*The methodology should also be consistent with the methods used to calculate technical provisions".* Making the stress of the LTFR consistent with the maximum annual changes of the LFTR would ensure improved consistency between the ICS v2.0 and ICP 17.

☐ Others Comment Box

Q107 Is the method used to aggregating the Interest Rate risk in multiple currencies appropriate? If "no", please suggest an alternative methodology.

☐ Yes ☒ No

Insurance Europe does not believe that the IAIS's proposed aggregation method is appropriate, as correlations between interest rate risks in different economies will not be dependent on any IAIG's net long or short position in that currency. Any correlation should be based on observed market data, independent of insurance groups' exposures.

The correlation factor is also too onerous. Market data suggest that the correlation for interest rate risks between currencies is low.

No limits in offsetting interest rate stress impacts in one currency against another currency should be applied.

Q108 Is the treatment of management actions and the current choice of scenarios based on impact before the management actions within the Interest Rate risk charge appropriate? If "no", please explain with sufficient detail and rationale.

☐ Yes ☒ No

The scenario should be chosen based on the impact after management actions (eg with changed future discretionary benefits) as this provides a better reflection of economic reality.

Q109 Are there any further comments on Interest Rate risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☒ Yes ☐ No

Insurance Europe notes that changes in interest rates constitute a single risk. This risk may be modelled in a more simple and robust way with only one risk factor or in a more sophisticated way with two risk factors (1st and 2nd principal component if PCA is applied) within the same scenario. However, in both cases, there should be only one downward scenario (respectively. one combined downward and flattening scenario).

IRR design makes inputs and outcomes hard to be understood and interpreted. The resulting overall capital charge is hard to challenge. For example, regarding euro-currency shock, there are evidences, raising from supervisor works, that the capital charge for IRR should be lower.

For a capital requirement, the worst case impact of a series of interest rate scenarios should be chosen. A combination of the impacts of several different scenarios is inappropriate, as it does not reflect any real actually possible economic outcome. This creates difficulties in assessing and communicating this risk and provides wrong incentives for risk management due to the artificial combination of stress results.

In addition, according to the technical specifications the interest rate shocks appear to be derived using a normal distribution, which may not be appropriate. This assumes symmetry between the

level up and down shock, which is not consistent with the observed market data. Compared to work performed using market data, the current ICS approach significantly understates the upward stress and significantly overstates the downward stress for a number of key currencies.

Non-Default Spread risk

Q110 Is the definition of Non-Default Spread risk appropriate for ICS Version 2.0? If "no", please provide rationale and details.

☐ Yes ☒ No

As a general comment, Insurance Europe does not support the calibration of the capital requirements for bonds and loans based on measuring exposure to spreads. However, it does appreciate that, in the IAIS proposal, the capital charge for non-default spread risk recognises the changes in both the value of the assets and the value of the liabilities (due to increases in the adjustment to the risk-free rates used to discount the liabilities).

Q111 Is the current approach selected to capture Non-Default Spread risk appropriate (the third option, as defined above) for ICS Version 2.0? If "no", please provide details supporting another option.

☐ Yes ☒ No

Insurance Europe believes the risks associated with investing in spread sensitive assets are sufficiently captured in the credit risk module and does not require a non-default spread risk module which goes against the long-term, going concern life insurance model where assets are generally held to maturity.

As noted above, Insurance Europe welcomes the inclusion of a dynamic spread adjustment to the liabilities. The NDSR submodule must permit the use of internal ratings as external ratings may not be available for large portions of assets in certain jurisdictions (see Q 121).

Q112 From a conceptual perspective, which design is more appropriate, an asset only spread upward shock or a bi-directional shock applied on assets and liabilities? Please explain.

☐ An asset only spread upward shock Comment Box

☒ Bi-directional shock applied on assets and liabilities

The capital requirement for the NDSR risk is calculated by assessing the impact of an instantaneous stress on the balance sheet of the insurer, calibrated over a one year time horizon. To create a consistent and economically correct calibration of the NDSR, the ICS must consider the impact on both the assets and liabilities. Ignoring the impact on the liabilities artificially inflates the impact that spread widening would have on the insurer's capital resources and creates a capital requirement for a risk that would not materialise in practice.

☐ Others Comment Box

Q113 Is the 2018 Field Testing design of the Non-Default Spread risk charge appropriate for ICS Version 2.0? If "no", please explain.

☐ Yes ☐ No

Comment Box

Q114 Is the calibration of the Non-Default Spread risk charge appropriate for ICS Version 2.0? If "no", please explain.

☐ Yes ☐ No

Insurance Europe highlights that the sum of the credit risk charge and non-default risk charge could be considered to be overly prudent already. Any further development of either risk category should avoid overlaps and should not lead to an increase in combined charges.

Q115 Are there publicly available data sources which the IAIS could use to calibrate Non-Default Spread risk? If "yes", please provide details.

☐ Yes ☐ No

Comment Box

Q116 Is the design of the Non-Default Spread risk charge for GAAP Plus appropriate for ICS Version 2.0? If "no", please explain.

