



UNITED STATES  
DEPARTMENT OF  
THE TREASURY



# **IAIS' Proposed Insurance Capital Standard: an Update to the Federal Advisory Committee on Insurance**

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# The Proposed Insurance Capital Standard (ICS) - Background

- ◆ June 2013: the Financial Stability Board called on the IAIS to develop a comprehensive, group-wide supervisory and regulatory framework for Internationally Active Insurance Groups (IAIGs), including a quantitative capital standard.
- ◆ The IAIS determined that the Common Framework for the Supervision of IAIGs (ComFrame), by then already a work-in-progress, would become the basis for that framework, and that the quantitative capital standard proposed to be part of ComFrame would become the ICS.
- ◆ Latter half of 2013: ICS development efforts began.
- ◆ 2014: Field testing focused on valuation and the Basic Capital Requirement (BCR, applicable to GSIIIs, published late 2014).
- ◆ 2015: Field testing included market adjusted valuation (MAV) as well as GAAP with Adjustments (GAAP Plus) valuation bases; tested High Loss Absorbency for GSIIIs (published late 2015).



# ICS Field Testing Process – an Annual Cycle

- ◆ Spring – drafting of current year field test specifications; beta testing with Volunteer IAIGs; publication to Volunteer IAIGs (and IAIS website)
- ◆ Through mid-summer – Volunteer IAIGs prepare submissions; engage in Q&A process with the Capital Solvency and Field Testing Working Group (CSFWG); and submit data (may be in two phases)
- ◆ Late summer/fall – CSFWG data analysis teams at work in Basel
  - Data “scrubbing” focuses on accuracy/quality of the data submitted
  - Questions and follow-up with Volunteer IAIGs
  - Volunteer IAIGs make corrections and re-submit data
  - Analyses of results by various CSFWG workstreams
- ◆ Winter: CSFWG debate results; findings and recommendations reported to the Financial Stability and Technical Committee (FSTC)
- ◆ Entire process covered by confidentiality protections; only anonymized and aggregated data leaves the Basel data room
- ◆ Number of Volunteer IAIGs increasing each year; now over 40



# Focus of ICS Development Efforts in 2016

- ◆ Second public consultation process
- ◆ MAV: collect data on three reference methods and three options for discounting
- ◆ GAAP Plus: expand coverage to additional jurisdictions; evaluate capital requirements for all risk categories; test “AOCI adjustment” to better align valuation of assets and liabilities
- ◆ Capital resources: expand tests of revised qualifying criteria, including collection of additional data to evaluate merits of qualifying Senior Debt
- ◆ Capital Requirements: specifications evolved for all risk categories; tested relative to both MAV and GAAP Plus
- ◆ A number of options tested throughout the ICS (e.g., for margins over current estimate, or “MOCE”; morbidity risk, etc.)



# Insights from the 2016 Field Testing Exercise, and Recommendations for 2017

- ◆ CSFWG reporting to FSTC in stages; current stage involves valuation and capital resources
- ◆ MAV: testing was inconclusive; no clear “winner” of 3 options tested
- ◆ Three other discounting options will be recommended to FSTC for 2017 field testing
  - “Blended option” for MAV, a mix of two of the options from 2016
  - “Own Assets with Guardrails Approach” put forward by some IAIGs
  - High quality investment portfolio approach, to evaluate potential way forward for convergence of MAV and GAAP Plus
- ◆ GAAP Plus:
  - Results show need for more comparability across jurisdictions, and with MAV
  - For 2017, incremental technical improvements sought
  - However, pending developments in accounting standards at the FASB and the IASB may necessitate broader changes, more likely for the 2018 field testing exercise, but still a possibility for 2017



# Insights from the 2016 Field Testing Exercise, and Recommendations for 2017 (cont'd)

- ◆ Capital Resources: key decision points pending:
  - Senior Debt as Tier 2 capital
  - Surplus notes as Tier 1 capital for mutuals
  - Prior supervisory approval of discretionary repurchases of Tier 1 capital (i.e., treasury stock, and implications as to the qualification of common stock as capital, either Tier 1 or Tier 2)
  - Non-paid-in capital
- ◆ MAV, GAAP Plus and Capital Resources papers and recommendations going forward to FSTC for its meeting on January 17
  - FIO, Federal Reserve, and NAIC members of the CSFWG coordinated on joint submissions
- ◆ Subsequent decision point stages will relate primarily to capital requirements, e.g., for interest rate risk, currency risk, etc.
- ◆ Culmination: feedback from FSTC to CSFWG for the design of the 2017 Field Test specifications



# 2017 Field Testing

- ◆ “Version 1.0”
- ◆ “Confidential Reporting”
- ◆ Inclusion of all potential IAIGs?



# Going Forward

- ◆ IAIS work plan calls for adoption of the ICS by late 2019
- ◆ Adoption by the IAIS would be as an international standard; however, the ICS would not be self-executing as implementation is the responsibility of appropriate authorities in each jurisdiction