☐ Yes ☐ No

Comment Box

Q117 Is the approach used in 2018 Field Testing to determine the overall Non-Default Spread risk charge for GAAP Plus, where different GAAP Plus specifications are applied to different parts of the business, appropriate for ICS Version 2.0? If "no", please explain.

☐ Yes ☐ No

Comment Box

Q118 Should the liquidity component of spreads be excluded when designing and calibrating Non-Default Spread risk? Please explain. If "yes", please also provide suggestions about the practical approach to perform the split of the total spread.

☐ Yes ☐ No

Comment Box

Q119 If the liquidity component of spreads would be excluded from Non-Default Spread risk, should the IAIS modify (ie reduce) the MAV discounting adjustments which are considered for discounting of insurance liabilities (the Three-Bucket Approach) to ensure consistency in the ICS? If "no", please explain, in particular, the issue of consistency across different ICS elements. If "yes", please explain with sufficient detail.

☐ Yes ☐ No

Comment Box

Q120 Should the design of Non-Default spread risk be modified to address the issue identified in this section? If "yes", please provide details about the technical solution to be adopted (which could be the proposed approach or an alternative one).

☐ Yes ☐ No

The IAIS should continue to investigate the design of Non-Default spread risk. In terms of aggregation methods for the NDSR, Insurance Europe considers the current method to be appropriate. Credit spreads are highly correlated between currencies, and therefore it is appropriate to allow an offsetting impact between currencies in spread up and down scenarios.

Q121 Are there any further comments on Non-Default Spread risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☒ Yes ☐ No

Insurance Europe believes that the ICS should be developed with the long-term life insurance business model in mind. More specifically, liquidity concerns should be addressed through separate assessments and tools, while capital measures should strive to align with the long-term, going concern mindset behind the life insurance business model. It is not necessary to address every supervisory concern through the "Pillar 1" solvency ratio. It believes the risk associated with investing in spread sensitive assets are sufficiently captured in the credit risk module and does not require a non-default spread risk module which goes against the long-term, going concern life insurance model where assets are generally held to maturity.

Insurance Europe believes that the IAIS should permit the use of internal ratings, providing the internal rating process is well governed. This will serve to reduce reliance on external rating agencies, support the development of robust internal risk management processes, and promote investment in emerging economies and other sectors (eg infrastructure projects) where ECAI ratings are not available.

Equity risk

Q122 Is the four-bucket approach to the segmentation of equities appropriate? Please explain. If "no", please provide an alternative suggestion and rationale.

☐ Yes ☒ No

Insurance Europe believes that the segmentation of equity in four buckets is generally appropriate. However, there is evidence that a tailored calibration of capital charges is more appropriate, especially in cases where the nature and risk profile of a particular asset differs from the "basket" that it is placed in. For example, the prudential treatment of infrastructure investments should be aligned to the true risks to which insurers are exposed. A wrong design of the capital requirements calibration will have a negative impact on efficient use of capital and on the industry capacity for investment in these assets.

Specifically, Insurance Europe strongly believes that a separate asset class meeting specified criteria should be created based on the risk characteristics of infrastructure. The unnecessarily high calibration of capital charges for infrastructure equity under the equity basket is unjustified: a 49% risk charge is excessively punitive, especially in consideration of the solid evidence showing that infrastructure investments calibrations should be lower and closer to the calibrations for listed shares in developed markets.

Q123 Is the approach taken to calculate the aggregation and diversification for Equity risk appropriate? Please explain. If "no", please provide an alternative suggestion and rationale.

☐ Yes ☒ No

Insurance Europe believes that if an equity volatility stress is needed then its contribution to the capital requirement should capture its interaction with the price stress. At present, the summation of the requirements from the volatility stress and equity stress does not achieve this.

Q124 Is the treatment of long-term equity investments (such as strategic and infrastructure investments) appropriate? Please explain. If "no", how should they be treated differently, and what criteria should be used to define long-term equity investments? Please highlight key design features and provide supporting evidence (including data).

☐ Yes ☒ No

Long-term equity investments should have a more tailored capital treatment, reflecting the cases where insurers are not exposed to forced sale of these assets, and have therefore the ability to invest with a long-term perspective and be exposed to long-term risks rather than 1-year short-term risk.

An insurer's ability to adopt and maintain a long-term view in the management of assets is a direct consequence of the long-term nature of liabilities. Insurers managing their assets with a long-term view are not exposed to forced sales on a one-year basis and the short-term volatility of assets is" hedged" by the duration of the holdings, including in the case of common stocks. Such asset

management strategies allow for an enhanced diversification of the asset portfolio improving key indicators such as profitability, liquidity and solvency. They also lead to a countercyclical investment behaviour whereby insurers can buy when everyone else is selling. Therefore, the calibration of capital requirements should reflect the true level of risks for insurers with long term strategies. Typically, the volatility of common stock portfolios is much lower if assessed in a long-term perspective. Such an approach would in fact lead to a much lower calibration of equity held long-term.

Q125 Is the current method of adding the shock to the current volatility appropriate? If "no", please provide an alternative suggestion with rationale.

☐ Yes ☒ No

Insurance Europe supports the removal of the equity implied-volatility shock as market price shocks already consider implicitly volatility.

Insurance Europe notes also that, in any case, price and volatility shocks are not independent, which is not properly considered when aggregating the impacts. Two solutions can be jointly explored for considering it:

- introducing a proper correlation between price and volatility shocks
- applying the volatility shocks on the price-shocked market values.

In any case, a permanent change to equity volatility under stress is not an appropriate treatment, since volatility shows strong mean reverting properties. A permanent stress implies sustained high levels of cost of capital and equity risk premium, which is not realistic. Additionally, the additive volatility levels are unjustifiably high compared to calibrations based on market data.

Q126 Are there any further comments on Equity risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☒ Yes ☐ No

Insurance Europe encourages the IAIS to provide more information and details on the calibration of the equity volatility, to understand better the data, model and judgements used in the calibration process.

In addition, Insurance Europe supports the inclusion of an anti-cyclical tool for equity within the ICS. This could take the form of a symmetric adjustment calculated on the basis of a floating average of market prices.

Insurance Europe further supports the recognition of long-term equity investment portfolios in association with a reduced capital charge. The demonstration of the long-term investment strategy regarding equity can be made as follows:

- predictable and stable liabilities on the insurer's balance sheet

- the long-term nature of the investment is reflected in its ALM and investment policies.
- the insurer demonstrates its ability to avoid forced sales of equity by a liquidity test

Real Estate risk

Q127 Are there any comments on Real Estate risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain, with sufficient detail and rationale.

☐ Yes ☒ No

The proposed shock level of 25% is extremely conservative and does not reflect the often very low market volatility of this asset class.

Currency risk

Q128 Is the approach to Currency risk (eg level of the stresses, correlation factor, treatment of currency pegs, partial exemption for investments in foreign subsidiaries) appropriate for ICS Version 2.0? Please explain.

☐ Yes ☒ No

The currency risk exposure for an IAIG is largely a result of the currency translation risk ie the contribution arising from foreign-currency denominated subsidiaries. Insurance Europe believes that the currency risk charge should be redesigned to remove the charges for currency translation risk.

Currency translation risk does not impact on policyholder protection, nor does it detract from financial stability, the stated main objectives of the ICS. Indeed, requiring capital to be held against this risk could incentivise risk management practices that would be detrimental to policyholder interest as well as being contrary to ICS Principle 6 (the promotion of sound risk management).

This is partially recognised by the IAIS through the 10% proxy exemption for investments in foreign subsidiaries.

Additionally, requiring capital for translation risk will reduce comparability across IAIGs, as the capital requirements will depend on each Group's reporting currency ie. two IAIGs with exactly the same business and balance sheet could have different ICS requirements, depending on their reporting currency.

Insurance Europe further notes that some of the current calibrations for currency risk far exceed the calibrations based on historical data.

In the currency risk design, IAIS should allow for recognition of the loss absorbing capacity of technical provisions as it does for other risks.

Asset Concentration risk

Q129 Due to the difficulties of designing an approach that can take into account those asset concentrations that arise from developing asset markets where investment opportunities may be limited, is there an alternative methodology for evaluating Asset Concentration risk? Please explain.

☐ Yes ☐ No

Comment Box

Q130 Under the current ICS Credit risk design, short-term obligations at regulated banks (including demand deposits and other short-term obligations) receive a stress factor of 0.4%, reflecting the low default risk of such investments. In order to address the potentially significant impact generated by the concentration of such investments in developing asset markets, would it be appropriate to similarly allow for a single low risk charge under the Asset Concentration risk framework? If “no”, please provide details.

☒ Yes ☐ No

Comment Box

Q131 Should any modifications be made to the current approach for assessing Asset Concentration risk within the ICS? If “yes”, please elaborate.

☐ Yes ☐ No

Comment Box

Q132 Would this proposed approach be an improvement over the current Asset Concentration risk requirement? Please explain.

☐ Yes ☐ No

Comment Box

Q133 Are the current incremental risk charge factors appropriate for ICS Version 2.0? If “no”, please clarify.

☐ Yes ☐ No

Comment Box

Q134 Are there any further comments on Asset Concentration risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please elaborate.

☐ Yes ☐ No

Comment Box

Credit risk

Q135 Is the current design of Credit risk appropriate for ICS Version 2.0? If "no", please explain with sufficient detail and rationale.

☐ Yes ☒ No

Insurance Europe notes that external ratings are not always available; the current treatment (which considers these as unrated) is overly punitive (see the response to Q136).

Q136 Should any modifications be made to the approach for assessing Credit risk within the ICS? If "yes", Please describe.

☒ Yes ☐ No

The IAIS should permit the use of internal ratings, providing the internal rating process is well governed. This will serve to reduce reliance on external rating agencies, support the development of robust internal risk management processes, and promote investment in emerging economies and other sectors (e.g. infrastructure projects) where ECAI ratings are not available.

Insurance Europe welcomes the improvements made to the risk factors for residential mortgages, However, certain residential mortgages continue to be subject to excessive risk charges due to unrecognized risk offsets such as collateral (e.g. personal savings) and government guarantees. For a mortgage book in the Netherlands, the historical annual losses, (including the financial crisis), are only 3-5 bps, and our estimate of 99.5% economic capital is approximately 1%. The ICS, however, would assess this book as requiring risk capital of upwards of 2%, net of taxes and diversification. Additional work is needed to incorporate the risk offsets on such mortgages.

Q137 Is the treatment of collateralised reinsurance (ie the substitution approach) reasonable from a Credit risk perspective? If "no", please discuss and propose ways to address concerns.

☐ Yes ☐ No

Comment Box

Q138 Does the haircut approach capture the underlying risk of collateralised reinsurance exposures more accurately? Please explain with sufficient detail and rationale.

☐ Yes ☐ No

Comment Box

Q139 Is the current approach adopted for mortgage credit risk appropriate for ICS Version 2.0? If "no", please explain with sufficient detail and rationale.

☐ Yes ☒ No

See response to Q136

Q140 Alternatively, would it be more appropriate for the Credit risk charge to be based on local calibrations of mortgage loans, if reliable local data were available to support geographical differentiation of calibrations? Please explain with sufficient detail and rationale, including potential data sources to enable the calibration.

☒ Yes ☐ No

See response to Q136

Q141 Is the inclusion of supervisor-owned and controlled credit assessment processes as a national discretion in the standard method appropriate? Please explain, including any rationale.

☐ Yes ☐ No

Comment Box

Q142 As 2018 Field Testing involved the collection of data with and without the application of NAIC Designations, are the criteria for supervisor-owned and controlled credit assessment processes appropriate for ICS Version 2.0? Please explain with sufficient detail and rationale.

☐ Yes ☐ No

Comment Box

Q143 Is the current segmentation and definitions of infrastructure investments, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? If "no", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Comment Box

Q144 Are the calibrations for infrastructure investments, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? If “no”, please explain with sufficient detail and rationale.

☐ Yes ☒ No

The prudential treatment of infrastructure investments should be aligned to the true risks to which insurers are exposed. Insurance Europe believes that investment in infrastructure are currently heavily penalised even if there is evidence that infrastructure investments calibrations should be lower.

Q145 Are there any further comments on Credit risk, which the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

☐ Yes ☐ No

Comment Box

Operational risk

Q146 Are the proposed Operational risk exposures appropriate for ICS Version 2.0? Please explain. If “no”, please provide specific suggestions for alternatives and the practicality of their application in a standard method.

☐ Yes ☐ No

Comment Box

Q147 Should the IAIS introduce changes to the design of the Operational risk charge to address these issues? Please provide sufficient detail and rationale.

☒ Yes ☐ No

Insurance Europe supports further investigation into the issues raised by the IAIS. In particular, the alignment of the operational risk charge with the most reflective exposure base for each class of business.

Q148 Are the proposed Operational risk factors appropriate for ICS Version 2.0, both in terms of size and relativity? If “no”, please propose evidence for alternative factors and their practicality for implementation in a standard method.

☐ Yes ☐ No

Comment Box

Q149 Are there any further comments on Operational risk that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

☐ Yes ☐ No

Comment Box

Aggregation / diversification of ICS risk charges

Q150 Is the correlation matrix being used for Market risk aggregation appropriate for ICS Version 2.0? If “no”, please provide rationale and alternative suggestions supported by evidence.

☐ Yes ☒ No

Insurance Europe does not consider the overall diversification allowance in ICS to be sufficient.

As noted in response to Q107, Insurance Europe believes the method for aggregating the interest rate risk charge between currencies is not appropriate, as correlations between interest rate risks in different economies will not be dependent on any insurance groups’ net long or short position in that currency. Any correlation should be based on observed market data, independent of insurance groups’ exposures. The correlation factor is also too onerous. Market data suggest that the correlation for interest rate risk between currencies is low.

The current design of equity risk is the sum of level and volatility stress; however, this is significantly more onerous than the combined stress run of level and volatility. The simple sum ignores the interaction effects between the level and volatility impacts.

The application of homogenous risk groups within the mass lapse stress for aggregation is too onerous. It is not realistic to assume that all policyholders can assess the money-ness of their individual contracts (using a valuation basis such as ICS) from the insurers’ perspective and always act in ways that are most onerous to the insurer, rather than adhering their own needs or circumstances.

Q151 Are there any further comments on Aggregation and Diversification that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

☒ Yes ☐ No

Insurance Europe considers that the current approach is too simplistic for IAIGs, with the result that the approach has the potential to mis-state the diversified capital requirement by:

- failing to capture the complexities of the correlations between risk modules and how they differ between insurers;

• not allowing for non-linear interactions between risks; and

• failing to appropriately capture tail dependencies between risks and increasing correlations.

It is important that the approach taken in the ICS does not result in significant errors in aggregation, as this may inhibit insurers from adopting best practice in risk management within their businesses.

There is limited recognition of diversification between countries, which is inappropriate for a standard designed for internationally-active groups.

Tax Treatment

Q152 Should all IAIGs apply the same utilisation criteria for starting GAAP DTAs (eg greater than 50% probability) regardless of whether their GAAP applies a more stringent utilisation assessment approach? If "yes" please explain how IAIGs, that apply a more stringent assessment, could re-perform a utilisation analysis using a common approach given the complexity of the assessment.

☐ Yes ☒ No

Insurance Europe believes utilisation criterion should not be applied for "starting GAAP DTAs". Under the respective local accounting regimes, the recoverability is already assessed and adjusted if needed. Therefore, an additional haircut is not justified.

Q153 Regarding Question 152, if an IAIG is able to re-perform their GAAP DTA utilisation assessment for the ICS, there is a concern that the estimate would be very difficult to rely on or validate if it was not subject to external audit. Please provide any views on how this calculation could be sufficiently transparent and verifiable by supervisors.

Q154 The utilisation assessment of the DTA resulting from the ICS adjustment and the ICS tax effect on the capital requirement is based on a top-down approach. Is this a reasonable way for determining the ICS tax treatment? If "no", please provide, in sufficient detail, any alternate approach that would consider data limitations, prudence, practicality, and comparability between insurance groups.

☐ Yes ☒ No

The tax-capping should be based on the amount that may be reasonably recovered, rather than the balance sheet DTL.

Insurance Europe believes the tax rate used should be based on the local fiscal regime. Because using the group effective tax rate will not enhance comparability. Only if tax arrangements such

as fiscal unity can be applied across jurisdictions, a single rate could be applied. In fact, in most cases the tax impact is already calculated, only the IGT elimination would have an impact.

In addition, Insurance Europe believes that the comparability argument is not justified. Because there will also be differences in other underlying legislation - not necessarily only in the area of tax treatment (eg social security, liability arrangements fiscal treatment of life insurance).

In addition, Insurance Europe notes that undertakings should also have the option to perform a bottom up tax calculation.

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Q155 When the Top-Down approach is applied, is the limitation of the utilisation assessment of the DTA recognised through the ICS adjustment using the net DTL, which is defined in paragraph 492, appropriate? If "no", please provide in sufficient detail any approach that would consider data limitations, prudence, practicality, and comparability between insurance groups.

☐ Yes ☒ No

Insurance Europe disagrees with the proposed approach in paragraph 492. The ICS approach is too stringent, the post-shock net DTA should not be capped by the net DTL. The tax capping should be based on the amount that may be reasonably recovered, rather than the balance sheet DTL. The ICS approach should recognise the loss absorbency of deferred taxes and the ability of future profits to support this on the condition that it can be demonstrated that these future profits will be available. (Note this is also recognised by the IAIS itself in the ICS 2.0 public consultation document see paragraph 500 '*The utilisation assessment of the DTA recognised through the ICS adjustment and the ICS tax effect on the capital requirement should be assessed at a similar level based on taxable income projections.*')

Additionally, Insurance Europe believes that pull-to-par and additional returns from recovery of financial markets should be allowed as a source for recognising DTA.

Q156 When the Top-Down approach is applied, is the utilisation assessment of the tax effect on the capital requirement using the remaining net DTL, which is defined in paragraph 494, appropriate? If "no", please provide, in sufficient detail, any approach that would consider data limitations, prudence, practicality, and comparability between insurance groups.

☐ Yes ☒ No

Insurance Europe believes that limiting the utilisation assessment to the use of the remaining net DTL for the capital requirement is overly prudent. There are examples of jurisdictions where tax losses can be carried back 1 or even 3 years.

In addition, the limitation does not recognise the expectation that an insurance group which holds sufficient capital to meet the required capital will be able to continue in business, and generate profits either through new business or investment return generated on capital. The latter would still arise if an insurer closes to new business and goes into run-off. Both of these items would give rise to tax relief on the capital requirement.

Q157 Is the 2018 Field Testing group effective tax rate calculation based on the jurisdictional audited GAAP consolidated financial statements a reasonable approach for ICS Version 2.0? If "no", please provide any other proposed method for calculating a group effective tax rate with a rationale for the methodology.

☐ Yes ☒ No

Insurance Europe highlights that the group effective tax rate is calculated on the aggregation of different businesses, potentially in different jurisdictions, with different tax profiles. However, Insurance Europe notes that some IAIGs may have a preference for the top-down approach, and therefore would suggest IAIGs could be given the alternative of a top-down or the bottom-up approach.

Q158 Should an adjustment for non-recurring items be included in the group effective tax rate calculation? If "yes", please provide the following information:

- Details on the proposed methodology
- Rationale for the methodology
- A definition and listing of non-recurring items.

☒☐ Yes No

Insurance Europe notes that the ICS is intended to be a globally comparable risk-based measure of capital adequacy (ICS Principle 1). Its main objectives are the protection of policyholders and to contribute to financial stability (ICS Principle 2).

The tax position under ICS should therefore be adjusted for tax items that do not reflect tax on profit or non-recurring items that will distort the effective tax rate, and therefore the long-term rate of tax expected to be experienced by the insurance group. This will serve to reduce year-on-year volatility in the tax rate.

For example:

- In the UK, tax for life insurance includes tax payable on policyholder investment returns. This tax is borne by the policyholders and therefore typically has no impact on the capital position of the insurance group. Policyholder tax will however lead to a very volatile group effective tax rate. There are similar regimes in Ireland and Singapore.
- Profits or losses arising on the sale of businesses are commonly taxed at a lower rate (or not taxed at all if there is a participation exemption). In the year of sale this will commonly distort the group effective tax rate.

An alternative would be to apply the group effective tax rate on operating profit, which should remove distortions due to items such as UK policyholder tax or non-recurring non-operating items. Operating profit is a non-GAAP measure, but is commonly used by insurance groups as the measure of sustainable profits generated from insurance operations.

In order for the impact of these adjustments to be considered properly by group wide supervisors and host supervisors, Insurance Europe would suggest that the insurance group should be required to produce a reconciliation between the group effective tax based on the group accounts and the group effective rate used in the ICS.

Insurance Europe would expect that over the 5-year monitoring period, a common understanding of the impact of such items will be reached between supervisors and insurance groups.

Q159 How should issues like newly announced statutory tax rates, negative tax rates and volatile tax rates be addressed in the group effective tax rate calculation? Please provide the following information:

- Details on the proposed methodology
- Rationale for the methodology

Insurance Europe considers that issues should be dealt with in accordance with the requirements of IAS 12 (the international accounting standard on Income Taxes). This requires tax to be calculated based on rates and legislation which have been substantively enacted. Under IAS 12, disclosure is also required of the effect of any tax changes that have been announced but not yet enacted. Group accounts prepared in accordance with IAS 12 will therefore already include disclosure on these issues (if material). The ICS should not therefore impose additional requirements.

Q160 Regardless of the determined MOCE design, should any DTA arising from MOCE be considered for the ICS calculation? Please explain.

☒ Yes ☐ No

Insurance Europe highlights that MOCE is a part of the framework and as such its impact should also be taken into account. If the MOCE is an add-on to the current/best estimate in the balance sheet, then it is not part of the current/best estimate cash flows, but is established as an additional provision for uncertainty; thus, by definition it is expected to reverse over time and is not expected to impact taxable income. As such, in the balance sheet a loss is recognised and a DTA is created for the MOCE, this loss, and the related DTA, is expected to recover itself. If the DTA would not be taken into account, there would be an inconsistent treatment between assets and liabilities.

Q161 Should any DTA arising from MOCE be added to capital resources for the ICS ratio calculation? Please explain.

☒ Yes ☐ No

See response Q160

Q162 Would the response to Question 161 differ depending on classification on the balance sheet and defined purpose of MOCE? Please explain.

☐ Yes ☒ No

Please refer to the response to question 160. Irrespective of the way in which the MOCE is calculated, it represents an adjustment to the valuation of liabilities that are deductible for tax purposes and hence is also tax deductible. It therefore represents a temporary difference on which deferred tax should be recognised.

Q163 Should the ICS tax effect on the capital requirement be offset against the gross capital requirement? If "no", please describe how the capital requirement should be classified including sufficient detail and rationale.

☒ Yes ☐ No

Comment Box

Q164 Are there any further comments on the ICS tax treatment that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☒ Yes ☐ No

Insurance Europe supports a simple approach to ICS tax treatment. IAIGs will already have detailed approaches and information regarding tax included in GAAP and existing regulatory reporting. The ICS tax treatment should build as far as possible on these existing approaches and information.

Insurance Europe believes a bottom-up assessment should be allowed where IAIGs have the ability to perform such an assessment, or already perform such an assessment. The top down approach should be an approximation in cases where the bottom up assessment is not performed.

In addition, Insurance Europe also believes that a common understanding of the tax position can be achieved during the 5-year monitoring period.

GAAP with Adjustments

Q165 Should all assets under GAAP Plus be restated to market value in order to maximise comparability or should assets be reported unadjusted, as per audited financial statements? Please provide any supporting comments including thoughts on valuation in the context of comparability, business strategy associated with an asset, symmetry in accounting between assets and insurance liabilities, and potential cost of implementation.

☐ Restated to market value Comment Box

☐ Reported unadjusted, as per audited financial statements Comment Box

☐ Others Comment Box

Q166 Would the Japanese GAAP Held for Reserves ALM criteria be appropriate for use under GAAP Plus for portfolios included in the AOCI adjustment? Please include a rationale for the response. If 'no', please provide any suggestions for improvement or alternate language.

☐ Yes ☐ No

Comment Box

Q167 Would a mechanism adapted from the U.S. SAP Interest Maintenance Reserve or Japanese GAAP to defer gains on the sale of assets that were included under the AOCI adjustment be appropriate for ICS Version 2.0? Please provide a rationale to support the response. Also provide any additional design considerations or suggestions to improve the proposal.

☐ Yes ☐ No

Comment Box

Q168 To ensure that discounting falls within a range of practice that is not overly aggressive under GAAP Plus, guardrails and/or guidelines are being considered to narrow potential ranges of practice and put reasonable constraints on discounting methodologies under jurisdictional GAAP Plus approaches. Specifications would need to strike a balance between prudential concerns and being overly prescriptive. There would also be a need to maintain an alignment with current GAAP practices. Are guardrails and/or constraints necessary under GAAP Plus? Under what specific circumstances might guardrails or additional guidance be necessary? Are there elements of MAV that might be used as a starting point? Please support the answer with discussion and any examples on possible risks or wide range in practice that may exist and how guardrails may minimise those risks or narrow the range of practice appropriately.

Comment Box

Q169 Should the IAIS consider harmonising the definitions of contract recognition and contract boundaries across all valuation approaches (jurisdictional GAAP Plus approaches) possibly in alignment with the IFRS accounting standard on Insurance Contracts (IFRS 17)? Please comment on how this would impact jurisdictional GAAP Plus approaches (such as Japanese GAAP Plus and U.S. GAAP Plus) in terms of feasibility and cost and whether the IFRS 17 definitions are generally applicable in all jurisdictions. If no, please explain the difficulties and/or issues associated with conforming to one single definition.

☐ Yes ☐ No

Comment Box

Q170 Should Japanese GAAP contracts that are measured under a book value approach in GAAP Plus include time value of options and guarantees (TVOG) or would this result in measurement inconsistencies, mixing book value and market value concepts? Please explain.

Comment Box

Q171 Would a liability measured without TVOGs under GAAP Plus still conform to the definition of a current estimate as per ICP 14.11? Please provide rationale to support the answer.

☐ Yes ☐ No

Comment Box

Q172 As a general practice of the Japanese GAAP statutory cash flow test, the LTFR is not taken into consideration for (re)investment assumptions. Should Japanese GAAP Plus (re)investment assumptions reflect the LTFR? If "yes", please explain why Japanese GAAP Plus should differ from the practice of the Japanese GAAP statutory cash flow test.

☐ Yes ☐ No

Comment Box

Q173 Are there any other suggested refinements to the Japanese GAAP Plus specifications (eg discounting) where there may be judgment or interpretation that could lead to a wide range of practice or potential need for guardrails to restrict overly aggressive practices? If "yes", please describe any suggested refinement and the concern that it is expected to address.

☐ Yes ☐ No

Comment Box

Q174 Are there elements of the MAV Three-Bucket Approach that could be considered in the further development of the Japanese GAAP Plus discounting methodology to improve the alignment of the two methodologies? Please explain.

☐ Yes ☐ No

Comment Box

Q175 Are there any other suggested refinements to the Japanese GAAP Plus approach or elements of the specifications that remain unclear that would need to be incorporated prior to the release of ICS Version 2.0? Please explain.

☐ Yes ☐ No

Comment Box

Q176 Should the IAIS develop additional guidelines and criteria for elements where there is significant judgment and potential for abuse in the calculation of a discount rate derived from a blend of book yield and a reinvestment assumption or dividend fund crediting rate? If 'no', please describe the mitigating controls that would serve to limit abuse or aggressive actions and ensure that valuation results are comparable across IAIGs. If 'yes', please describe the elements where there may be a need for additional guidelines or criteria. Include in the response whether there may be opportunity to align this criteria with the MAV approach or whether criteria should be specific to U.S. GAAP Plus and why.

☐ Yes ☐ No

Comment Box

Q177 Short term, non-life liabilities under U.S. GAAP Plus are not adjusted and are reported undiscounted. This design is predicated on the assumption that the undiscounted liabilities would approximate a current estimate plus a MOCE and that the cost would outweigh the benefit of discounting these short term, non-life liabilities. With the understanding that there are still options being considered for the MOCE design, please provide any comments or observations regarding this design element under U.S. GAAP Plus.

Comment Box

Q178 Are there any other suggested refinements to the U.S. GAAP Plus approach or elements of the specifications that remain unclear that would need to be incorporated prior to the release of ICS Version 2.0?

☐ Yes ☐ No

Comment Box

Q179 If a wide range of practice is observed, in particular for discounting, should the IAIS seek to narrow that range? Why or why not?

☐ Yes ☐ No

Comment Box

Q180 Should gain at issue be recognised or deferred? This question can be thought about in the context of whether the contractual service margin should be reversed or not.

☐ Recognised Comment Box

☐ Deferred Comment Box

☐ Others Comment Box

Q181 Are there elements of MAV that would not be aligned with IFRS 17 (for example, MOCE or Three-Bucket Approach)? If "yes", please describe the rationale for why these elements would not be aligned with IFRS 17.

☐ Yes ☐ No

Comment Box

Q182 Should the IAIS do more to align discounting under jurisdictional GAAP Plus approaches? If "yes", please provide a rationale and any suggestions for how this might be achieved. If "no", please provide context and support for the response.

☐ Yes ☐ No

Comment Box

Q183 Under certain jurisdictional GAAP Plus approaches, some risk charge calculations depend on whether balances are measured on a market or book value basis. This is particularly relevant for the Interest Rate risk and Non-Default Spread risk calculations. Thus, the capital requirement result can depend on the accounting regime applied by a Group. Should the IAIS seek to reduce or eliminate these jurisdictional differences in risk charge calculations? If "yes", please provide any suggestions for revising the noted risk charge calculations. Please also provide context and support for the answer provided.

☐ Yes ☐ No

Comment Box

Q184 Are there any further comments on GAAP Plus that the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Comment Box

Internal models

Q185 Is the current approach, to use ICP 17 as a foundation of prerequisites, appropriate for developing the additional reporting of internal models during the monitoring period? If "no", please

explain and describe any changes that could enhance the additional reporting of internal models during the monitoring period.

☒ Yes ☐ No

Insurance Europe strongly welcomes the inclusion of internal models in the ICS framework during the monitoring period. Further, internal models, full and partial, should be recognised as a permanent and valid alternative to the ICS standard method for implementation.

Insurance Europe supports the use of internal models, as well as a strong framework around the development, validation and approval of such models. Such a framework, reflected by the IAIS prerequisites, supports the robustness and credibility of internal models, and ultimately helps foster supervisors' confidence.

Internal models add significant value to companies' risk and capital management. For a large part of the European market, internal models are a key tool from a risk management perspective. They are integral to their business and are not only used to generate a solvency number. The use of internal models allows for an alignment of internal steering view with regulatory view and appropriate determination of risk, including adequate reflection of risk mitigation instruments and quantification of diversification benefits.

In addition:

- Developing and maintaining an internal model requires in-depth knowledge of the sources and natures of risks to which the company is exposed.

- Internal models can apprehend risk factors in a granular way in different lines of business and jurisdictions.

- Internal models can provide valuable information for capital allocation to the different segments for pricing purposes.

- The building and validation processes require knowledge and involvement of a substantial number of employees, senior committees and the Board, which spreads the risk culture across different levels of the company.

Further, internal models are of significant value to supervisors:

- With common principles and calibration standards, internal models help promote comparability between insurers with very different risk profiles.

- The supervisory approval process offers a valuable opportunity to the supervisor to gain a deep knowledge and understanding of the way in which a company manages its business and capital.

- As internal models vary and evolve, they can be a tool for the supervisor to identify and monitor emerging risks.

Recognition of internal models as a valid alternative to the standard formula for the calculation of the ICS capital requirement is a key element for many firms. It is therefore important that there is clarity over the process by which the IAIS will determine at the end of the monitoring period whether internal models will be included in the ICs.

In view of the ICS's potential influence over the development of regulatory capital standards globally, it is important that any debate on this subject is open and that contributions are invited from a wide range of stakeholders, not only IAIS members or IAIGs engaged in field testing.

Q186 Is prerequisite 1 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

☒ Yes ☐ No

Comment Box

Q187 Is prerequisite 2 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

☒ Yes ☐ No

Comment Box

Q188 Is prerequisite 3 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

☒ Yes ☐ No

Comment Box

Q189 Is prerequisite 4 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

☒ Yes ☐ No

Comment Box

Q190 Is prerequisite 5 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

☒ Yes ☐ No

Comment Box

Q191 Is prerequisite 6 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

☒ Yes ☐ No

Insurance Europe welcomes the statement of paragraph 594: « *The use test is, in effect, the evidence that should support the relationship of trust between the supervisor and the regulated group. This trust is needed for the supervisor to gain assurance that the internal model reflects the IAIG's view of its risks and is used in decision making, and not developed with the purpose of reducing regulatory capital* ».

Insurance Europe believes that the monitoring period will be the occasion to build trust in the internal model and demonstrate how it is broadly used for management and decision making.

Q192 Is prerequisite 7 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

☒ Yes ☐ No

Comment Box

Q193 Is prerequisite 8 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

☒ Yes ☐ No

Comment Box

Q194 Is prerequisite 9 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

☒ Yes ☐ No

Comment Box

Q195 Is prerequisite 10 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

☒ Yes ☐ No

Comment Box

Q196 Are there other prerequisites that should be met for additional reporting of internal model results during the monitoring period? Please explain.

☐ Yes ☒ No

Comment Box

Q197 Are there other prerequisites that should be met for additional reporting of partial internal model results during the monitoring period? Please explain.

☐ Yes ☒ No

Comment Box

Q198 Are there any further comments on the additional reporting of internal models during the monitoring period, which the IAIS should consider? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☒ No